NATIONAL

SA's low carbon taxes will send money to EU coffers

About $1.5bn in SA exports to the EU are at risk because of the carbon border adjustment mechanism

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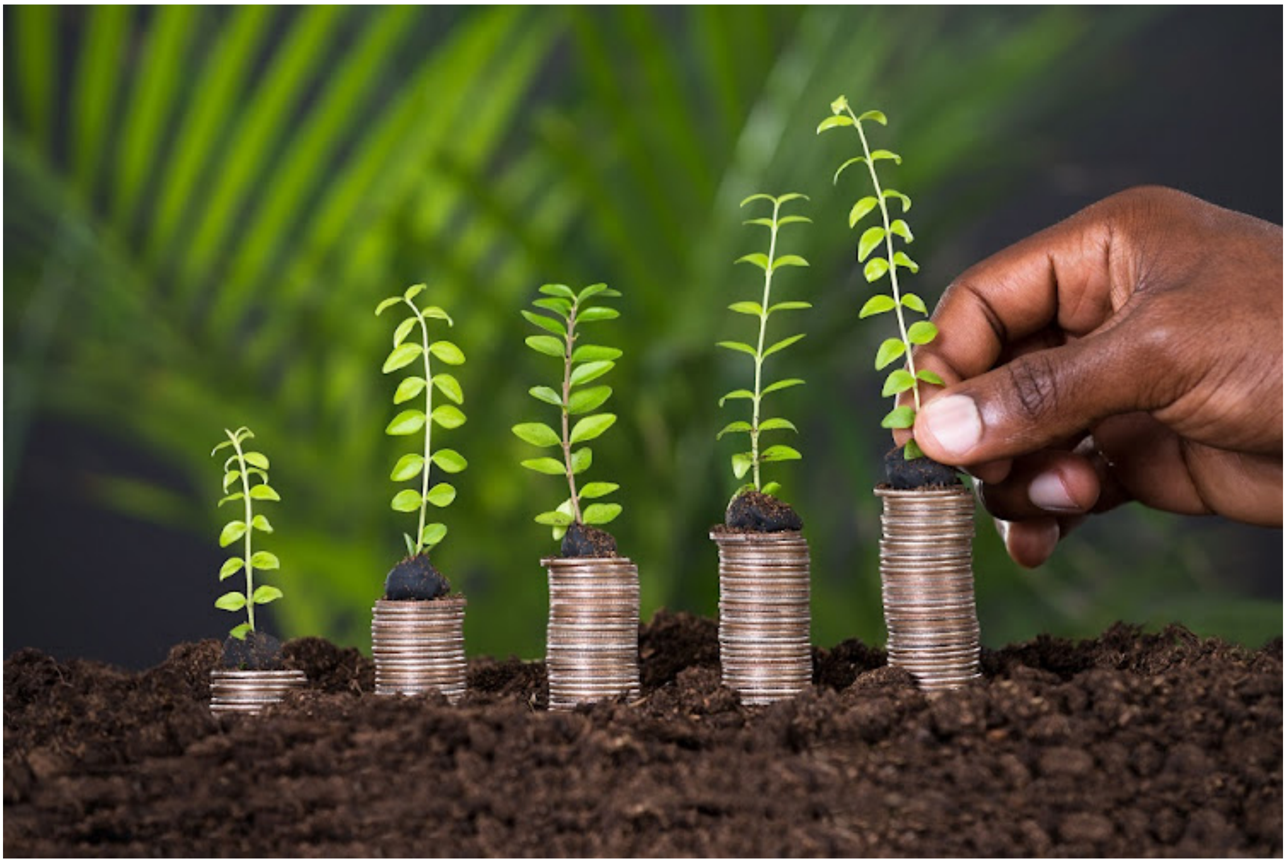

Picture: 123RF/ANDRIY POPOV

The Treasury's phased implementation of carbon taxes could leave some of SA's exports to the EU more exposed to high import tariffs once the EU starts charging carbon border taxes.

SA's carbon tax rate is expected to reach $20 a tonne by 2026 and $30 by 2030, which would put local carbon prices far below the EU's, whose current carbon tax rate is about €90 per tonne.

