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SUMMARY AND FINDINGS

Online workshop **The EU's Carbon Border Adjustment Mechanism and its implications for a global Just Transition: The case of South Africa**

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1. Introduction

As part of the “European Green Deal”, the European Commission committed to introducing a **Carbon Border Adjustment Mechanism (CBAM)** in late 2019. It tabled the legislative proposal in summer 2021. The measure is controversial, and many questions remain. What is the right timeframe for its implementation? How to use the generated revenues? What about climate justice considerations?

To take a closer look at the planned policy, the Heinrich-Böll-Stiftung’s European Union and Cape Town offices, together with the Institute for Advanced Sustainability Studies (IASS), organized on 2 June 2022 an online stakeholder roundtable.

The aim was to discuss perceptions, opportunities and concerns about CBAM for a more collaborative policy design. This can help the policy meet environmental objectives without having adverse effects on vulnerable population groups in third countries, while boosting just energy transitions worldwide.

“I thought CBAM was a very straightforward technical question. It’s not, clearly not.”
Workshop Facilitator during the conclusion of the workshop

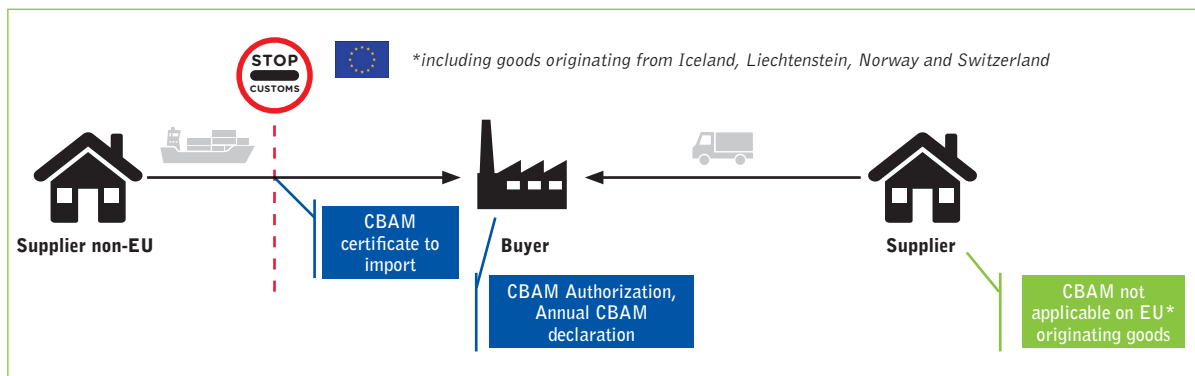
South Africa is key to the discussion around the concerns of emerging economies and countries in the Global South. It is a significant partner for the EU’s climate diplomacy, for example in the context of the Just Energy Transition Partnership announced at COP26, as well as a powerful player on the continent. Around 25 selected representatives – from both the EU and South Africa – of various civil society organisations, academia, think tanks, and institutions came together online to discuss the CBAM.

The event aimed to establish a common ground for discussion and debate regarding CBAM and identify key areas for further discussion and cooperation. This summary outlines the issues raised and provides an outlook on possible developments. It establishes some starting points for policy makers and stakeholders regarding further engagements on policy proposals.

2. Context and background

2.1. What is the CBAM and where are we at in the implementation process?

CBAM is meant to prevent 'carbon leakage' because of increased climate ambition in the EU from the Green Deal. The concern is that stringent climate policies (like carbon taxes and standards) would make EU products more expensive than those produced abroad. This could result in production shifting out of the EU and into locations with lower carbon prices or less stringent climate policies.



How will it work? EU importers will buy carbon certificates corresponding to the carbon price that would have been paid had the goods been produced under the EU's carbon pricing rules. However, if a non-EU producer can show that they have already paid a price for the carbon used in the production of the imported goods in their own country, or that their good has low emissions, the corresponding cost can be fully deducted for the EU importer.

2.2. CBAM timeline



During the on-going so-called [trilogue negotiations](#), the European Commission, the European Parliament, and the European Council (the heads of state or government of the EU member states) will settle open questions and find compromises on the questions [where their positions still differ](#).

2.3. The relevance of the CBAM to South Africa

The current proposal of the European Commission foresees a CBAM in pilot sectors: aluminium, cement, electricity, fertilisers and iron and steel. The European Parliament proposes to add hydrogen, organic chemicals and polymers. The South African research institution *Trade & Industrial Policy Strategies (TIPS)* [estimated the impacts for these sectors](#) on the South African economy. They found that except in the areas of fertilizers and cement, where South African exports to the EU are marginal, the country's exposure to the CBAM is significant. South Africa's dependence on coal-powered electricity (over 80% of the national energy mix) could increase the exposure further if indirect emissions were to be included in the CBAM, as proposed by the European Parliament.



