

Preparing green SMMEs for trade opportunities presented by the European Green Deal

20 October 2021



EU Green Deal: Making Europe climate neutral by 2050

What do we know about the EGD?

- Many changes to regulations and markets
- Still work in progress



Bigger Picture

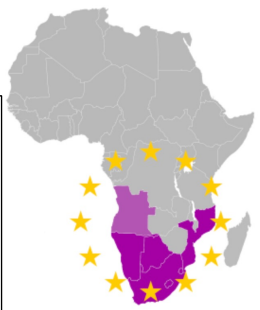
- Society (consumers and businesses) is environmentally conscious
- Concerns about packaging, labelling, use of chemicals and pollution
- Demand for use of clean energy

Opportunities for MSMEs

Related to **products** and **processes**
Certification (food - organic, fair trade),
energy consumption,
packaging (marketing opportunity)

Note

We continue to trade under the SADC-EU EPA (**Review under way**)



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

Farm to Fork Strategy

Vision: to change the way Europeans value food sustainability, environmental issues and their health

Circular Economy Action Plan (CEAP)

Establishing a strong and coherent product policy framework to make sustainable products, services, and business models the norm and transform consumption patterns so no waste is produced in the first place

CBAM



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



Sectors Affected

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



Cement



Fertilisers



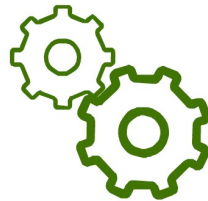
Iron & Steel



Aluminium



Electricity



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. ✓

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

Farm to Fork



Goals

Reduce waste, and transform manufacturing, processing, retailing, packaging, and transportation of food



International Trade

EU policies and legislation will also focus on trade policy to obtain commitments from third countries in areas such as animal welfare, the use of pesticides and the fight against antimicrobial resistance

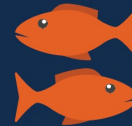
Sectors Affected

Agriculture, food processing, labelling and packaging are central to this strategy

South Africa and other SADC EPA States may be affected



Edible Fruits & Nuts



Fisheries



Meat



Beverages



Tobacco Products

HOW WILL IT WORK?



The strategy provides for initiatives and legislative proposals on:

- reduced use of chemical pesticides
- organic farming
- cutting nutrient losses
- research and innovation
- front-of-pack nutrition labelling and
- sustainable food labelling
- food waste reduction

Notes for SMEs

- Transitioning to sustainable food systems will have cost implications, but also bring opportunities as consumer preferences shift to sustainably produced foods
- Innovation across the agricultural value chain is crucial and SADC EPA countries need to start taking measures in anticipation of the changes ahead
- SADC EPA (Articles 56 – 67) deal with Sanitary and Phytosanitary measures and must be read together with the EGD and farm to fork strategy

Circular Economy Action Plan

Sectors Affected

Food, Packaging, Textiles, Motor Vehicles



SADC EPA exports

HOW WILL IT WORK?



Circular Economy

A system that places emphasis on restoration and shifts towards the use of renewable energy, eliminates the use of toxic chemicals, and aims for the elimination of waste through superior design of materials, products, systems, and business models

- A 'Circular Electronics Initiative' to promote longer product lifetimes, and improve the collection and treatment of waste New regulatory framework for batteries to enhance sustainability and boost the circular potential of batteries
- New mandatory requirements on what is allowed on the EU market, including the reduction of (over) packaging
- New EU Strategy for Textiles to strengthen competitiveness and innovation in the sector and boost the EU market for textile reuse
- New legislative initiative on reuse to substitute single-use packaging, tableware, and cutlery with reusable products in food service

Notes for SMEs

- Monitor consumer demand – for cleaner production, product reusability, less packaging
- Circular economy policies could result in decreased demand for primary material production and trade
- Trade in waste and scrap will be affected in response to emerging environmental concerns
- Conventional motor vehicle demand will decline as EGD seeks to encourage the use of renewable energies in transport

Regulation & Market Risks

Getting prepared

- ▶ **Actively monitor your changing environment:** Regulations and consumer expectations will be changing quickly - monitor what is changing and how it affects you. If you are represented by an export council or industry body, lobby them to step-up monitoring capacity. When risks are identified, inform officials from trade promotion agencies, so that they support industry to adapt
- ▶ **Strengthen monitoring systems (where possible):** Even if you comply with the new rules, **proving compliance** can be complex and costly – particularly with new testing and conformity assessment. Prepare by upgrading internal monitoring capacity, and tracking environmental considerations like carbon emissions, chemical usage, and waste generated in your supply chain. Collect this information now - to reduce costs of collecting it for future regulatory compliance.

