

# SUPPLY CHAIN METAMORPHOSIS

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**Charting the Carbon Border Adjustment Mechanism (CBAM):  
Implications and Imperatives for South Africa and Beyond**

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# Context

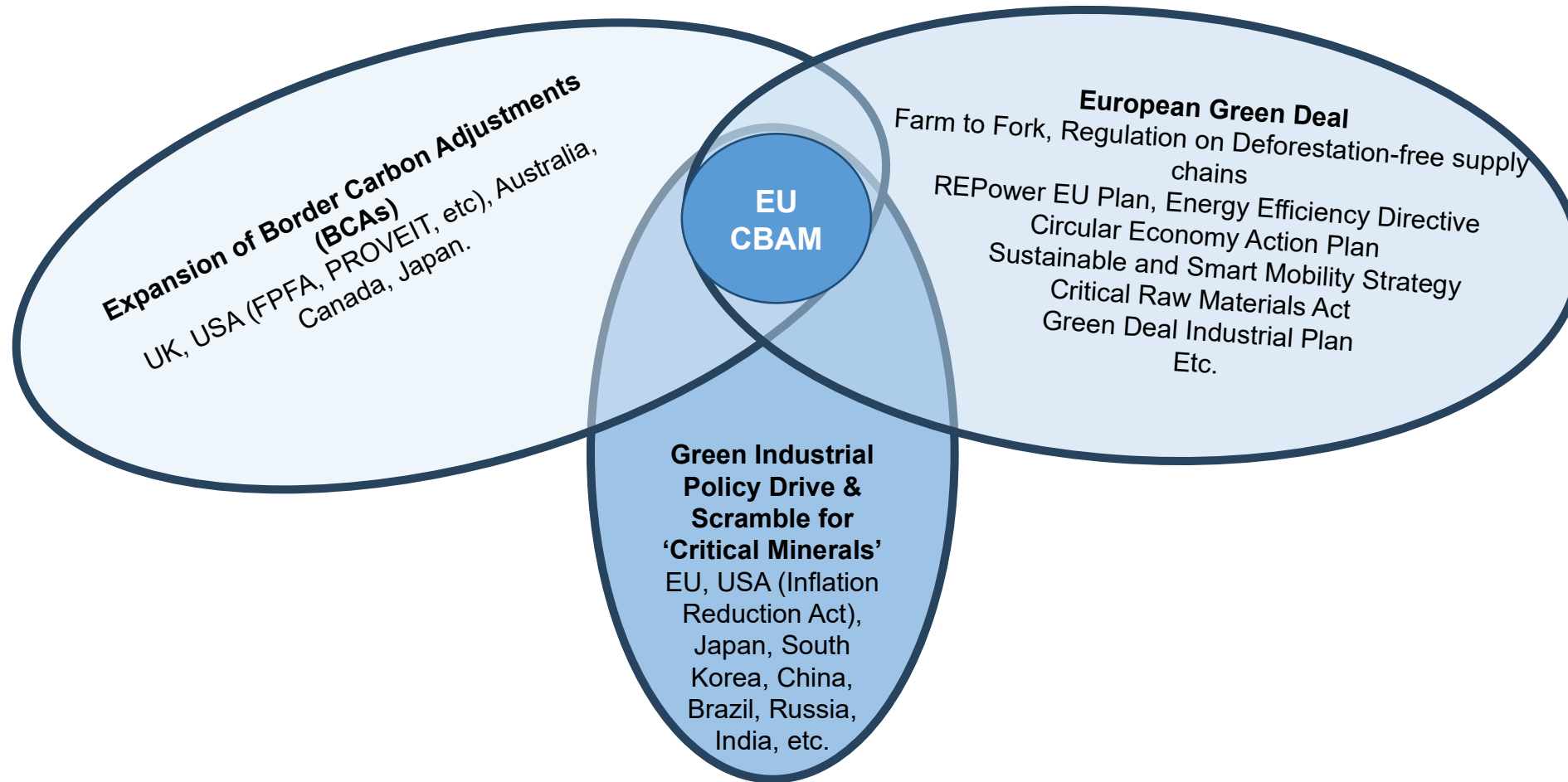
## A global transition to sustainable development is under way and strengthening

- The transition to a sustainable development pathway is an all-encompassing endeavour, cutting across all spheres of government and policy.
- It is not only an environmental issue but also a socio-economic challenge which has ramifications at all levels of economic development, notably trade and industrial development
- From a trade and industrial perspective, it has implications on the composition and dynamics of entire value chains
  - Competitiveness, trade performance and industrial and economic development
  - Brings risks and opportunities

## Key channels

- ▶ Climate change regulation, such as carbon pricing
- ▶ Shifts in trade patterns away from carbon-intensive products and/or jurisdictions
- ▶ Green protectionism, through trade-related climate change response measures, such as border carbon adjustments (BCAs) or other non-tariff barriers, is becoming more prevalent internationally (EU, USA, UK, Australia, Canada, Japan, etc.).
- ▶ Green industrial policy push (USA, EU, China, Brazil, etc.)
- ▶ Scramble for critical minerals

# Context - CBAM: The tree that hides the forest



# Overview of BCAs (Border Carbon Adjustments)

## European Union (EU)

In 2019, the EU introduced the European Green Deal (EGD) - a multifaceted green policy instrument that affects every sector/industry and everyone in the world.

