WHITEPAPER

SHIFTING TRADEWINDS, THE IMPLICATIONS OF CBAM IN SA AND KENYA

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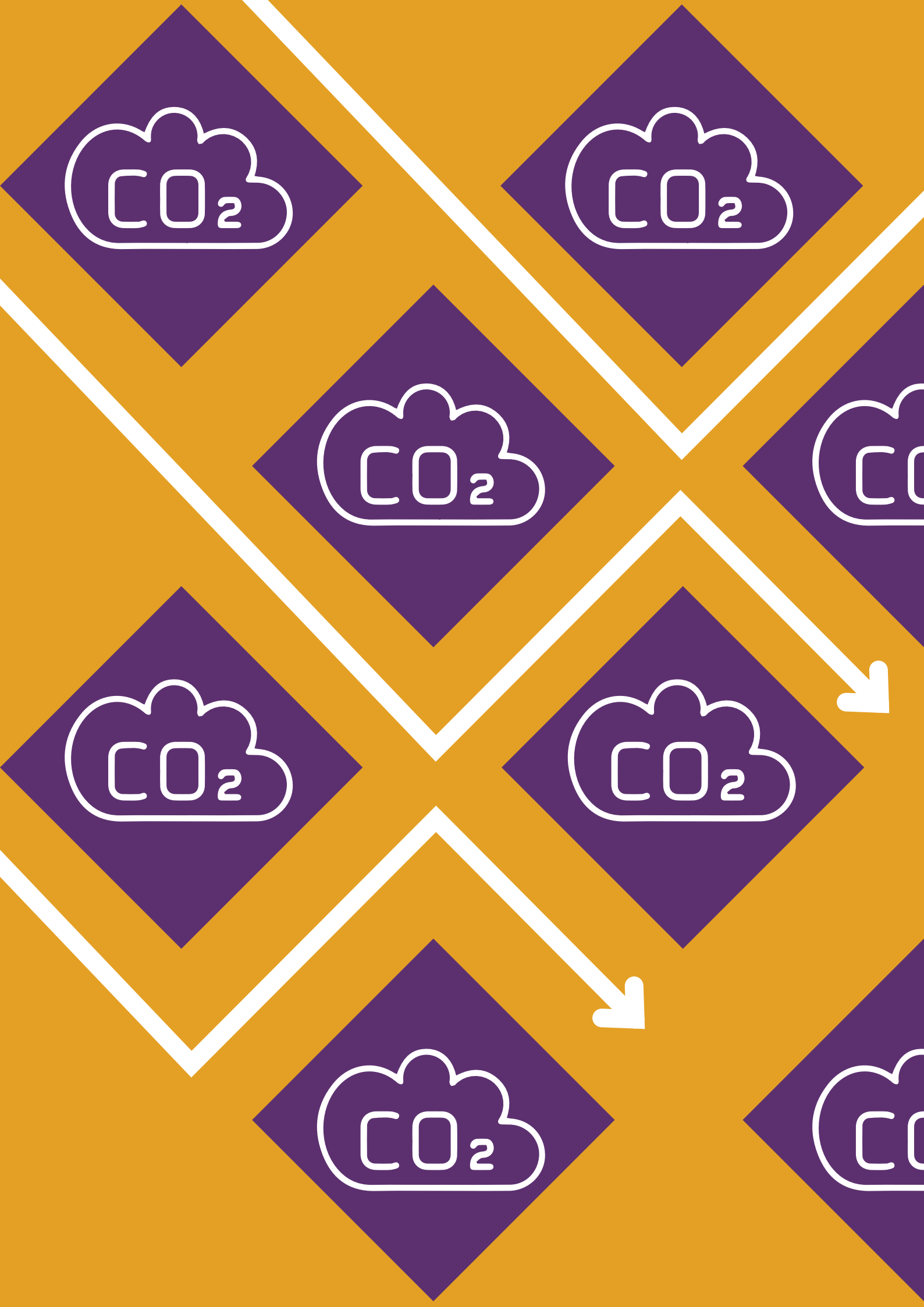
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Abstract

African enterprises are accustomed to complexity, volatility and the challenges of doing business on the continent. Yet for many, the Carbon Border Adjustment Mechanism (CBAM) – a European Union (EU) policy aiming to prevent carbon leakage, with the intention to mitigate climate change, feels like a bridge too far. Following several interviews in Kenya and South Africa, this whitepaper briefly explains CBAM, before exploring the implications of the policy for African countries and businesses. Examining the potential effects of CBAM in South Africa and Kenya – and for the continent more broadly - raises several issues. Questions of hypocrisy, power, responsibility and whether the ultimate aim of reduced carbon emissions will be effectively accomplished, are explored. Finally, the paper also considers the opportunities for new trade and manufacturing relationships across the continent and with non-EU countries, and positions the policy in the context of the 'just transition'.

Keywords:

Carbon Border Adjustment Mechanism

CBAM

Carbon Taxation

Trade policy

Sustainability

Climate Change

Just Transition

Kenya

South Africa

CBAM in context

> "The implications of the EU CBAM for affected countries, especially in the Global South, have been underrepresented so far"
>
> **(Eicke et al., 2021:1).**

Stemming from the European Union's (EU) Green Deal, the Carbon Border Adjustment Mechanism (CBAM) is designed to 'cost in' the carbon emissions in the production process of goods. The wider intention is to prevent the relocation of hard to abate and "dirty" business activities to regions which have weak or no carbon mitigation policies and a minimal focus on climate change. From an EU perspective, this would undermine local industries that adhere to the carbon legislation. The impact of CBAM on emerging markets has not been thoroughly investigated, and there is much debate and contestation around the policy. We aim to contribute to this conversation, by presenting the voices of potentially impacted, and interested, parties in both Kenya and South Africa.

The conversation on CBAM is taking place in the context of a wider discussion regarding the responsibilities of developed nations (see Figure 1) for historical emissions (Centre for Global Development (CGD), 2024; Popovich & Plumer (2021), and the role of these nations in supporting and *incentivizing* the transition to greener and climate friendly production methods. The notion of "common but differentiated responsibilities" is central to the issue of CBAM – where all countries have a responsibility towards meeting emissions reductions targets, but that these responsibilities must be distributed according to the means and abilities of different countries (UNFCCC [UN Framework Convention on Climate Change]).

23 rich, developed countries are responsible for half of all historical CO_2 emissions