Trade & Industrial Policy Strategies (TIPS) economist Seutame Maimele urged SA and other African countries to consider broader and faster implementation of carbon pricing and taxes in their response to the EU's plans to start implementing tariffs on carbon emissions linked to imported goods.

Introducing local carbon pricing will enable these countries to retain carbon tax revenue domestically. The finances collected can then be used to fund decarbonisation efforts in the home country, he said.

Speaking at a TIPS dialogue on the implications of the EU's carbon border adjustment mechanism (CBAM) on Tuesday, Maimele said about $7.3bn of African exports is at risk in the short term. This represents about 1% of all exports from Africa or 0.4% of Africa's GDP.

However, for countries such as SA, which have carbon-intensive economies and have the EU as an important trading partner, the effect of the carbon import taxes could be greater.

About $1.5bn in SA exports to the EU are at risk because of the CBAM, and SA's overall exports to the EU could decline by 4%, with the steel and aluminium sectors being most affected. This is according to a submission made by the department of trade, industry & competition to the European Commission.

Maimele said the CBAM was problematic in that from an African perspective it would make developing countries "pay for the EU's decarbonisation journey". "CBAM will require jurisdictions that do not have a carbon price in place to pay a defaulted amount calculated by the EU's emissions trading scheme. This means that carbon tax will be paid to the EU coffers and not to African countries," he said. The scheme's carbon price has reached record highs of about, or even slightly exceeding, €100 (R1,958) per tonne of CO_2.

One reason for the EU's implementation of the mechanism is to protect the competitiveness of its own producers, which are taxed on their emissions, against importers from countries that levy no such tax.

In instances where carbon prices apply in the country of origin, as they do in SA, some allowances can be made to apply to reduce the carbon prices that importers will be liable to pay.

As explained in a paper produced by Genesis Analytics for the presidential climate commission, the allowance is expected to be a pro rata reduction according to the proportion of the EU emissions trading system price that is covered by the domestic carbon price.

SA's carbon tax rate increased from R144 to R159 per tonne in January 2023.

At current carbon prices in the EU and SA, this would simply a reduction in the liability of SA producers of about 7% to 8% if the gross rate of the carbon taxis used (R144/tonne of CO2 emissions). However, the reduction could be less if the European authorities seek to account for the various allowances now included in the SA carbon price design.

The Treasury last year extended the first phase of implementation for carbon taxes to the end of 2025. This first phase makes provisions for companies to receive 60%-95% in tax allowances such as rebates or exemptions.

'Carbon leakage'

Maimele said that CBAM could also make Africa "the playground for carbon leakage".

"In the absence of not ambitious climate change policies, corporations from the EU — in the name of circumventions — could export lower-carbon products to the EU and export the rest of their products to countries with laxer carbon laws," he said.

Some of the ways in which African countries could respond include ramping up domestic carbon pricing to "retain carbon tax revenue domestically".

He also suggested the AU, within the African Continental Free Trade Area, could lead the creation of a regional carbon market. Such a system could be used to establish a regional monitoring, reporting and verification system to account for greenhouse gas emissions which would lessen the administrative burden that CBAM will create. The system can also be used to sell carbon credits.

The Treasury said earlier this year that it would launch a consultation process to consider stakeholder inputs on the possibility of a domestic market to trade tax credits created through the carbon tax in SA.

Correction: *July 27 2023*
A previous version of this article incorrectly stated that the value of exports at risk due to CBAM is about $47.3bn. The correct number is $7.3bn.

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What is CBAM?

The EU's carbon border adjustment mechanism (CBAM) aims to raise revenue, promote climate action abroad and prevent carbon leakage. It forms part of the broader European Green Deal policy package intended to reduce the EU's net greenhouse gas emissions by 55% by 2030 compared to 1990 levels, and to achieve climate neutrality by 2050.

CBAM will apply imports tariffs on the carbon emissions of products imported by the EU. The mechanism will place a price, in the form of an import tariff, on the direct carbon emissions produced during the manufacture of certain products and on some indirect emissions, such as those associated with electricity used by the manufacturer but generated elsewhere.

While several details still need to be finalised, the European parliament reached a provisional agreement that the "transitional period" for the mechanism will begin on October 1. During this period, importers will incur no financial liability. It will go live in 2026, when tariffs will apply, and it will then be phased in over eight years.

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