The main objective of this policy aims to reduce the EU's net greenhouse gas (GHG) emissions by 55% by 2030 compared to 1990 levels and achieve carbon neutrality by 2050.

Included in the EGD is the CBAM as a policy tool with objectives to;

1. Raise revenue – Through a carbon border tax.
2. Promote climate action abroad – Amid increasing GHG emissions in the world.
3. Prevent carbon leakage – The avoidance of decarbonisation of high emitting entities (from jurisdictions that have stringent climate policies), by moving to jurisdiction with less jurisdiction that have less/or no stringent climate policies.

Sectors covered, include iron & steel, aluminium, hydrogen, cement, electricity & fertilizers – adding to 42 product list

## United Kingdom (UK)

In 2023 March, the UK conducted initial consultation on the design of the UK CBAM, and in December announced that it will introduce a Carbon Border Adjustment Mechanism (UK CBAM), to come into effect in January 2027.

A year later (March 2024), the UK announced consultations for the introduction of the UK CBAM – consultations ending 13 June. The UK CBAM mirrors the EU CBAM – with addition of new sector coverage (i.e., glass and ceramic).

# Overview of BCAs (Border Carbon Adjustments)

## Other BCAs in policy discussions

### **United States (US)**

The US senate is introducing various bills to congress mirroring the objectives of BCAs, these bills include, the Foreign Pollution Fee Act (FPFA) – *Tax on Imports based carbon intensity*, PROVEIT Act - *The Act calls for a study on the carbon intensity of specific products in the US and select other countries*, Clean Competition Act – *this act aims to expand the scope of carbon taxes to include 25 sectors in addition to the sectors covered under the EU CBAM.*

### **Japan**

Japan has been observing the EU CBAM with keen interest, and they are thinking of creating their own BCA, but this has not been introduced in policy discussion.

### **Australia**

In August 2023, the Australian government began assessing the viability of carbon taxation for domestic products.

