



Europe's inclement climate sanctions against South Africa 'Carbon Border Adjustment Mechanism' punishment for high-fossil exports

Key messages:

1. Europe's CBAM carbon tax will shrink SA exports
2. SA's fossil-fuel profiteers still resist decarbonisation
3. But SA state and high-carb capital are terrified by CBAM
4. Methane gas should not be a CBAM 'transition fuel'
5. Tying CBAM to the volatile EU carbon market is ill-advised
6. CBAM revenues should help grant-fund Just Transitions

"As our trading partners pursue the goal of net-zero carbon emissions, they are likely to increase restrictions on the import of goods produced using carbon-intensive energy. Because so much of our industry depends on coal-generated electricity, we are likely to find that the products we export to various countries face trade barriers and, in addition, consumers in those countries may be less willing to buy our products."

Cyril Ramaphosa,
Presidential Newsletter,
11 October 2021



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Wikipedia Commons)

Introduction

The rate of world and South African trade/GDP has shrunk during the era of "deglobalisation" (or as *The Economist* puts it, "slowbalisation") that began in 2008. Since then, the combination of protectionism (such as rose in 2016 with Donald Trump and Brexit) and environmental lobbying has increased the likelihood that *climate sanctions will be imposed against high-carbon exporting countries*, in trade with the United States, United Kingdom and European Union. The EU will be first, with its Carbon Border Adjustment Mechanism (CBAM) launching on January 1, 2023. Even though it reeks of Western imperialist power, CBAM as trade policy does make perfect sense. After all, higher CO₂ levels from dirty-energy countries would logically "leak" into the EU as firms outsource their production once they face serious climate regulation and must search for less expensive industrial and raw-material inputs from abroad. South Africa and other exporting economies with very high shares of CO₂ embedded in their products directly or via dirty energy should be incentivised to more rapidly shift to renewable sources. One way is through higher EU tariffs imposed on SA exports to Europe, and eventually also to the UK, U.S., Japan and other Western economies which adopt CBAM.

1. Europe's CBAM carbon tax will shrink SA exports

The main affected SA exports will initially be aluminium and steel, but many others – other mined and smelted products, petrochemicals, automobiles and high-carbon production systems – will all eventually be brought into the CBAM net, both due to their direct and indirect emissions.

EU CARBON BORDER ADJUSTMENT MECHANISM (CBAM)



- The EU Carbon Border Adjustment Mechanism will be phased in gradually and will initially apply only to a selected number of goods at high risk of carbon leakage: iron and steel, cement, fertiliser, aluminium and electricity generation.
- **A reporting system will apply as from 2023 for those products with the objective of facilitating a smooth roll out and to facilitate dialogue with third countries, and importers will start paying a financial adjustment in 2026.**
- Addressing possible adverse impacts on industry competitiveness. Our trade exposed sectors such as iron and steel, cement, and other minerals should not be subjected to BCA since they already face a domestic carbon tax; prioritise support to "these hard to abate sectors" as they are major labour absorptive sectors where technology options are limited.
- Taking into account the proposals for a carbon border adjustment mechanism (CBAM) by the EU, US, UK, Japan – there is a strong case for similar measures to be considered in South Africa to cushion impacted sectors as the carbon tax rate is increased.
- *Appropriate emissions targets and carbon pricing reduces risk of border carbon adjustments by the EU and other developed economies on domestic exports and boost the competitiveness of the South African economy by promoting lower carbon, energy efficient and cleaner production practices and emergence of new industries.*

2. SA's fossil-fuel profiteers still resist decarbonisation

There are still vast fossil-fuel projects underway or planned in SA, including numerous offshore gas and onshore fracking explorations led by Shell and TotalEnergies, a \$10 billion Chinese metallurgical Special Economic Zone, and a \$50 billion expansion of the coal-export rail line and Richards Bay port terminal, where the main customers are now European, Chinese and Indian coal importers. And large-scale methane gas generation will be introduced through \$12.5 billion worth of Turkish Karpowerships, a World Bank Liquefied Natural Gas terminal, Eskom's two gas-fired power plants costing \$5 billion, a \$10 billion port-petrochemical expansion, and more than 1000 SA army troops deployed in mid-2021 against a Mozambican guerrilla army. The latter facilitate the "Blood Methane" extraction by Total, ENI, ExxonMobil and China National Petroleum in Cabo Delgado (where already one million people have been displaced). One of the most influential corporate lobbies, the National Business Initiative, supports more methane. Another network of the largest energy consumers recently argued that "business and the SA economy cannot accommodate the steepness of the carbon tax rate increase," even though it is scheduled to rise to only \$30/tonne in 2030 (which is 1 percent of what recent "Social Cost of Carbon" estimates suggest it should be).

3. But SA state and high-carb capital are terrified by CBAM

Not only did Ramaphosa reveal deep worries about CBAM in his presidential newsletter in October 2021. Major firms like BHP Billiton (South32) and Anglo American have also begun looking for renewable energy sources so as not to fall afoul of export taxes. In November 2022, SA environment minister Barbara Creecy endorsed a Brazil-South Africa-India-China critique: "Unilateral measures and discriminatory practices, such as carbon border taxes, that could result in market distortion and aggravate the trust deficit amongst Parties, must be avoided." Given this fear, punitive CBAM sanctions will be helpful... *but only if they are advocated with integrity.*

4. Methane gas should not be a CBAM 'transition fuel'

CBAM with integrity requires reforms. Aside from intensified fossil fuel imports from Africa (e.g. SA coal) due to Russia's invasion of Ukraine and subsequent sanctions, *the most absurd EU climate policy was the July 2022 decision to label methane gas and nuclear as "green" energy within the EU's "taxonomy."* That stance must be immediately reversed in keeping with sound climate science, since methane is 85 times more potent than CO₂ and nuclear energy remains extremely dangerous.

5. Tying CBAM to the volatile EU carbon market is ill-advised

Another reform entails the CBAM price. Unfortunately, CBAM tariff levels will, from 2026, be tied to the bloc's Emissions Trading Scheme, which has suffered exceptional price volatility since 2005. In early March 2022, after Putin's invasion, it crashed 40 percent, from near \$100 to \$60 per tonne, and again in September it crashed from \$88 to \$72/tonne as Putin cut off gas supplies. To expect financial markets to provide a realistic price signal is foolish given that these markets are themselves chaotic and subject to global financiers' whimsies.

6. CBAM revenues should help grant-fund Just Transitions

To counter charges of "imperialism!", Europe should make a downpayment on its vast climate debt by sending CBAM revenues back to adversely-affected *workers and communities* whose exports are taxed – in some cases to the point of their companies' closures. This would be consistent with not only solidarity ethics, but also with ideals of a Just Transition.

Conclusion

Protests and court challenges against further fossil fuel extraction and combustion in South Africa are encouraging, but they slow down but don't stop the projects. Climate justice activists need further solidarity when facing relentless gas, oil and coal attacks. Progressives supported South Africans' freedom struggle by imposing economic sanctions against firms making profits from a crime against humanity, a decisive stage in ending apartheid. The same logic applies.



European protesters fight so-called "green" methane gas within EU's climate taxonomy

Source: https://commons.wikimedia.org/wiki/File:Kein_Gr%C3%BCn_f%C3%BCr_Gas_%2B_ATOMkraft_%2851826896586%29.jpg