Consider a green marketing strategy:

European clients – even if they are manufacturers or resellers – will increasingly be required to examine the sustainability of their supply chain.

Even if you're not in a consumer-facing industry, highlighting sustainable innovations in your business will be important to clients.



Technology Risks: EGD aims to accelerate the transformation of core productive technologies of a wide range of key industries

- All exporters will face a **rapidly changing standards environment**. As new standards are adopted, companies may have to comply with multiple standards, until convergence on dominant technologies is found in the specific industry
- For **consumer-facing industries**: these technological changes will shift the productive environment for European competitors, and may change important competitive considerations e.g. expectations of retailers or the regulatory cost of bringing a product to market
- For **component and commodity producers**, shifting technologies for downstream industries may change the inputs required by end producers. Where **digitization or electronic processes** replace traditional mechanical components, supply chains may shorten dramatically

Note: **Role of Private Standards**



TRADE
ADVISORY



Technology Risks

Getting prepared

Monitor your changing environment: Monitor new and changing technologies, for your business and key clients and suppliers. If you are represented by an export council or industry body, lobby them to step-up **monitoring capacity**. Regulations usually lag technologies – monitoring regulatory processes is important. How will regulations impact your technologies and business model?

Monitor local standards: Adoption of new technologies will likely be accompanied by new or updated standards in the EU and other global markets. Local standards organizations will need assistance from industry to identify these changes. Is your industry well represented in SABS technical committees? Stay connected with representatives on any new tech developments. Inform government officials and standards providers of new testing capacity required, or when tests are only available at expensive overseas labs.

Consider digital-readiness

Modern green technologies typically rely on **digital systems** to integrate into productive processes – so even if you're not rolling out a sustainable technology, be sure any changes are digital-ready.

Important given the rollout of **sustainable tech**



Existing exports Implications?

- **CBAM focus is on ‘primary’ production activities**

- **No direct pressure to existing exports in the short- to medium term**

Direct comparison of the particular traded products associated with these focus sectors shows that, at least in the initial stages, the EDG and CBAM developments will not place direct pressure on such products.

- **Future developments uncertain – could impact existing exports**

Some products associated with the current (and those that are in development) South African Industrial Master Plans are potentially directly (Steel and Iron) and indirectly (e.g. aluminium-related products in the Automotive, Renewable energy and other sectors) affected, through possible future refinements and expansion of the EGD and CBAM

CBAM	Industrial Master Plans								
	Automotive	CTLF	Forestry	Furniture	Iron & Steel	Poultry	Renewable Energy	Sugar	Not allocated
Aluminium	-	-	-	-	-	-	-	-	17
Cement	-	-	-	-	-	-	-	-	2
Electricity	-	-	-	-	-	-	-	-	1
Fertilisers	-	-	-	-	-	-	-	-	5
Iron and steel	-	-	-	-	83	-	-	-	-
Not allocated	123	358	183	16	208	22	82	15	4093

Source: Trade Research Advisory

- **Current opportunities for expanding existing exports into the EU do exist**

Opportunity remains for expanded exports into the EU from South Africa.

In addition to the existing traded products, this analysis also identified further opportunities associated with “environmental goods” products - also those related to the South African

Industrial Master Plans.

Opportunities In Brief

- **Focus on Green Economy and broader “environmental goods”**
OECD Combined List of Environmental Goods (CLEG) – extended in this study
- **20 products identified for short-term export promotion focused engagement**

Target markets (EU partner countries) already exhibit import demand for these products
South African exporters already can produce and export these products.
South African exporters should be able to potentially expand sales into these EU markets.