Mort than 150 countries are responsible for the other half

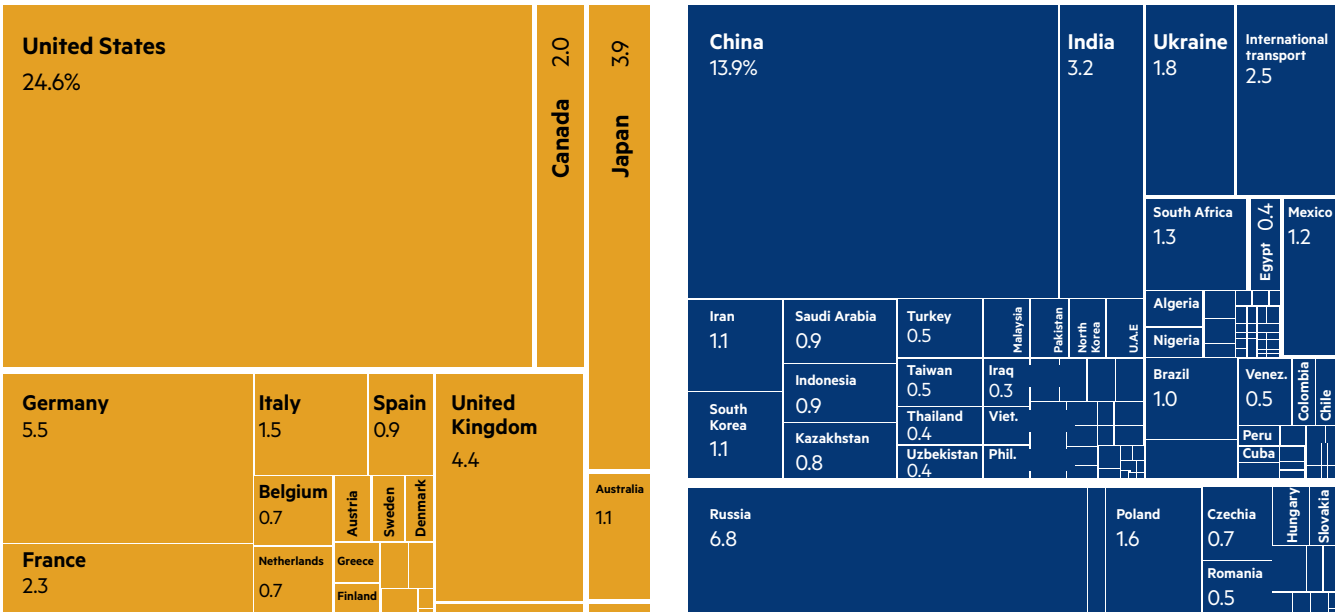


Figure 1: Global Carbon Project in Popovich & Plumer, 2021.

As we show below, CBAM has the potential to have significant implications for African businesses with an export focus. We therefore outline these potential impacts, highlighting the current levels of awareness of the policy and the challenges that are emerging to CBAM. We then turn to our interview data, and highlight the perception of CBAM among business and thought leaders in Kenya and South Africa. And finally, we show that there are opportunities for African countries to rethink their partnerships and trade relations, and turn CBAM into a competitive advantage for the region.

What is CBAM?

CBAM is a policy developed by the EU, that aims to broaden the coverage of carbon pricing, to import partners of the union (European Commission, 2023). The intention is to prevent EU manufacturing firms from relocating their production facilities to regions with less stringent carbon emissions standards and policies (European Commission, 2023)

The aim of the policy is two-fold; firstly, to ensure that the cost of carbon that goes into the production of goods imported into the EU is captured and reflected in the price. And secondly, to stimulate improved and cleaner production in countries outside the EU (European Commission, 2023)

The proposed payment and tracking system is outlined in the figure below.

EU importers of goods covered by the CBAM register with national authorities where they can also buy CBAM certificates. Certificates are priced based on weekly ETS allowances.

EU importer declares the emissions embedded in its imports and surrenders the corresponding number of certificates each year.

If importers can prove that a carbon price has already been paid during the production of the imported goods, the corresponding amount can be deducted.

Figure 2: CBAM payment process (European Commission Taxation and Customs Union, 2023).

The initial products that will be covered in the CBAM policy are shown in the figure below.

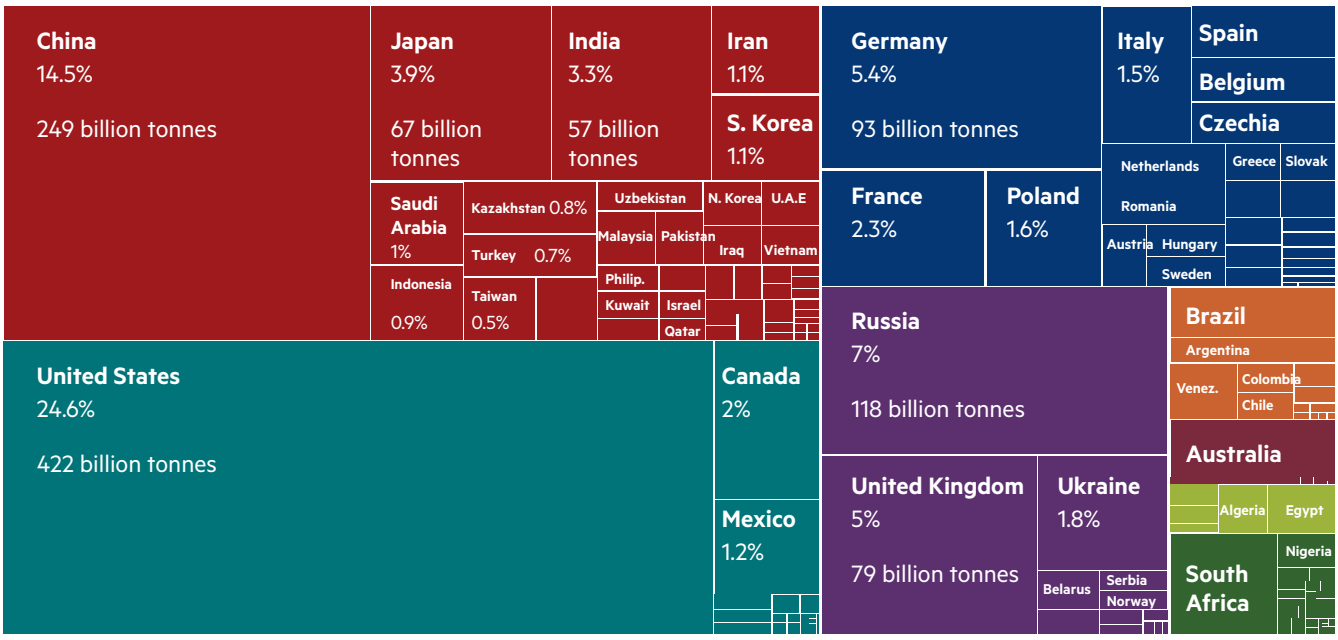
Sector	Materials or material products
Cement	Clinker
	Portland cement
Iron and steel	Iron and steel primary forms
	Hot rolled and further steps
	Coated hot rolled and further steps
	Forged, extruded and wire
Aluminium	Aluminium unwrought alloyed
	Aluminium products
	Alloyed aluminium products
Fertilisers	Ammonia
	Urea
	Nitric acid
	Ammonium Nitrate
Electric generation	Electricity

Note: Hydrogen, which tends to be produced with coal outside of the EU, was subsequently announced to be included in the initial product scope in the December 2022 provisional agreement on the CBAM between the EU Parliament and Council. However, modelling work in the Guepie, et al. report had already concluded by that point and so this product is unfortunately not included in the results.

Figure 3: Shortlist of first phase CBAM affected products (Guepie, Macleod, Omojo, Davies, & Van der Ven., 2023).

A Climate Solution or Green Hypocrisy?

There are challenges for the EU too. Firstly, the region's historical CO2 emissions are significant, see Figure 4 below. Africa, on the other hand, only uses 6% of global energy and is responsible for less than 3% of global energy-related carbon (International Energy Agency, 2024) while being disproportionately impacted by climate change events, like prolonged droughts, floods and tropical cyclones. This has led to perceptions of hypocrisy as the EU encourages African countries to adopt its policies.



Note: Fossil emissions are shown, which includes emissions from energy and industry. Land use change is not included.