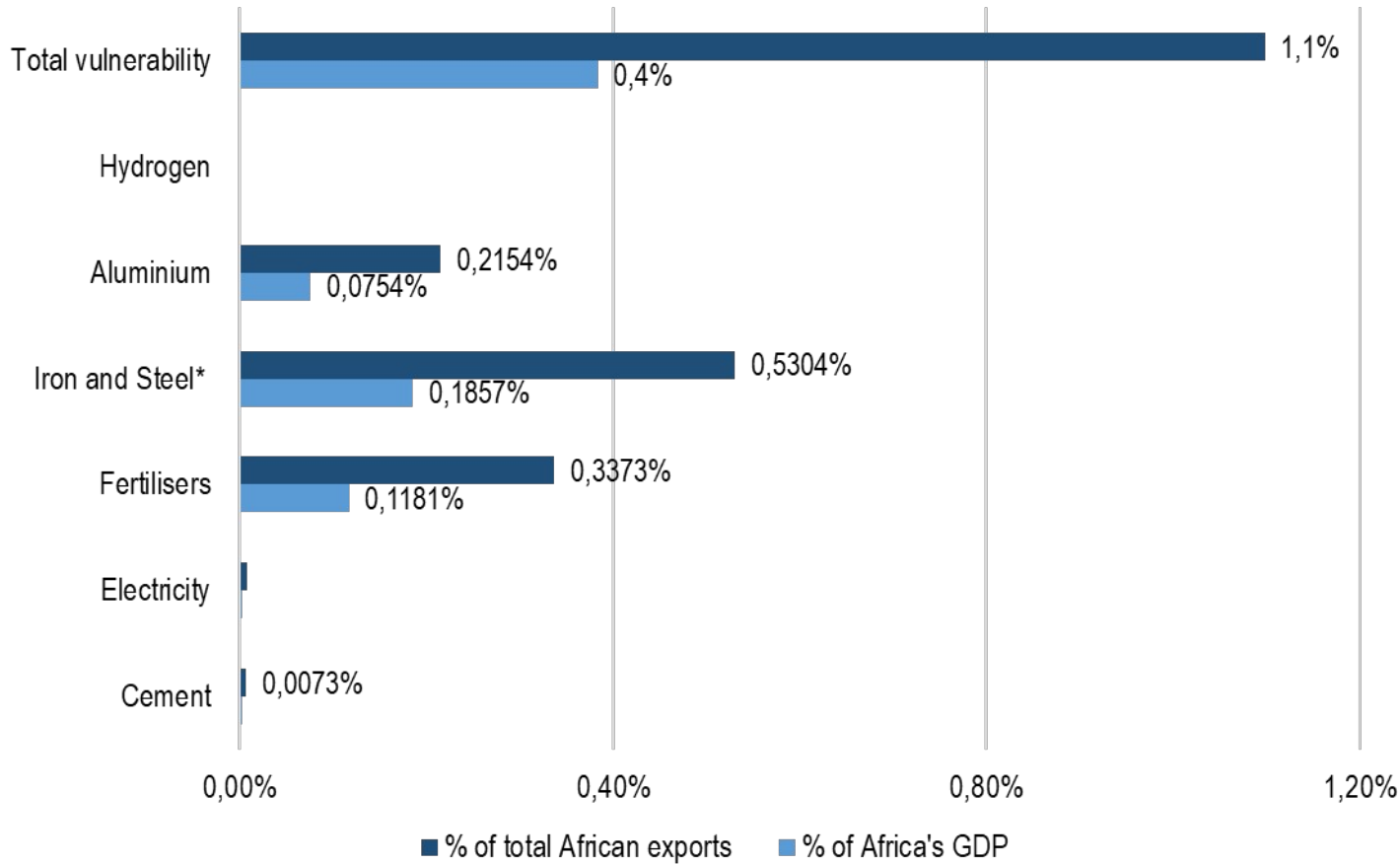
### **Canada**

In 2020, the Canadian government outlined its intention to explore the use of carbon border taxes as a strategy to phase out the use of carbon-intensive products.

Canadian carbon taxation broadly addresses and mirrors the EU CBAM in some respects with notable debates around certification.

# The European Union's Carbon Border Adjustments Mechanism (EU CBAM) & Africa

## Africa's vulnerability to the EU CBAM



Source: TIPS, 2023

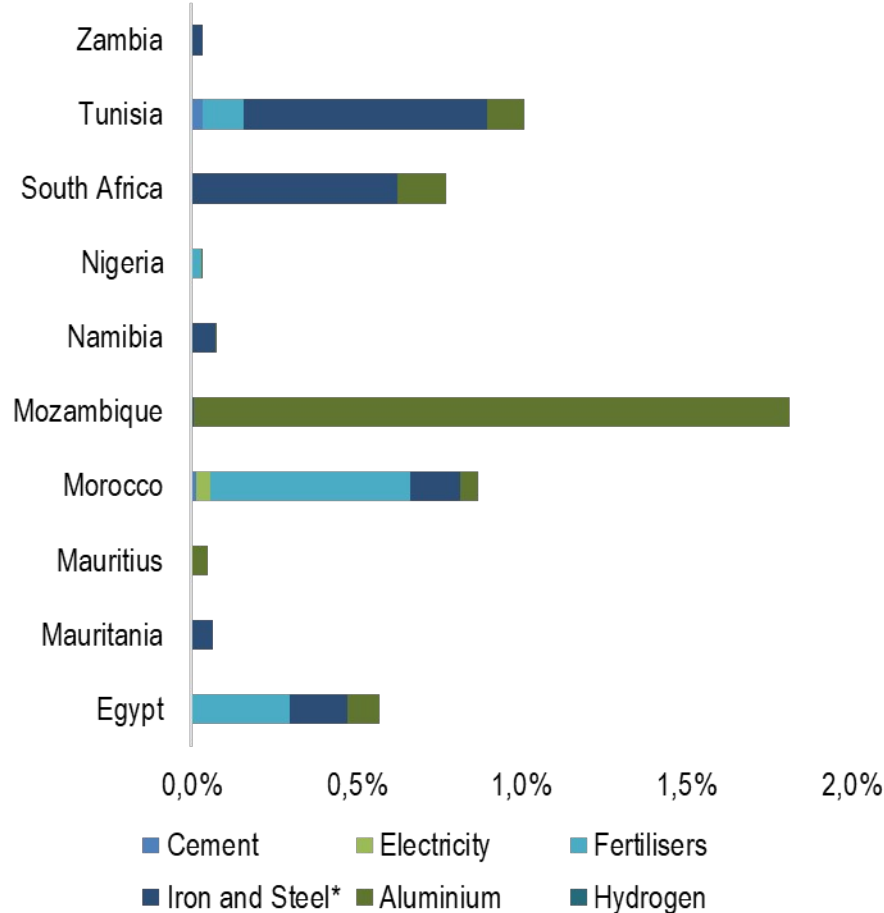
Based on the finalised list of goods covered by CBAM, as per the text adopted on 10 May 2023, about **US\$7.3 billion of African exports** are at risk in the short term.