In reality, many further aspects need to be verified and clarified (e.g. standards requirements, logistics arrangements, relative market pricing and details of competitors, market demand preferences) but as a first “screening” process, the identified EU partner countries merit further investigation and understanding.

- **24 products exhibit potential for medium-term, as these may require some intervention to expand into the EU market**

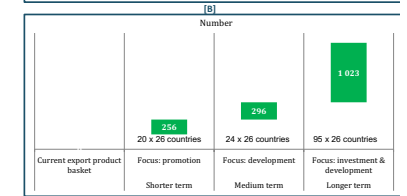
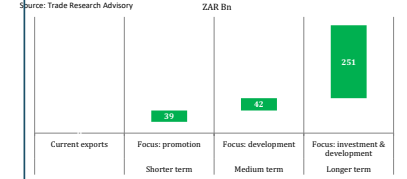
Target markets (EU partner countries) already exhibit import demand for these products.
Relative “maturity” of South African exports (relative to the world average) is lower but, these products are also relatively strongly related to the more mature group associated with the short-term opportunities.
Some export development may be required to increase the production and sales capabilities of such products.

- **95 products exhibit potential for longer-term**

Target markets (EU partner countries) already exhibit import demand for these products.
These products are “new” to South African exports but, these products are also relatively strongly related to the more mature group associated with the short-term opportunities.
expectation is that it may require significant lead time before these opportunities may be realised (if pursued).

Definition (Eurostat): environmental goods
Those that are used “to measure, prevent, limit, minimize or correct environmental damage to water, air and soil, as well as problems related to waste, noise and eco-systems, [including] cleaner technologies ... that reduce environmental risk and minimize pollution and resource use.”

	Automotive	CFE	Forestry	Furniture	Iron & Steel	Polity	Renewable	Sugar
OECD CLEG-E	-	-	-	-	-	-	-	-
Air pollution control	-	-	-	-	-	-	-	-
Clean up or remediation of soil and water	-	-	-	-	-	-	-	-
Cleaner or more resource efficient technologies and products	13	-	-	-	6	-	-	-
Environmental monitoring, analysis and assessment equipment	-	-	-	-	-	-	6	-
Environmentally preferable products based on end use or disposal characteristics	3	1	-	-	-	-	-	-
Heat and energy management	-	-	-	-	-	-	1	-
Management of solid and hazardous waste and recycling systems	-	-	-	-	-	-	2	-
Natural resources protection	-	-	-	-	-	-	-	-
Noise and vibration abatement	-	-	-	-	-	-	-	-
Renewable energy plant	-	-	-	-	6	-	66	-
Wastewater management and portable water treatment	1	-	-	-	11	-	3	-
Not allocated	110	354	182	16	268	22	15	-



Recommendations To unlock potential

- **Parallel processing: leveraging short-term opportunities while building long-term vision**
Some major opportunities for “existing” products produced and already exported from South Africa. Focus should be placed on further understanding these opportunities and developing a strategy for realising the most feasible. In the current constrained (from a resources perspective) environment it is increasingly important to focus and allocate resources to those opportunities with the most potential return on investment.
- **Resourcing of trade and investment promotion agencies for focused and relevant tasking**
Success in realising these opportunities will depend on relevant and focused export promotion and marketing, as well as realistic timelines. Adequate resourcing of trade and investment promotion agencies is key.
- **Unblocking critical infrastructure and logistics constraints**
Trade-enabling infrastructure is key to achieve export-led growth
Bottlenecks and constraints must be identified, and action plans developed and implemented to remove such constraints
- **Longer-term strategic considerations – investment and capacity building**
The longer-term opportunities need parallel focus but will require local private sector or foreign investment.
Longer term, a skills development strategy aligned with the prioritised key sectors is critical, as new developments require new and different skill sets.
Mechanisms that may contribute to the required skills development could include, an alternative approach to application of the Skills Development Levy (SDL) – e.g. a ‘preferential’ SDL focused on export-oriented sectors – as opposed to general training.
A ‘Young exporters programme’ could be implemented to fast-track some ‘new’ unusual opportunities