Figure 4: Contribution to global emissions (Source : Global Carbon Project)

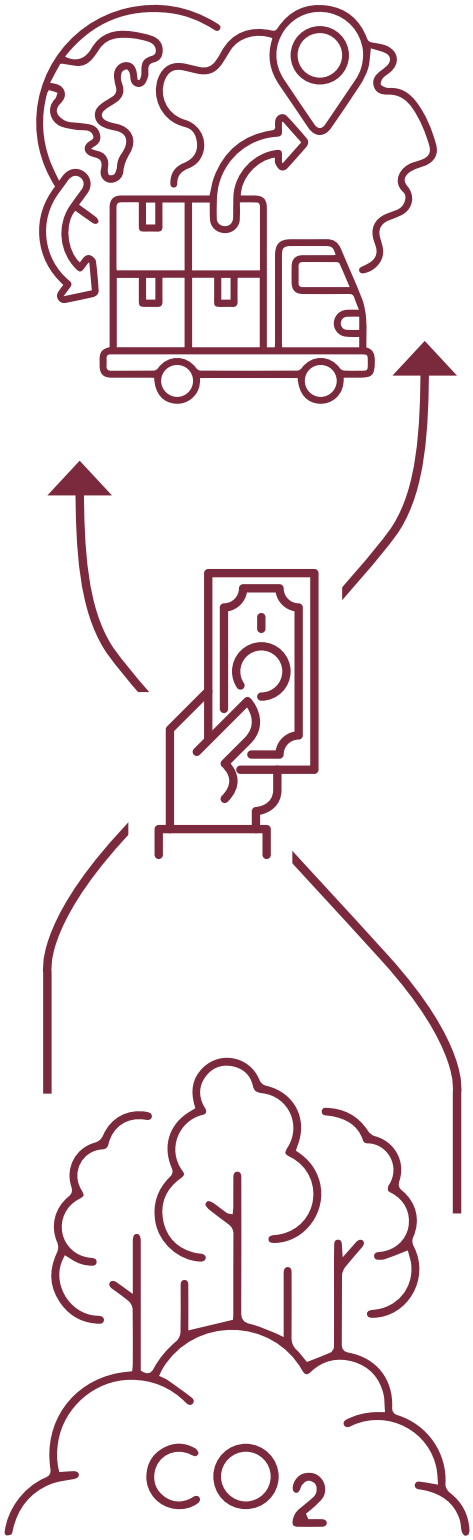
There are other challenges that the EU is facing in implementing the CBAM, particularly because this is the world's first carbon border tariff of this magnitude. The administrative burden of establishing and applying the new regulatory framework cannot be underestimated with the EU Commission needing to operate a transitional registry to monitor company compliance. There is also the challenge of being able to track the carbon emissions to ensure that carbon leakage is avoided and ensure the transparency of reporting on carbon-intensive products. As explained by the Research Institute for Sustainability Helmholtz Centre Potsdam (RIFS Potsdam), "During the transitional phase states and stakeholders will likely need to allocate additional resources in order to enhance capacities ahead of the mechanism's full implementation." (Abedinaj, 2023, N.P.).

CBAMs African Footprint

> "The CBAM is a direct barrier to market access, with a similar effect to a tariff on products subject to it. Avoiding it will require meeting the same carbon standards as those set in the EU. This would necessitate large additional investments that alone would amount to pushing developing country exporters and LDCs way beyond the nationally determined contributions they have tabled at any United Nations Framework Convention on Climate Change Conference of Parties (most of which, in any case, were conditional on receipt of as yet non-existent climate funding)."
>
> **(Rob Davies, 2023, N.P.)**

A report by the LSE (2023) notes that the impact of CBAM will be the greatest across African countries, compared to other regions globally. This is based on both the importance of the EU as an export market for many African countries, and the relative carbon intensity of production in many African countries (LSE, 2023).

Böhringer et al., (2018) argue that carbon tariffs theoretically shift the economic burden of developed-world climate policies to the developing world. Many of the EU's trading partners exporting carbon-intensive goods, especially in developing countries, have raised concerns that the EU CBAM would substantially curtail their exports and competitiveness (Perdana & Vielle, 2022:2). In addition, CBAM has been questioned, because if it is "designed poorly" the policy could lead to increased bureaucratic and administrative processes and costs (Eicke et al., 2021).



The rise of protectionist policies

Beyond these costs, there is concern that the policy is part of a broader rise in protectionism, with the Presidential Climate Commission of South Africa highlighting that the EU Green Deal and US Inflation Reduction Act (IRA) are both "aggressively subsidising local green industries" (PCC, 2023: n.p.; Ferris, 2023). This is in opposition to Africa's moves to open borders and boost trade via AfCFTA.

There is concern that CBAM falls into this protectionist category and the following has been said about the policy:

It may "spur international trade conflicts and undermine the multilateral rules-based system" (Eicke et al, 2021:2).

The EU Commissioner for the Economy stated that CBAM is "not about trade protection" (Gentiloni, 2023, n.p.), yet the policy has been criticized as penalising lower- and middle-income countries in emerging markets (Perdana & Vielle, 2022)

CBAM has been called "a well-designed policy for Europe" (Ferris, 2023: n.p.).

According to the African Development Bank head, Akinwumi Adesina, if CBAM were implemented as planned it would force African countries to export raw materials, undoing gains and plans for increased beneficiation on the continent (Jessop, Ramahi & Savage, 2023).

South Africa and India are currently challenging the policy at the World Trade Organisation – labelling it a trade barrier (Smith & Pearson, 2023).

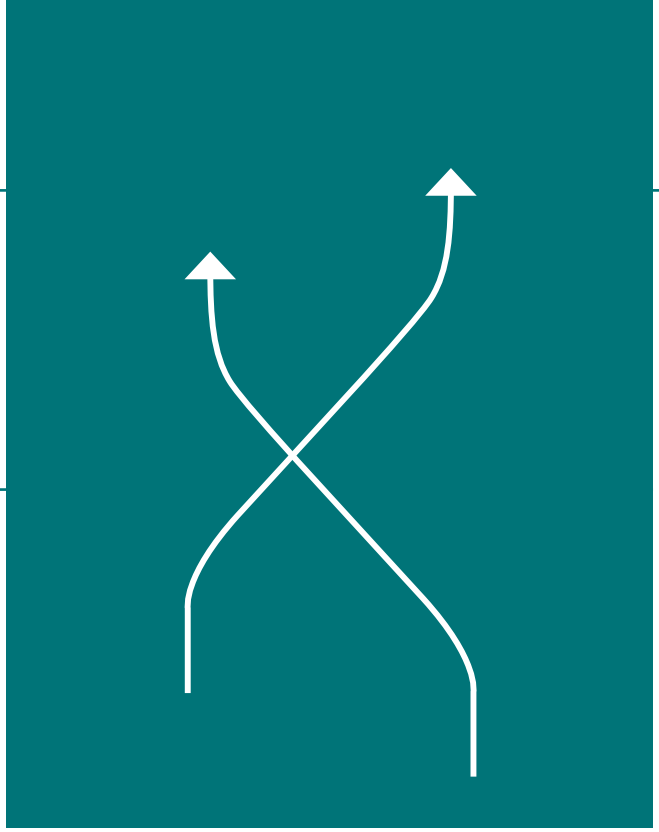
According to the United Nations Environmental Programme (UNEP, 2023), African countries are expected to face some of the most severe consequences of climate change.