This is about 3.2% of African exports to the EU, and about 1.1% of African exports to the world, translating to around 0.4% of Africa's GDP.

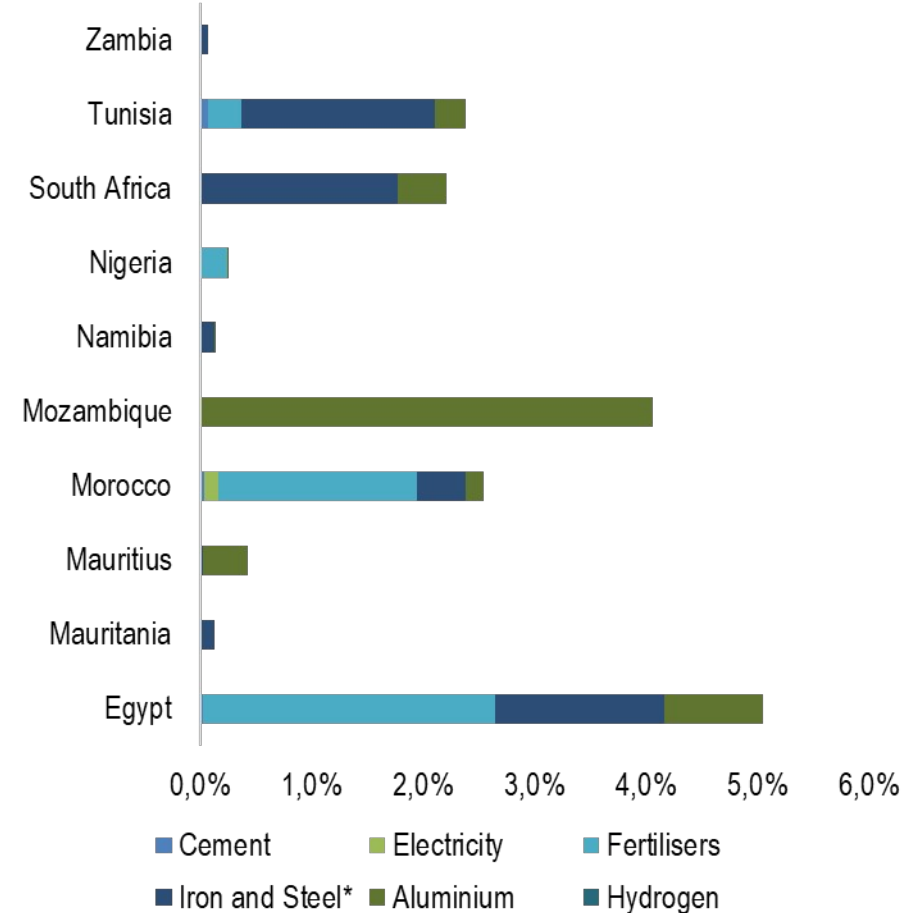
If all goods are covered under CBAM, Africa is forecasted to lose about **US\$39 bn** yearly.....  
(ACF & LSE Firoz Lalji Institute for Africa, 2023).

