Briefing Note 2: CBAM and South African exports

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Although the European Union's Carbon Border Adjustment Mechanism (CBAM) is pursuing the critical aim of reducing carbon emissions and to avoid carbon leakage, arguably it throws unfair burdens on the Global South. In response, the South African government has begun to challenge CBAM in any form and at many forums. At the same time, government and exporters have to find ways to mitigate the impacts of CBAM by developing the required systems to report on greenhouse gas (GHG) emissions and finding ways to reduce the carbon intensity of exports.

South African exports are particularly vulnerable to CBAM because they are unusually emissions intensive. The carbon intensity of South Africa's metal exports stands at about 5000 tonnes of carbon dioxide equivalent (tCO2e) per million US dollars, far exceeding other metal-exporting countries. India, Russia, and China have carbon intensities of 3500, 2200 and 2500 tCO2e per million dollars, respectively. South African competitors oscillate between 200 and 1400.

South Africa's unusually high tCO2e levels mostly result from the comparatively heavy dependence on coal-fuelled electricity. Around 80% of South African energy derives from coal, compared to an average of under 15% in other upper middle income economies excluding China.

Based on the CBAM text adopted on 16 May 2023, a total of US$2.8 billion (about R52.4 billion) of South African exports (in 2022 value) are at risk in the short term. This is about 10% of South African exports to the EU, and approximately 2.2% of South African exports to the world. As CBAM increases to cover more products, the numbers will increase. Moreover, additional jurisdictions plan to introduce CBAM-like measures over time.

While the writing has been on the wall for a while, CBAM only came into practice recently and very quickly. The CBAM transition period kicked in from October 2023. During this time, exporters to the EU in specified sectors must report accurate GHG embedded emissions data to EU importers, which the CBAM texts refer to as EU declarants. The first CBAM report for the fourth quarter of 2023 was due by 31 January 2024. This deadline was extended by 30 days as the CBAM registry faced technical challenges. The transition period will end in December 2025. From January 2026, exporting firms will have to buy CBAM certificates – that is, pay a carbon tax at the EU border.

Despite the extension on the transition period, South African companies have argued that timelines do not allow time to set up the required monitoring and reporting systems. Furthermore, some players in the affected industries, both large and small, simply did not know about the new requirements, as some timelines accelerated from one draft to another.

Given these complexities, there is a risk that South African exporting firms will initially fail to adequately report GHG emissions required during the CBAM transition period. If they delay compliance, businesses may become liable for penalties. The sanction would be between €10 and €50 per tonne of unreported or incorrectly reported emissions. Even if they comply, exporters face significant costs, initially to set up reporting systems and ultimately to reduce emissions. The effects will be larger for smaller companies.

Ultimately, CBAM imposes European emissions targets on South Africa, even if those targets are not aligned with South Africa's own national commitments as an emerging economy. The new EU rules have further fragmented global trade rules, complicating the response of governments and industries in developing countries. In effect, the rules push the responsibility for dealing with the climate change back onto the Global South. In practical terms, CBAM increases the cost of accessing overseas markets for South African producers that rely on grid electricity, especially in the designated industries. The challenge is to find a way to engage with the EU to ensure more equitable implementation of CBAM while enabling South African producers to adapt as cost efficiently as possible.