> "It is one thing if middle income economies … are motivated to accelerate the decarbonisation of their industrial sectors by CBAM. However, there is arguably a major injustice faced by least-developed economies, which are barely responsible for climate change, yet are being given tariffs that could impact their ability to trade."
>
> **(Ferris, 2023: n.p.).**

The growth of CBAM as a policy tool

It was recently announced that the United Kingdom (UK) will also be implementing a CBAM policy, and therefore this appears to be the 'new normal' in global trade, increasing the importance of readiness and awareness of the policy. According to the Chancellor of the Exchequer Jeremy Hunt "This should give UK industry the confidence to invest in decarbonisation as the world transitions to net zero" (Gov.UK HM Treasury, 2023, N.P.). The measure is therefore as much about preventing carbon leakage as it is about incentivising local decarbonisation strategies. The UK CBAM is intended to be implemented by 2027. The UK is just one of several countries that expect to be developing and implementing CBAM policies – including Japan, Canada and Australia (Burger, 2023; Hannam, 2023)

The CBAM Roadmap



CBAM is expected to phase in over a period of time – initially only reporting and then moving to the full tariff (Gentiloni, 2023). In the transition phase, which will last until the end of 2025, exporters to the EU will only be reporting on the carbon inputs or intensity of their products (LSE report, 2023). This is expected to ensure that the process is predictable and smoothly implemented. Therefore between 2026 and 2034, the policy will be applied. Similarly, the policy will initially cover the imports of iron and steel, electricity, cement, aluminium, fertiliser, and hydrogen (Perdana & Vielle, 2022).

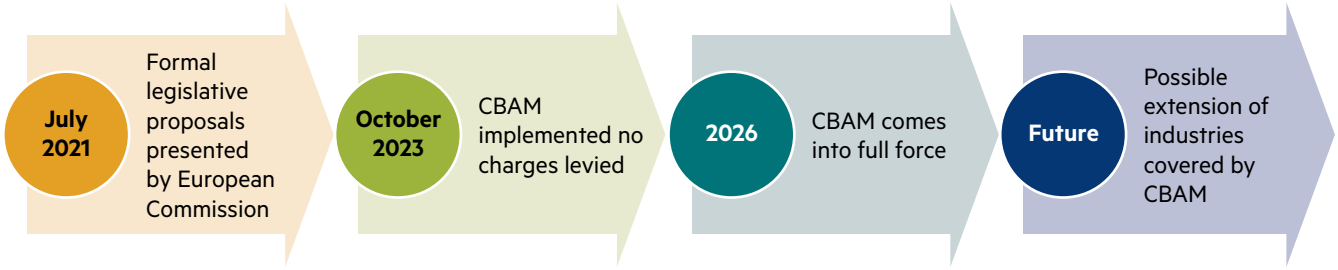


Figure 5: CBAM timeline (Source, author's own)

Despite the phased approach, there is concern that the administrative costs and ability to track and implement CBAM in developing countries is also understudied, and that it may be challenging for developing countries to "monitor, report, and verify emissions" Elcke et al. (2021:4)

For example, a recent blog by Baker McKenzie states that;

> "In practice, the CBAM's reporting requirements will thus likely have significant consequences in terms of the information that will need to be exchanged throughout supply chains, and data that businesses will need to ask from suppliers.
>
> This also means that imports of CBAM-covered products into the EU will require a sophisticated GHG monitoring, calculation and reporting apparatus" (Baker & McKenzie, 2023, Np).

On the European side, as Hancock and Bounds (2023, N.P.) note, "Only 105 verifiers are in the EU, and six member states have none at all" indicating that the skills and expertise required at customs to verify carbon emissions is limited. Furthermore, it was expected that increased costs for businesses would be passed on to customers, highlighting that there will be challenges and bottlenecks within the EU too (Hancock and Bounds, 2023). This may be compounded by the fact that the reporting methodology "imposed by the CBAM is significantly more specific and data-intensive [than other reporting frameworks], as it only marginally allows" for estimations (Baker & McKenzie, 2023, N.P.).

Indeed, in an open letter to European Commission Director-General for Taxation and Customs Union, the Secretary General of the International Chamber of Commerce detailed several challenges with the implementation of CBAM, specifically related to the complexity of the reporting, challenges with the reporting platform, and challenges related to obtaining the information required (International Chamber of Commerce, 2024)

Krukowska, (2023) notes that non-EU countries who fail to lower their emissions will lose competitive advantage to countries and companies with greener and lower carbon production methods. The idea behind CBAM is also that instead of paying the levy in the EU, "the prospect of paying a price on carbon in the EU will act as an incentive to invest in decarbonization" (Figures, in Krukowska, 2023, N.P.). Due to the administrative complexity, the creation of a local system for carbon reporting may be called for – to simplify the process for exporting companies (Burger, 2023). In this way, the intended positive spillover effects from CBAM may materialize, as individual countries seek to find ways to mitigate the bureaucratic challenges of navigating CBAM.

Anticipating the Risks of CBAM

The World Bank's Relative CBAM Exposure Index point to the most vulnerable countries as Egypt, Morocco, Mozambique, South Africa, and Zimbabwe - in the aluminium and steel sectors (Ferris, 2023).

According to Eicke et al., (2021) there are two core risks that stem from the CBAM policy – firstly exposure – which refers to the extent to which a country is reliant on exports to the EU. And secondly, is the vulnerability of a country – which reflects the ability to adapt to meet the policy needs, or to find alternative trade partners with current practices (Eicke et al, 2021).

Figure 6 (as quoted in Krukowska, 2023) highlights that CBAM, "may also mean a change in trade patterns: carbon-intensive products will be harder to sell on the EU market so they could be shifted to third countries without carbon tariffs. There is thus a risk that instead of promoting the decarbonization of energy-intensive businesses, the result will be the emergence of parallel markets, where those locked out of cleaner production ecosystems will trade with countries with lower emissions standards, reinforcing the north-south divide (Eicke et al, 2021; Perdana & Vielle, 2022). This is referred to as, 'carbon leakage', or the "relocation of investment and production from countries with ambitious climate policies ... to countries with lower ambitions" (Eicke et al., 2021: 2).

Risks are exacerbated by the lock-in effect of energy strategies that promise to continue to be carbon intensive in future. However, governments and policy makers are required to balance the needs and demands of a growing population, energy poverty and strong lobbying groups – with the requirements of the EU and CBAM policies – which presents a difficult issue.

Figure 6: Core CBAM risks – Exposure and vulnerability (Source: Author's own)

Leaving the LDCs (least developed countries) behind?

