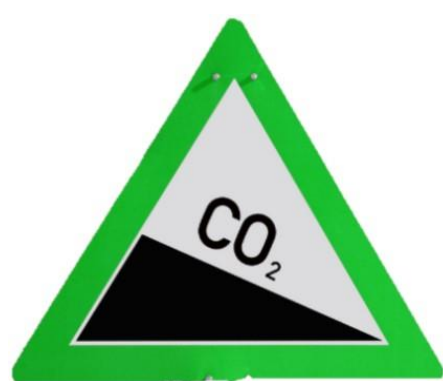


Carbon Border Adjustment Mechanism

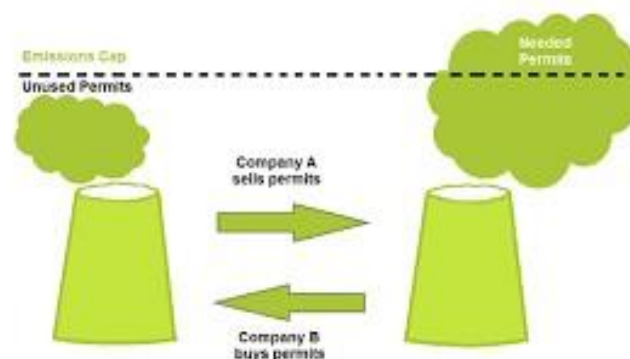
EU measures to prevent the risk of carbon leakage and support the EU's increased ambition on climate mitigation, in a WTO compatible manner

Towards making Europe climate neutral in 2050



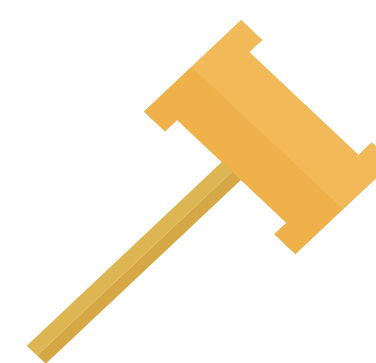
Carbon Leakage

Risk that either production is transferred from the EU to other countries with lower ambition for emission reduction, or that EU products are replaced by more carbon-intensive imports



Current Measures

- Controlled by the free allocation of allowances under the EU's Emissions Trading System (ETS).
- Compensation for energy-intensive industries impacted by higher electricity costs because of carbon pricing under the EU ETS

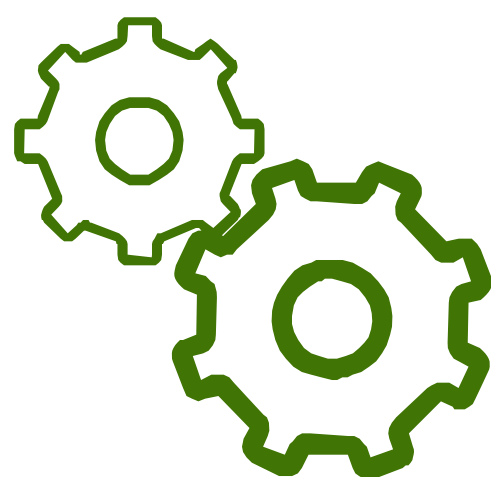


Proposed CBAM Legal Basis

Article 192(1) of the Treaty on the Functioning of the European Union ('TFEU').

EU aims to preserve, protect, and improve the quality of the environment, both regionally and globally

HOW WILL CBAM WORK?



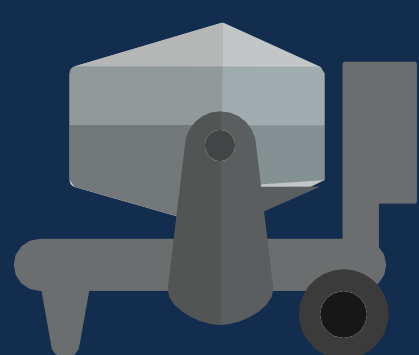
- EU importers buy carbon certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules.
- Non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in a third country, the corresponding cost can be fully deducted for the EU importer.

- The EU importer must declare by 31 May each year the quantity of goods and the embedded emissions in those goods imported into the EU in the preceding year. At the same time, the importer surrenders the number of CBAM certificates that corresponds to the amount of greenhouse gas emissions embedded in the products.



Sectors Affected

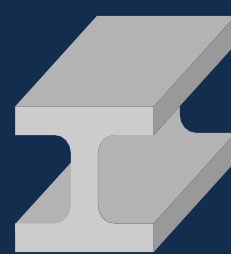
In its first phase, CBAM will focus on goods most at risk of carbon leakage



Cement



Fertilisers



Iron & Steel



Aluminium



Electricity

South Africa and other SADC EPA States may be affected

Cement



In 2020, only USD 1.6 million (less than 1% of total) exported to the EU from South Africa.
Impact limited given South Africa's focus on African market

Iron & Steel



Only South Africa exports iron and steel to the world, albeit from a low base.
Exports to EU in 2020: USD 12million.
Most exports destined to China (iron ore) and regional markets (SADC)

Aluminium



Countries that produce virgin aluminium will be affected.
Mozambique and South Africa, which are important exporters to the EU, may be affected. Exports from each amounted to USD 500 million in 2020)

SMEs & Industry Concerns

- Cost of compliance will affect SMEs along value chains which rely on the affected products as inputs - big producers may pass on the cost of compliance
- The rising price of carbon in Europe makes EU-made affected products pricier than foreign goods
- Possible challenge to CBAM as WTO incompatible - may bring legal uncertainty