# The European Union's Carbon Border Adjustments Mechanism (EU CBAM) & Africa (Selected)

% of country's GDP



as % of country' total exports



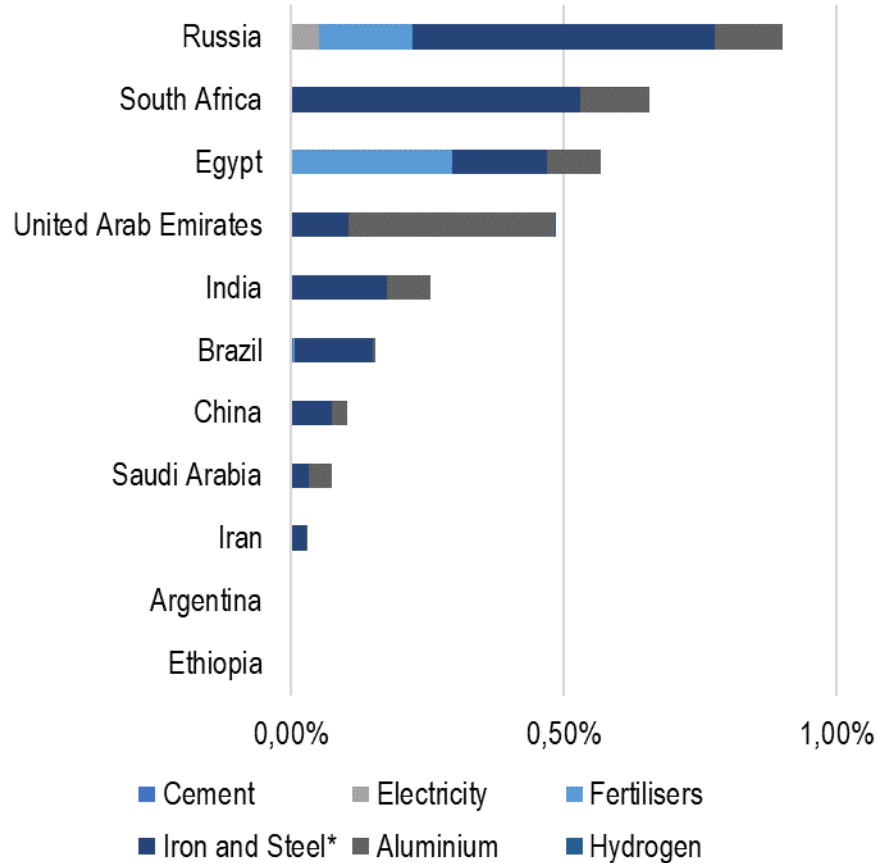
Source: TIPS, 2023

\*Iron and steel include input materials (also known as precursors) and articles of iron and steel