> Despite only accounting for 3.3% of global greenhouse gas emissions, LDCs face some of the greatest impacts from climate change shocks. Due to their unique circumstances, these countries face immense challenges to prevent, mitigate, and recover from these shocks. In fact, more than two-thirds of deaths caused by climate-related disasters worldwide have occurred in LDCs.
>
> **(Flynn, 2023)**

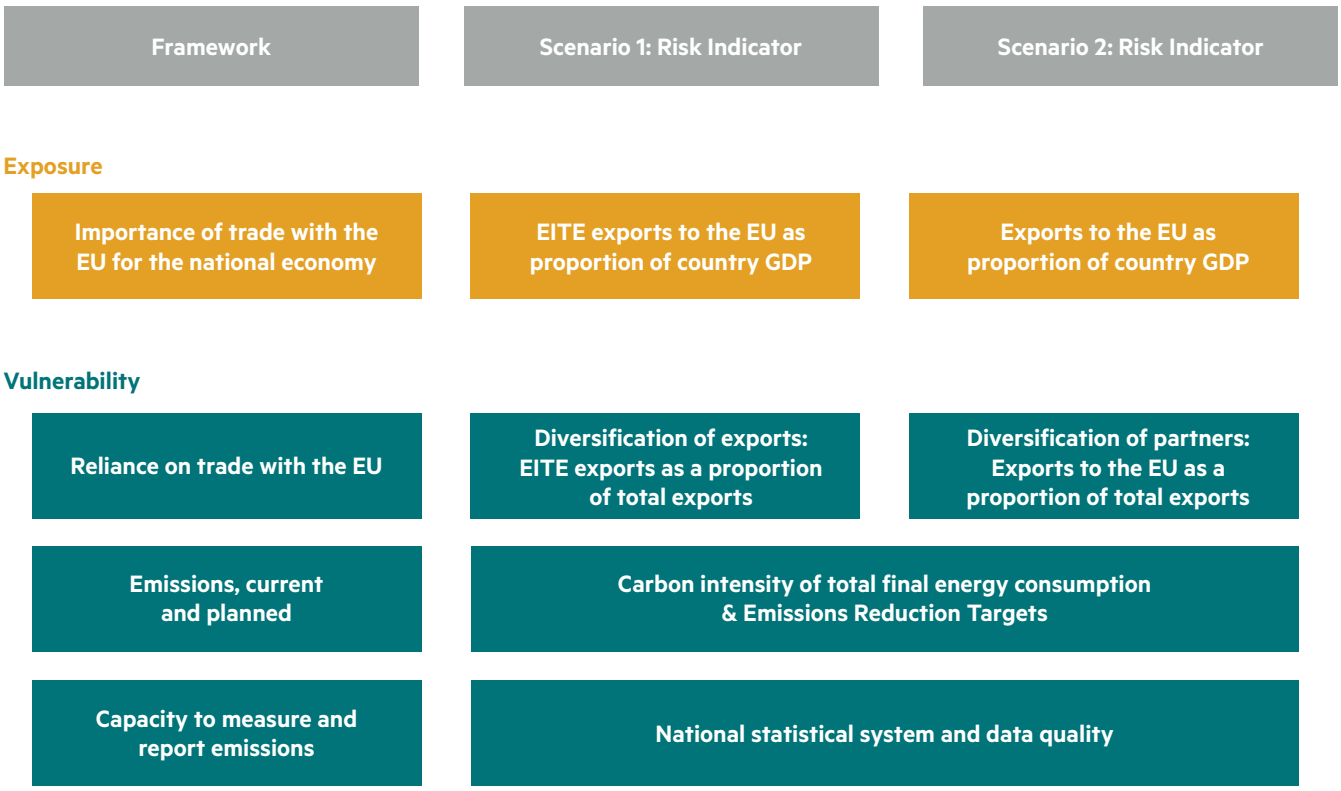
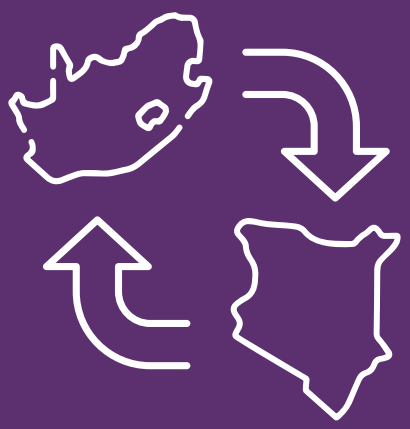


Figure 7: Risk categories stemming from CBAM (Eicke et al, 2021)

In early discussions on the CBAM policy "an exemption for LDCs and vulnerable economies was considered, but ultimately decided against by the EU" (LSE, 2023: X) and the "EU statement to the 73rd UNCTAD Trade and Development Board, in February 2023, noted that the EU support 'could include technical and financial assistance to support climate mitigation and adaption in LDCs'" (LSE report, 2023:x). This leaves no protection for these fragile economies and their citizens (LSE report, 2023; Trachtman & Remy, 2023). For these economies, already at risk from climate related impacts, the risks and negative impacts of CBAM are high.

South Africa and Kenya



South Africa and Kenya present two very different pictures as it pertains to the impact of CBAM. And while, South Africa is the first African country to implement a carbon tax (Pleeck & Mitchell, 2023), the country regularly features on lists of top polluting countries, given its reliance on coal fired power plants. Figure 8 below highlights the different levels of vulnerability between the two countries.

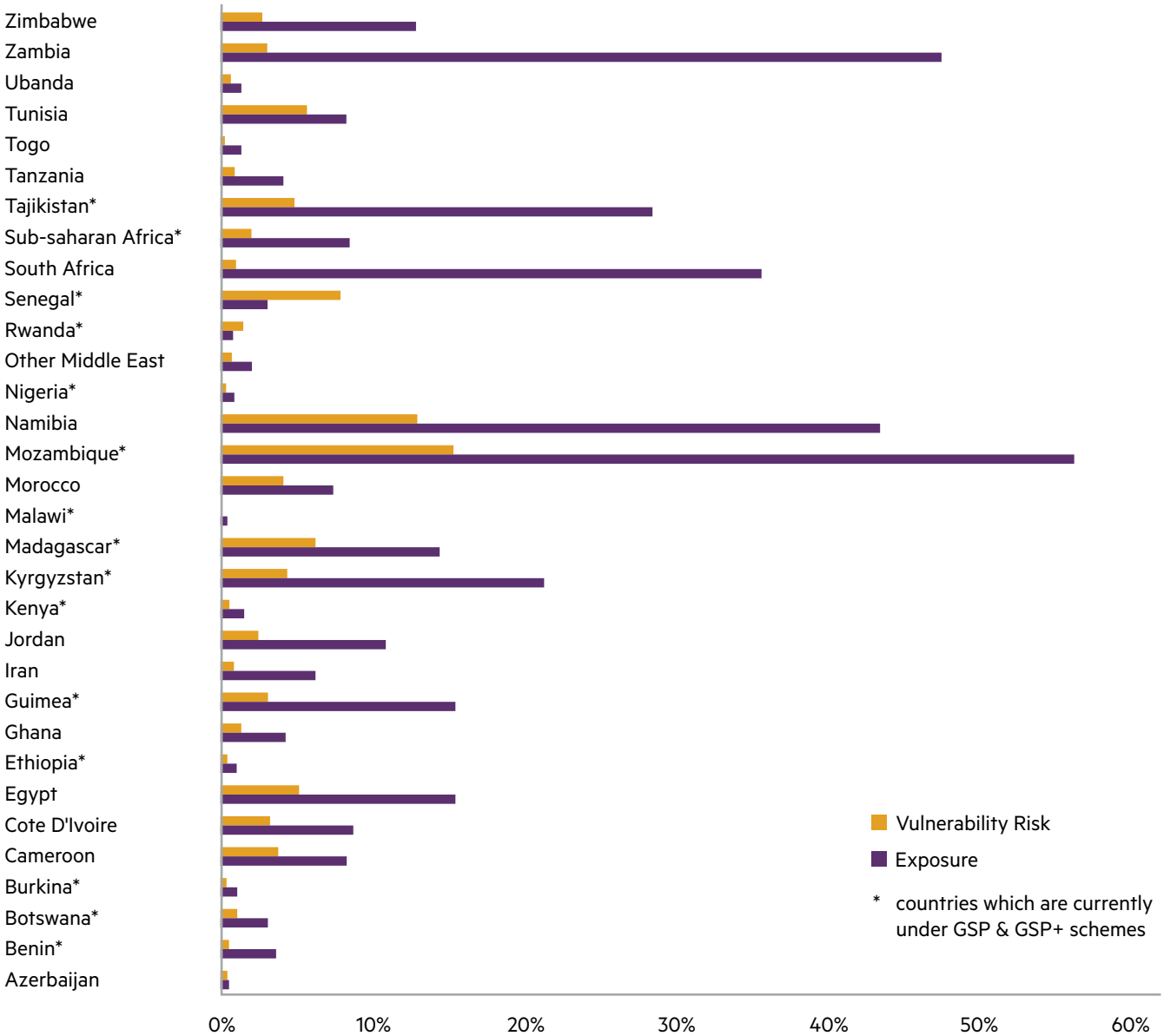


Figure 8: Comparison of countries (Perdana & Vielle, 2022)

