

Briefing Note: The European Union's Carbon Border Adjustment Mechanism (CBAM) and its impact on South African exports

The CBAM is a headline policy initiative of the European Green Deal. It levies a tax on greenhouse gases embedded in products imported into the EU to stop industries from shifting production to jurisdictions with weaker carbon pricing and regulation. It will function in parallel with and mirror the EU's Emission Trading Scheme (ETS). The CBAM will gradually replace the current mechanisms used to address carbon leakage, specifically free allocations (Monaisa, 2021¹).

The first draft of the CBAM was announced in July 2021. It only covered direct emissions from electricity and 29 product categories from the cement, fertiliser, steel and aluminium industries. Since then the EU's Committee on the Environment, Public Health and Food Safety proposed and voted on amendments to the CBAM (Committee on the Environment, Public Health and Food Safety, 2021). The amendments include the following:

- Extending the scope to include organic chemicals, plastics, hydrogen and ammonia as well as indirect emissions (notably emissions from electricity use).
- The transitional period will be shortened to apply from 1 January 2023 to the end of 2024. During the transitional period, the burden will be administrative rather than financial. After the transitional period, exporters will have to buy digital CBAM certificates at a rate corresponding to the carbon price paid under the ETS.
- CBAM will be implemented for all sectors of the EU ETS by 2030, five years earlier than proposed by the Commission.
- Free allowances will be fully phased out by 2030.
- The revenues from the CBAM should be used to support least-developed countries decarbonisation efforts
- A centralised EU CBAM authority should be created, to make implementation efficient, transparent and cost effective. This would also help to combat forum shopping from importers.

The proposed CBAM has an extended scope and tighter timelines, meaning that the number of products and the extent of the exposure has increased. South Africa's main vulnerable sectors are iron and steel, aluminium, plastics, organic fertilizers and hydrogen. This is because these sectors rely on coal-powered electricity or coal feedstock for production.

¹ Monaisa, L. 2021 European Green Deal: The Carbon Border Adjustment Mechanism and implications for South African and European Union trade. Policy Brief. Trade & Industrial Policy Strategies. Available at: <https://www.tips.org.za/policy-briefs/item/4293-european-green-deal-the-carbon-border-adjustment-mechanism-and-implications-for-south-african-and-european-union-trade>

The South African government and exporters need to pay close attention to the developments as the legislative process for CBAM continues – particularly the vote at the plenary session on 6-9 June 2022 and negotiations by the EU Member States. Exporters should embrace and prepare by assessing CBAM’s impact on business, looking at mitigation measures, and by aligning their business model to fit a low-carbon future. South Africa should also fast-track its journey towards a low-carbon economy, as other countries could follow the EU in introducing border carbon taxes.