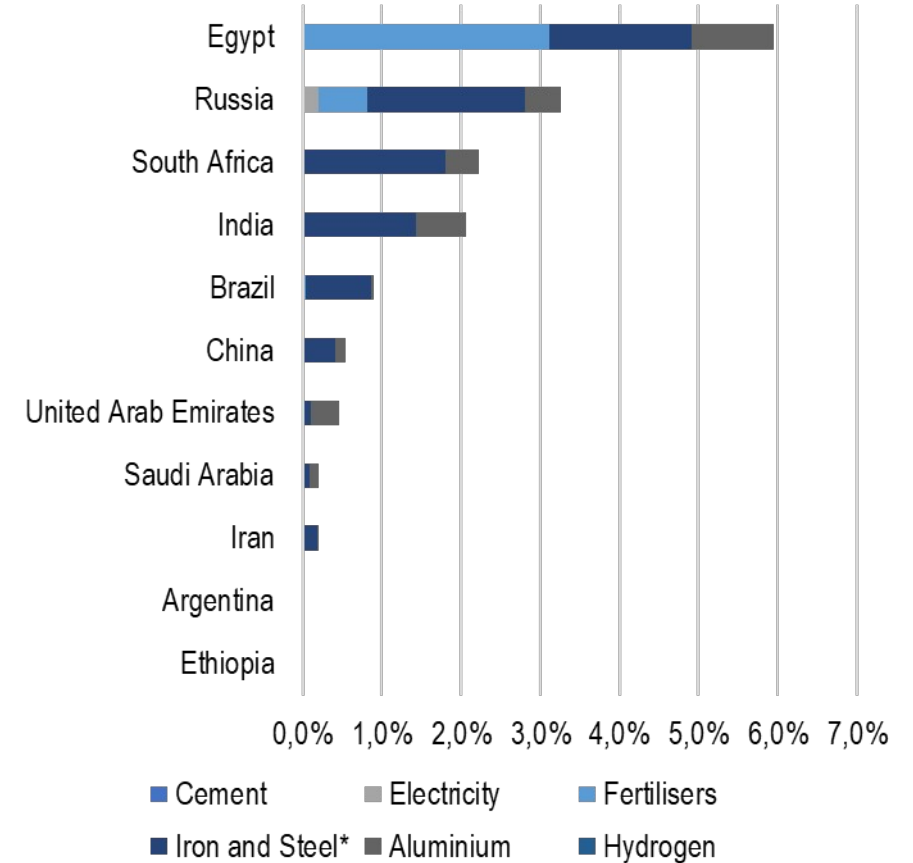


# The European Union's Carbon Border Adjustments Mechanism (EU CBAM) & BRICS+

% of country's GDP



as % of country's total exports

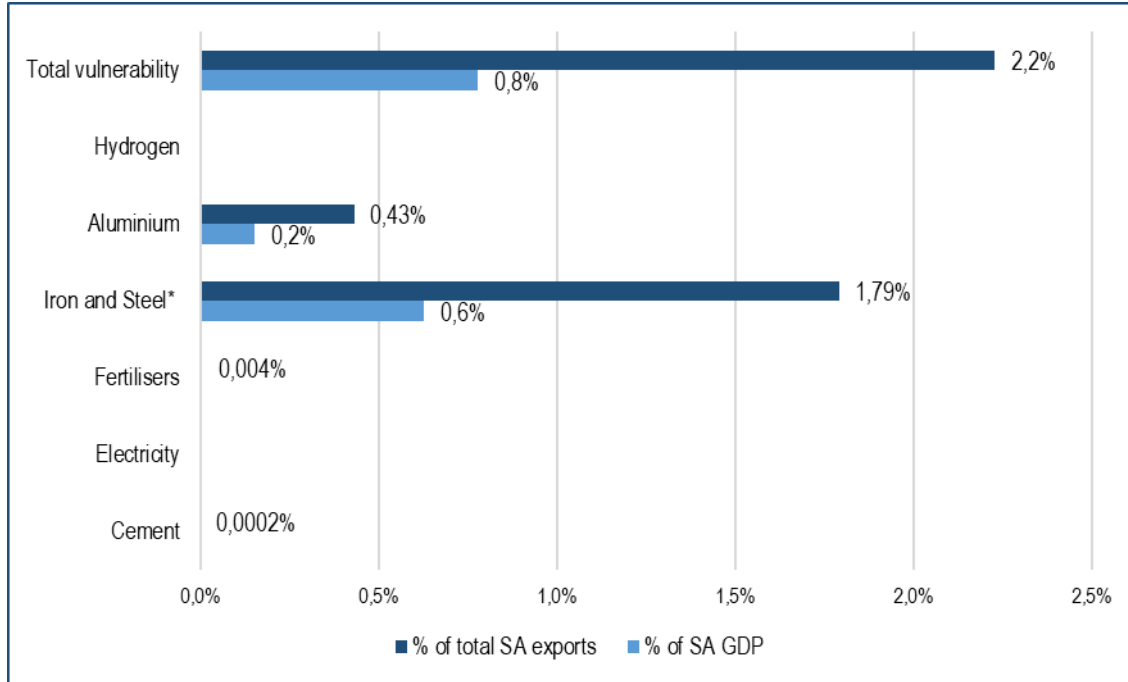


Source: TIPS, Forthcoming

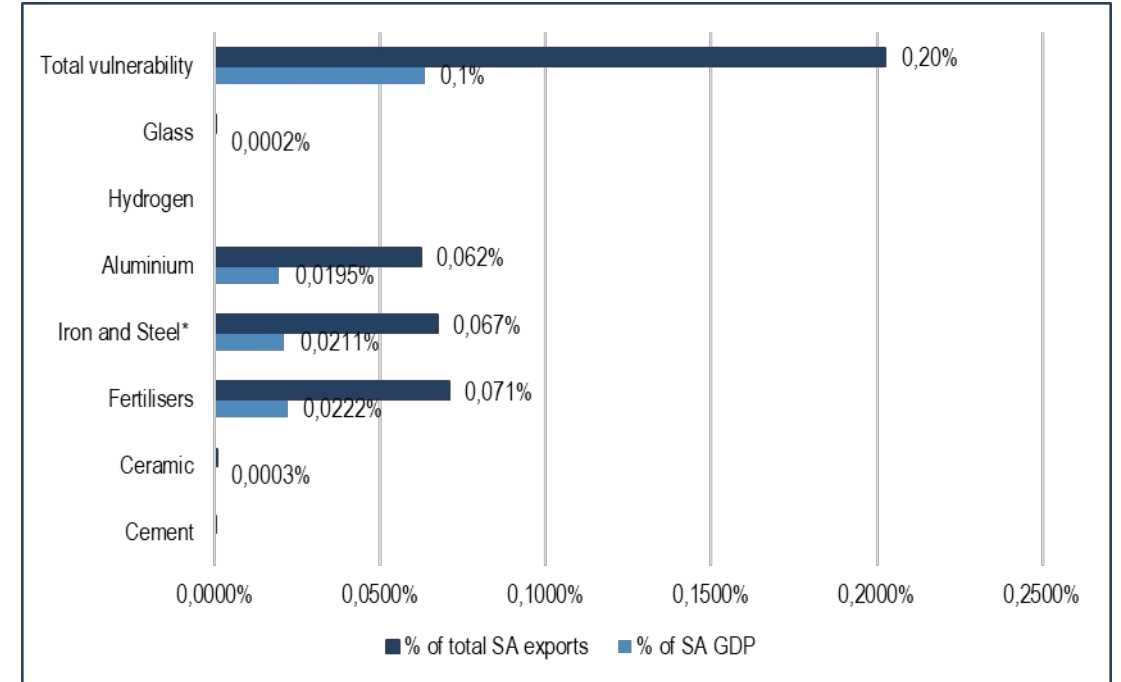
\*Iron and steel include input materials (also known as precursors) and articles of iron and steel