South Africa

In a Genesis Analytics report, Ward (2023) notes that while the South African steel and iron sectors were most at risk to the CBAM, the EU's intention to include embedded and indirect emissions in the regulations, extends the negative impacts to aluminium and chemical exports. South Africa is expected to suffer from the implications of both the direct and indirect emissions taxations, and due to the significant use of "coal-based power generation" the country is one of the highest in terms of carbon intensity (Burger, 2023, n.p.). South Africa – which produces by far the most exports of any African country – has labelled the EU's CBAM "coercive" and a threat to the "delicate national consensus" on climate change in the country" (Ferris, 2023: N.P).

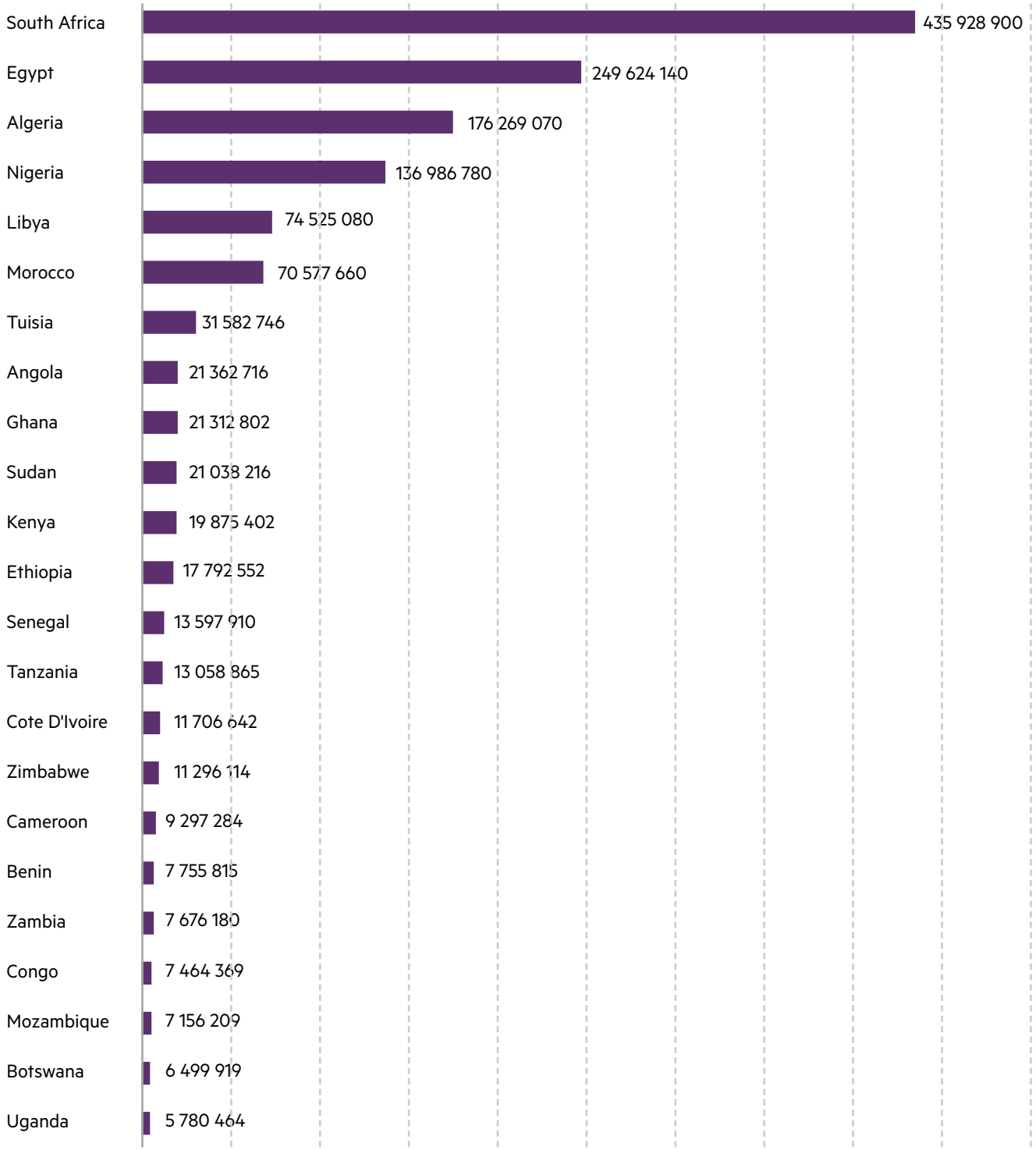
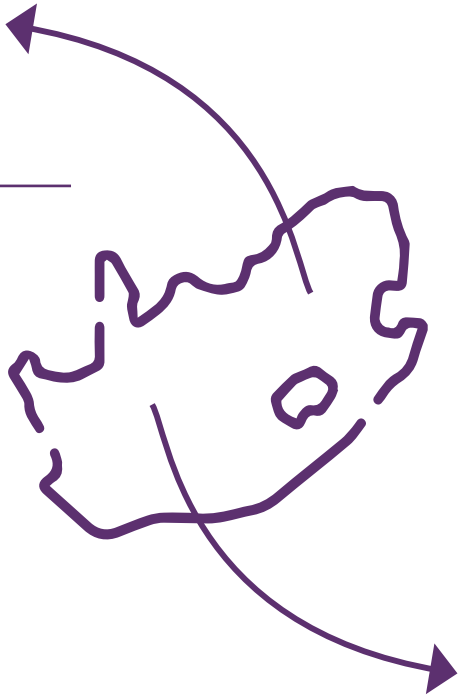


Figure 9: Production-based carbon dioxide (CO2) emissions in Africa in 2021, by country (in metric tons) (Source, Statista, 2024)



South Africa has lodged a complaint with the WTO, stating that CBAM inhibits free trade. While the process unfolds with the WTO, the South African Institute of International Affairs (SAIIA) has strongly urged the African Continental Free Trade Area (AfCFTA) to engage with the EU on CBAM to negotiate the best deal for Africa (Gilder & Rumble, 2024). This deal would ideally incorporate a variety of considerations including potential exemptions, concessions, technical assistance and climate finance with preferential rates. As Achieng Ojwang, CEO United Nations Global Compact South Africa, says "The Global South needs to collaborate and work together to find strength and power in responding to CBAM. We need to show a united front".

