The EU's Carbon Border Adjustment Mechanism

Purpose

Discourage carbon-intensive production outside of the EU and decrease the import of carbon-intensive goods into the EU.

How it works

EU importers will buy CBAM certificates for the carbon emitted to produce their imported goods, making high-carbon goods more expensive.

Scope

CBAM will cover 6 sectors: cement, fertilizers, electricity, hydrogen, aluminum, and iron & steel; covering direct and some indirect emissions.

Implications for South Africa

1. South Africa's **dependency on coal** leads to high emissions making it **vulnerable to CBAM.**
2. By 2030, South Africa **may lose 4% of its exports** to the EU, with aluminum and iron & steel exports dropping by **16%** and **31%** respectively.
3. CBAM could affect **employment, poverty, and inequality**, especially in connection to South Africa's mining sector.
4. Smaller companies with fewer resources will struggle to meet CBAM reporting rules, leading to **an unfair business environment.**
5. CBAM may contribute to companies going off-grid to lower their emissions, **reducing municipal revenue, raised from selling electricity,** that can be used for public goods and basic services.

A just energy transition is needed

- To reduce the risks of CBAM, **South Africa needs a just energy transition.**
- Moving away from coal **could have serious impacts**, especially on vulnerable people and communities. The energy transition **must be fair**, making sure **no one is left behind**.
- The EU **must recognize the full impact of CBAM** and provide appropriate funding to help with the just energy transition.

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The EU’s finance initiatives used to justify the Carbon Border Adjustment Mechanism

- The EU acknowledge that **CBAM will pose risks** for developing countries and Least Developed Countries (LDCs).
- **‘Extensive’** support for **‘green transitions’** is argued to already be in place - promoting low-carbon production.
- The programmes stated to ensure this, relevant to South Africa, are **the Global Gateway Initiatives** and the **Just Energy Transition Partnership** (**JETP**).

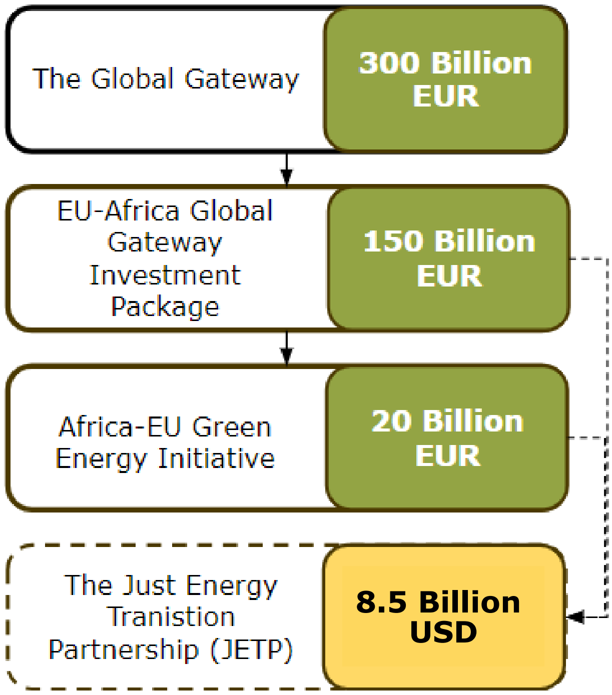
A Breakdown of the Finance Initiatives

The Global Gateway Initiatives

The Global Gateway aims to raise 300 billion EUR for infrastructure investments by 2027. 150 billion EUR for Africa and 20 billion EUR specifically for green energy projects.

The Just Energy Transition Partnership

A partnership between South Africa, the EU, the US, the UK, France, and Germany, who committed 8.5 billion USD in 2021 for South Africa’s just energy transition.



Key points:

- Both Global Gateway and the JETP rely on a market-driven development approach.
- There are overlaps between the two initiatives at the project level. For example, the SA-H2 fund is presented as both a Global Gateway and a JETP project.
- It is hard to understand the link between the Global Gateway and the JETP, and **how the EU’s role in JETP** is managed.
- JETP is a partnership with its own funding and governance structure, but the EU **frames it as a Global Gateway project**, implying that the EU's funding for JETP will not be additional to the Global Gateway funding.

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Reasons why the EU's finance initiatives are insufficient for a Just Energy Transition

- South Africa's heavy reliance on coal makes it **the 13th biggest climate polluter in the world** and the largest in Africa.
- The need for a **Just Energy Transition** arises from coal dependency, which puts vulnerable and marginalised communities at risk during a transition.
- The EU claim Global Gateway and the Just Energy Transition Partnership offer strong support for a green transition, but they **do not ensure a just energy transition** - here's why:

Funders' interests shape the finance

The Global Gateway Initiative is **a tool for increasing European influence in Africa**. EU interests, like economic and energy security, largely shape the projects. Eg. investments in resource corridors in Gambia and the mining industry in DRC. The JETP is described as **a green structural adjustment programme** that helps foreign companies profit from investing in South Africa's energy transition.

Profitable infrastructure projects are prioritized over 'soft' development

Both initiatives **fail to support the most vulnerable** in their efforts. They prioritize physical infrastructure and energy projects over addressing existing inequalities. A just energy transition **needs to target those affected by a transition** in a more meaningful way.

Shortcomings within both funding schemes

Both initiatives depend on private investments and **favor a market-led finance model**. This prioritizes profits and may worsen inequalities. The grant portion is too small, raising concerns about **debt risks in recipient countries**.

Lack of transparency

Neither initiative has ensured transparency in its formation, governance, or implementation. Both face **accusations of repackaging existing funds** and lack clarity on how much funding is new. **No clear definition or complete list of projects** and there is **little insight into how projects are selected**.

Fails to ensure inclusion and participation

Both initiatives have been created and carried out in a **top-down** way.
The JETP has faced strong criticism for **not ensuring public oversight, participation, and inclusion**. Similar concerns about **The Global Gateway is** **unclear stakeholder engagement** and **limited sector involvement**.

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