# The EU & UK Carbon Border Adjustments Mechanism (EU & UK CBAM) & South Africa

South Africa's vulnerability to the EU CBAM



South Africa's vulnerability to the UK CBAM



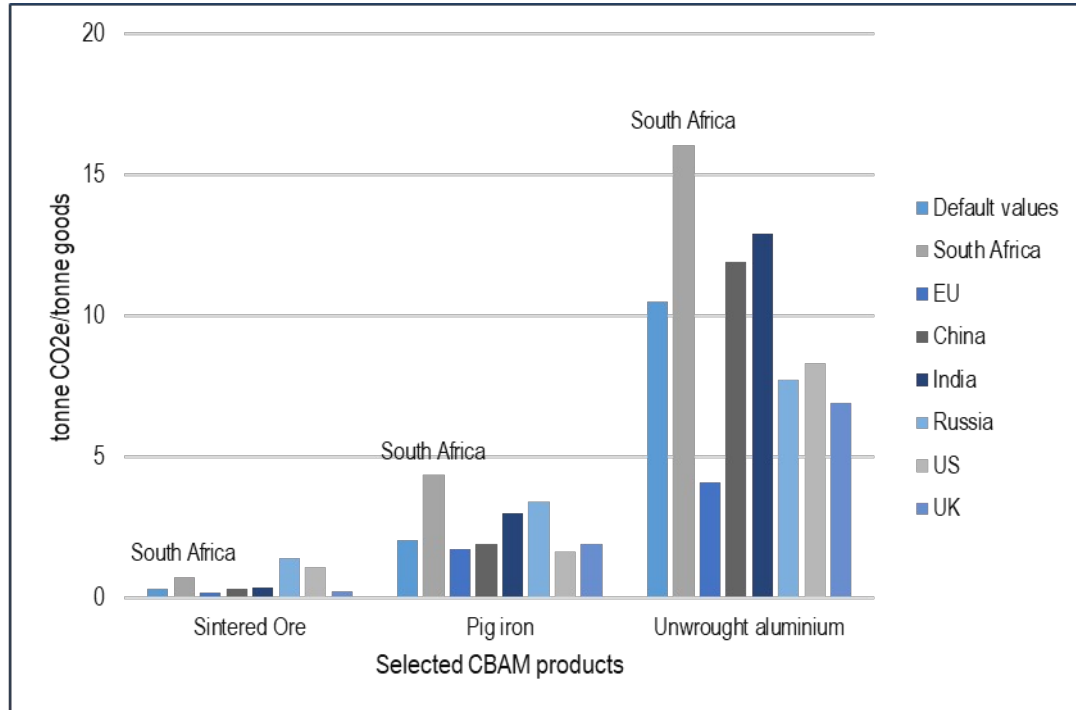
Source: TIPS, 2023, 2024

1. Based on the list of goods covered under the UK & EU CBAM, a total of **US\$2,623 billion** (this is about **US\$223 million** for UK and about **US\$2,4 billion** for the EU CBAM) of South African exports (based on 2023 data) is at risk in the short term.
2. This is about 12% of all South African exports to the UK and EU, and about 2,4% of total South Africa exports to the world, and just 0.8% of total South African gross domestic product (GDP).

**Iron & steel, fertilizers and aluminium sectors are in Jeopardy in SA in the case of the EU & UK CBAM**

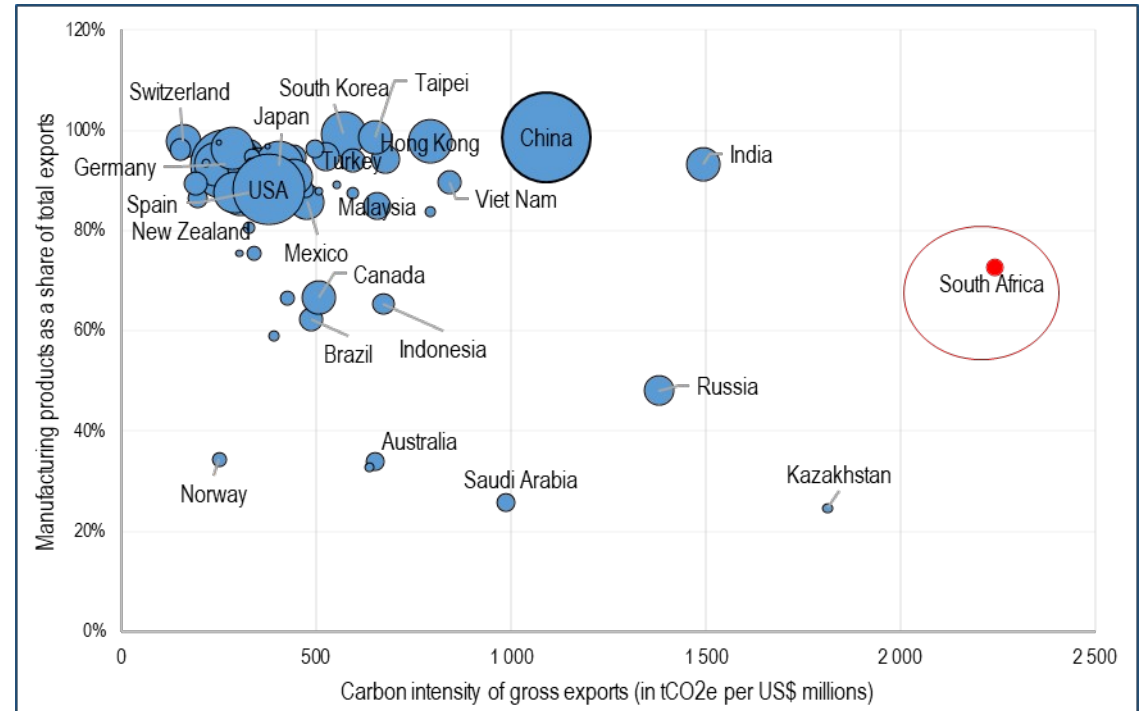
# A granular picture – CBAM & South Africa – Looking at Competitiveness