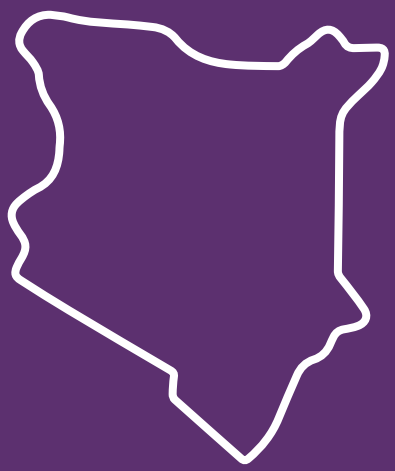
Ultimately, it is vital to consider multilateral solutions to decarbonizing trade to ensure that South Africa does not become isolated from its trading partners which would impact their competitiveness and be detrimental for the country.

As Shameela Soobramoney, CEO of the South African National Business Initiative, says;

> "In the long term we [South Africa] need to understand that we are a small economy, so we need to be cautious in how we respond. China and India can both resist the CBAM because of their size. [South Africa] aren't relevant enough to do that. It is in our interests to decarbonize as fast as we can". The same is true for many African countries, which means a calculated response is required.

Companies exporting to Europe will need to meet the EU standards for monitoring, reporting and verification in addition to the South African National GHG regulations. South African GHG regulations are calculated on a facility basis while CBAM requires a comprehensive analysis of the emissions from a product perspective. For more complex products, accounting must be made of embedded emissions in terms of the inputs and energy used to create the product.

The mining sector in South Africa is particularly vulnerable to changes due to CBAM but not all. The companies in this sector are taking action. One respondent, a CEO of a private company in the mining sector with little global exposure, commented on the lack of communication and awareness-raising efforts around CBAM and its implications for African businesses. It is the listed companies, with more global exposure that are taking steps to decarbonize and not waiting for government to act. Given the size of the mining sector – contributing approximately R202 billion to GDP and employing nearly half a million people in 2023 (Statista, 2024), it is crucial for the company to decarbonize as quickly as possible. This also highlights that adverse impacts due to CBAM and a limited export market, could have severe socio-economic consequences.



Kenya

Kenya's president William Ruto, when talking about the subject of CBAM and lower emissions said the EU could "enhance innovative financing by using more high-quality African carbon credits in EU emission trading markets, which offer core benefits such as increased biodiversity and improved livelihoods" (Kyllmann, 2023, n.p.). Kenya recently hosted the first Africa Climate Summit, and the signing of the Nairobi Declaration puts a focus on the need to restructure "the way wealthier nations engage with Africa" (Nott, 2023, n.p.)

For Kenya specifically, CBAM is unlikely to have a significant impact on its economy for several reasons. First, its clean energy mix. 86.98% of the energy generated comes from renewable energy sources such as hydro, geothermal and solar power (EPRA, 2022). In addition, Kenya's diversified economy spans a wide range of industries such as agriculture, services and technology and innovation which are comparatively less carbon intensive than the sectors targeted by CBAM. However, though the country is currently not directly affected by the policy, a Kenyan respondent still expressed concern about the ambiguity and lack of clarity in defining CBAM and its implications for African countries.

Ferris (2023) highlights that for a country like Kenya, which is less reliant on fossil fuels, the policy could offer an opportunity to exploit a competitive advantage in pursuing green manufacturing and promote renewable energy exports. For example, The Great Rift Valley, where Kenya is located, is rich in geothermal resources and the country is the 8th largest geothermal power user globally. Potentially, Kenya's expertise in geothermal could position it as a provider of these services and equipment to other countries in the region.

> "The bulk of the countries in Africa, including Kenya, essentially now have a new market that they can be able to target by being able to set up the ability to leapfrog to green production. There's now a ready market for green goods and services, and countries can now invest in the renewable energy sector, commensurate with the opportunities from an industrial standpoint that are targeted at the European market."
>
> **Jack Kimani, CEO CAP-A Africa**

However, according to Muchiri (2023), in East Africa where the agricultural sector is the primary driver of the economy, "farmers would be overburdened by the new regulations because substantial costs will be introduced with the new specifications on standards, certifications, logistics, and … CBAM".

The interviews also brought out the ambivalence various stakeholders, people, companies, public institutions, *inter* alia have regarding the intention behind CBAM. CBAM was described by one interviewee as an attempt by the EU to impose a fair price on carbon within production systems to make European companies competitive in the global market. There was also critique from the respondent of insufficient engagement between the EU and African partners in designing CBAM. While there have been consultations, they are perceived as inadequate and lacking in structure.

Another interesting observation that brings out the divergence of perspectives from interviews is that CBAM is primarily an environmental measure, not a trade measure. One expert interviewee reflected on the perception of CBAM, emphasizing that while many see it as a trade measure, its primary goal is environmental. They attributed the dichotomy of views surrounding CBAM to poor communication strategies and a lack of understanding from the general public. While CBAM may not have been specifically designed to punish Africa, it still affects certain African countries, particularly those heavily reliant on carbon-intensive sectors.

One common theme in the interviews was the lack of (or at best inadequate) support for African countries in complying with CBAM. This is particularly true for those with limited capacity to meet CBAM requirements in the short term – such as the Least Developed Countries (LDCs) (UNDESA (United Nations Department of Economic and Social Affairs), N.D)

On the other hand, CBAM could be viewed through an opportunity lens as a stimulus for intra-Africa trade which could foster new trade dynamics. Another interviewee highlighted the potential for African countries to leverage CBAM to attract more investments in clean energy and infrastructure, ultimately driving sustainable development for the region. For instance, Kenya could increase trade with Mozambique by exporting raw materials such as aluminium, adding value to them domestically, before exporting to EU countries. This approach would stimulate new investment in affected countries and foster new trade relations within Africa, potentially offsetting the negative economic effects of CBAM.

> "Imagine a situation after the transition phase in 2026 and some other countries outside Africa are not able to meet that obligation. This will lead to a trade deficit which creates a new market. So it means that if a country in Africa is able to quickly meet the conditions, there's an opportunity to grow. It just comes down to what lens are you using to look at it. If it is a positive opportunity lens, then you start thinking differently. If it is a negative one, it's about how to counter it."
>
> **Dr. Olufunso Somorin, Regional Principal Officer-AfDB**

Part of a Just Transition?

> "Africa should respond along the lines of learning more from what the Global North does than what it tells us to do. Africa needs to develop and implement its own ambitious industrial policies"
>
> **(Davies, 2023:n.p.).**

The Just Transition refers to the shift away from a fossil fuel based and carbon intensive economy, towards a sustainable and 'greener' economy (European Bank for Reconstruction and Development [EBRD], 2023).

> However, the intention behind the just economy is that the transition is "fair and inclusive" (ILO, 2023: N.p.).

> According to the EBRD, this fairness applies as much to individuals as it does to countries, and must be responsive to the 'structural changes' that are taking place, (EBRD, 2023: n.p).

> And finally, the Paris Agreement notes that the Just Transition should be pursued as aligned with 'nationally defined development priorities' (United Nations (UN) Sustainable Development Goals (SDGs), N.D, n.p.).

This sets up a dilemma, as there is a push for sustainability and a focus on the Just Energy Transition, and yet the notion of common but differentiated responsibilities" is also central to achieving a united way forward for countries as they seek to address climate change. And the idea of nationally determined priorities and development agendas is central to the challenges that the CBAM policy is facing. As the South African Presidential Climate Commission (PCC) note,

> "Whatever system of carbon pricing is introduced, it must be equitable and just, and take account of development needs of developing countries in line with the principle of common but differentiated responsibilities i.e. a Just Transition."
> (2023, n.p.).