**Total emissions embedded in selected iron and steel and aluminium products for selected SA competitors.**



Source: TIPS forthcoming based on (European Commission)

**Manufacturing export per country per carbon intensity**



Source: TIPS, 2020

**Goods will be expensive and less competitive to enter the EU & other market (s)**

The general trend in the South African case is that the South African emissions embedded in CBAM products (especially iron and steel, and aluminium products) are higher than the EU's, higher than the default values, and higher than most competitors.

SA CBAM covered goods will be expensive to enter the EU & UK market as compared to other competitors

# Issues of CBAM – Macro & Micro level issues

## Macro level issues

### Fiscally – Paying the EU’s decarbonisation journey

- i. CBAM will require jurisdictions that do not have carbon price in place to pay a defaulted amount calculated at the ETS by the EU.
- ii. This means that, carbon tax will be paid to the EU coffers, **not African countries.**

### Climate change policy – BCAs are not compatible with the UNFCCC’s CBDR - RC

Shifting climate change responsibility to Africa and Global South countries.

### Multilaterally – Violation of the WTO by discrimination between domestic and foreign suppliers – using Carbon Price

Double non-discrimination test: non-discrimination between domestic and foreign suppliers, and non-discrimination between foreign suppliers.

### Resource shuffling – Africa will be the playground for carbon leakage

In the absence of not ambitious climate change policies, corporations from the EU & global north – in the name of circumventions could export lower-carbon products to the EU and export the rest of their production to countries with laxer carbon laws.

## Micro level issues (firm level - SA)

### Lack of CBAM awareness in industry and government

- i. Rushed implementation of CBAM
- ii. Mechanism is unilateral – Creating an imposing to the climate change actions locally
- iii. CBAM is still in legalese – Difficult to understand what is required from firms

**This is aligned to the issues faced by EU declarants and firms in the EU**

### Domestic industrial challenges - Logistical, energy and coordination issues

- i. Transnet issues
- ii. Eskom issues – Loadshedding
- iii. Lack of a coordinated response to CBAM both from government and industry

### Infrastructural issues – No MRV system to account for GHG emissions

African countries do not have MRV systems for GHG emissions. This will be a huge compliance cost to African firms exporting to the EU.

# How South Africa (Africa) can respond to BCAs – Short-longer-term interventions

*For starters, we need to start acting on the BCAs – Increasing awareness of these policies*

## Short-term interventions – Adapt and Engage

### Adapt to BCAs *(No regret option)*

Create **GHG accounting system** aligned to BCAs

**Green industrialization** – Through Retrofitting of industrial business models with green strategies (locally) including financing

### Diplomatic engagements

*(Ongoing strategy, low risk & uncertain chance of success)*

#### Bilateral/plurilateral engagements

Engage the EU & UK on CBAM issues and open door for concessions i.e., longer implementation/transition period, capacity building and technical assistance programs – To be funded by the EU & UK

#### Multilateral engagements

Raise BCAs issues at multilateral bodies, such as the WTO, UNFCCC, G20, etc.

## Medium-long-term interventions – Decarbonisation

### Green Industrial policy

*(Short term risk, long term benefits)*

Greening high emitting value chains

### Energy policy

*(No regret option)*

Low carbon energy systems – I.e., decarbonising Eskom in the South African case

### Trade Policy - Alternative Markets (AfCFTA)–

*(High risks, longer-term benefits)*

Increasing intra-African trade through trade in BCA covered goods

### Fiscal policy –

*(High risk but longer-term benefits)*

Introducing Carbon Pricing/taxes in Africa, where carbon pricing exist reform should take place, i.e., South Africa's carbon tax should be reformed to reflect global carbon pricing corridor of between US\$50-100 /tCO<sub>2</sub>e

Thank You

Seutame Maimele