Similarly, at the COP-28 summit, the president of the AfDB highlighted the skewed investments over the past two decades, where Africa was largely bypassed for renewable energy investments. According to Thomas (2023, N.P.), "Adesina called for 'Just Trade-for-Energy Transition partnerships', which he said would enable Africa's renewable ambitions without restricting its trade prospects". According to Davies (2023), this should include decarbonisation and the creation of low carbon goods, but, in line with Adesina's statements, should ensure that local beneficiation takes place.

Interview respondents noted that a key concern in the private sector is centred on finance. Companies will require significant amounts of climate finance. One respondent, from a South African mining services company, highlighted that "Funding for adjustments will likely come from a combination of internal resources, potential government incentives, and exploring external funding options such as grants or loans aimed at promoting sustainable practices". It may be important for governments to negotiate climate finance for the whole country with incentivised interest rates. And it is not only finance that companies will need. Interviewees also highlighted the need for government to provide tax incentives, policy support with clear guidelines for implementation, and government-facilitated training programs.

A similar concern is where the CBAM revenues flow. The EU has committed that CBAM revenues will go to its 'Innovation Fund' which aims to provide support in terms of technical and financial assistance for climate mitigation and adaptation in LDCs. Yet concrete commitments in this regard are yet to be made. It would go a long way for the Global North to show goodwill to the Global South if the revenue collected went back into decarbonizing the economies that paid the tax.

Conclusion

> "We can fight the speed of implementation but not the principle. [We] will be better off in the long run for decarbonising"
>
> **(Soobramoney, 2024)**

CBAM is more than a carbon tax policy. It is a politically charged policy, exacerbating tensions and causing the EU to be seen as acting unilaterally. It is a policy that has potentially devastating social consequences for Africa should jobs be lost, and a policy that seems to ignore wide developmental differences between countries. The policy could also spur action, support existing decarbonisation measures, and lead to increased pressure for companies and countries to act.

As Perdana & Vielle (2022:9) note, "the complexity of confronting and adapting to climate change is a shared and global responsibility, and complementary measures along-side EU-CBAM implementation is a practical approach to realise these goals". The policy may lead to new trade patterns emerging, or to new trade and manufacturing partnerships emerging. What is clear is that the CBAM policy needs finessing and to be refined to meet the realities on the ground and, to respond with greater sensitivity to the mood on the continent.

While some African countries, such as South Africa and Mozambique, may be negatively impacted in the short term due to their reliance on fossil fuels, the majority of African nations have the potential to benefit from CBAM. One South African private sector interviewee concluded that "Aligning with CBAM presents opportunities for innovation and improvement, such as developing more energy-efficient production methods, investing in green technologies, and enhancing our competitive edge through sustainability certifications". Yet this requires investment and support – locally, from African partners, and internationally in scaling renewable energy and green industrial activities.

Beyond the policy itself, CBAM helps to raise several important issues. For example, are sustainability and climate change being taken seriously by businesses and organisations across the African continent? How can African countries leverage their competitive strengths, beyond the ambit of CBAM, to spur and improve development outcomes and productivity – particularly in leveraging AfCFTA? Given that CBAM reveals at worst a paternalistic, and at best an indifferent, attitude from involved EU parties towards the African continent, how can those relationships be strengthened and become more equitable?

To fully capitalize on the opportunities presented by CBAM, African countries need to develop economic growth plans focused on climate-positive growth, establish enabling policy and regulatory frameworks, secure finance and investment, and ensure fair and equitable market access.

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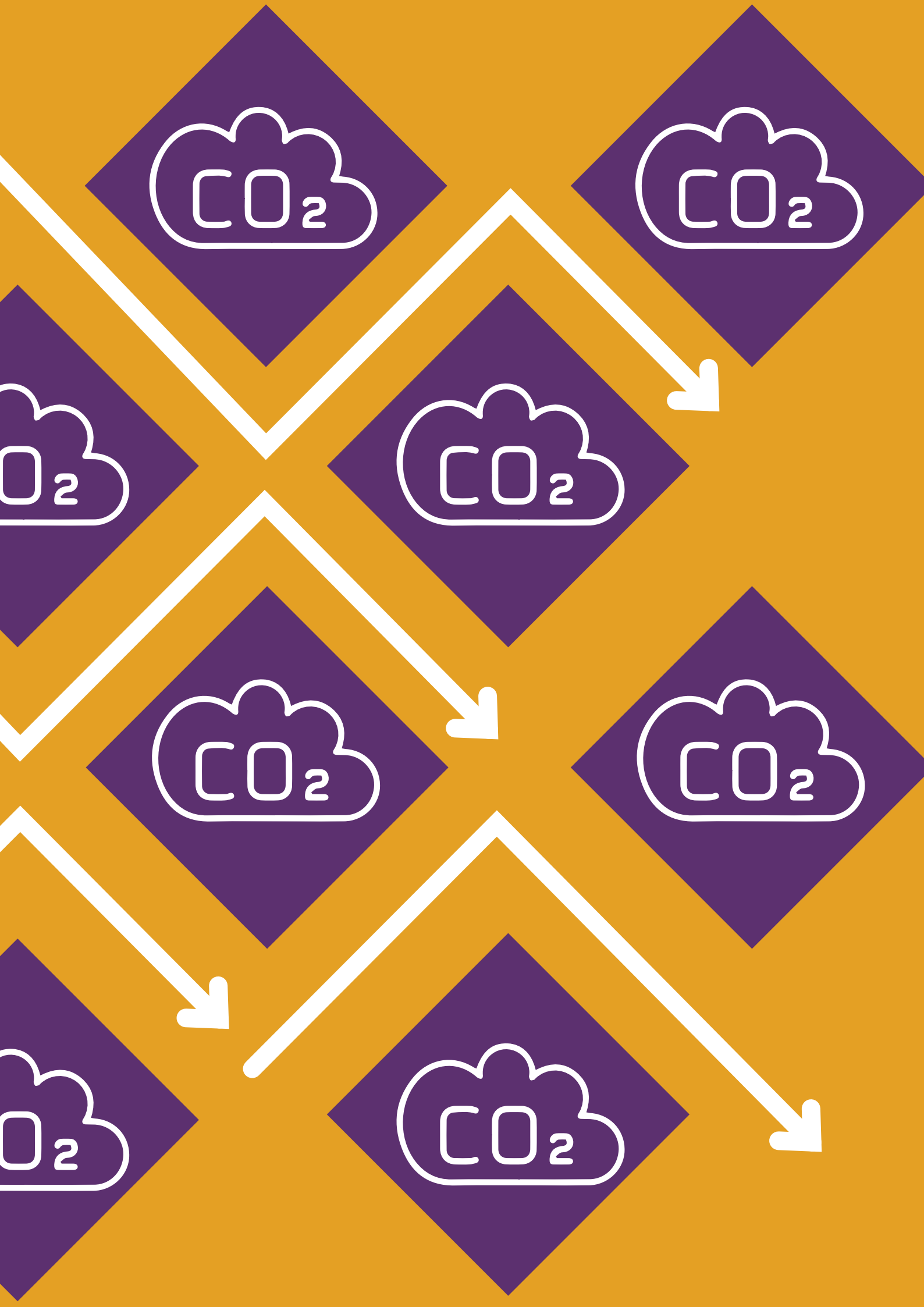
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