Border Carbon Adjustments are also being discussed in other countries, such as Canada or the UK. Should other countries implement similar measures, the impact on countries such as South Africa would be more significant, as a higher share of exports would be subject to border adjustments.

3. Workshop summary: CBAM concerns, questions and issues discussed

Concerns about inequality, unemployment and poverty

Some South African participants expressed fears about increasing unemployment in case the domestic economy is either losing export shares because South African exports to the EU are not competitive with the additional CBAM levy, or the country is decarbonizing in a quick and socially unsustainable manner in order not to lose export shares. The latter could result in the sudden loss of many jobs in the coal sector, increasing existing poverty and inequalities. It is particularly important to note that the impact on different provinces of the country and on population groups differs. An example of a region particularly affected by the transition to renewable energies is the province of Mpumalanga, origin of over 80% of South Africa's coal. As a region so dependent on fossil fuels, people in this area of the country face a bigger risk of unemployment and poverty if coal production decreases.

Inequality in South Africa: Based on the distribution of consumption (or income) per capita, *South Africa is the most unequal country in the world. Over 50% of the population lives in poverty. The unemployment rate among the Black African population group remains higher than the national average and other population groups, with Black African women being the most vulnerable group with an unemployment rate of 40.6% (compared to 34.5% in the whole population).*

"We're feeling the pressure, our workers are losing their jobs, there's no plan. Absolutely no plan." Participant of the workshop about the situation in Mpumalanga

Coal phase out in South Africa: Independently of the CBAM, the coal phase out and the shift to renewable energies are inevitable for South Africa. It needs to reach its *Nationally Determined Contribution* emission goals, sustainably transform its industry for long-term success, and protect its own population from the adverse effects of air pollution and other dangers associated with coal production and combustion. The coal phase out processes need to be accompanied by measures that avoid the rise of inequalities. This aim is reflected in the *Just Energy Transition Partnership* that was launched at COP26 in November 2021 between South Africa and France, Germany, US, UK and EU. This long-term collaboration is meant to support South Africa's de-carbonization and the transitioning of its economy towards renewable energy sources. It will mobilise an initial commitment of \$8.5 billion for the first phase of financing. As one of its goals, the partnership states to enable "a just transition that protects vulnerable workers and communities, especially coal miners, women and youth, affected by the move away from coal".

Climate justice considerations

Some of the discussants argued that the CBAM would not take into account climate justice considerations such as remaining carbon budgets and responsibility for accumulated greenhouse gas emissions in the atmosphere. They felt that the EU is forcing third and more vulnerable countries to decarbonize on a timetable set externally, without considering national circumstances like levels of unemployment and development. Participants argued that the EU should tackle its emissions first, because the need and room for action is still immense. In response, the EU Commission is arguing that it is doing this primarily by reforming the European Emissions Trading System; however, carbon leakage must be prevented for this measure to be effective. Without a CBAM, it fears that forcing the European industry to comply with more expensive carbon prices and stricter regulations would lead to industries relocating from Europe and increasing pollution elsewhere, thus undermining efforts to lower emissions.

Climate justice: *The contribution of different states to climate change varies globally, as states of the Global North industrialised earlier and have long built their economic growth unquestioningly on fossil fuels. This needs to be considered when defining current responsibilities to cut emissions, also taking into account the capacities countries have to contribute to climate change mitigation. This is highlighted by one of the most important principles of the United Nations Framework Convention of Climate Change (UNFCCC), the main forum for international climate policy negotiations - the principle of Common but Differentiated Responsibilities and Respective Capacities (CBDR/RC). The term climate justice combines various concepts and forms of justice, amongst them distributive justice (e.g. who gets emission rights, who has to pay), procedural justice (e.g. how are decisions made, who is included in decision-making processes), intergenerational justice (how do current generations safeguard the rights of future generations to fulfil their needs), and compensatory justice (how can injustices of the past be compensated). Although South Africa is a significant contributor to greenhouse gas emissions, the African continent as a whole only accounts for under 4% of the world's emissions.*

Inclusive policy-making

The policymaking process was criticised for being neither inclusive nor consultative. Even if there are consultation and participation mechanisms, they are often difficult to access for South African civil society actors. European civil society actors can also struggle. **Big industrial organisations have more resources and oftentimes a more direct access to decision makers.** The feeling of having no voice and no say might discourage countries like South Africa to contribute more to mitigation efforts, as stakeholders feel that rules are forced upon the country. That can create opposition towards measures like the CBAM.

"[T]he debate is designed by the EU. And the agenda is created by the EU and the forum is the EU and the EU will finally decide so that kind of consultation is not going to be very useful, meaningful, or consistent with global governance."

South African Participant reacting to the proposal that South African actors should try get more consultation with EU representatives

Trust

During the discussion it became clear that it is important to find a common basis of trust in which all stakeholders feel taken seriously and can be sure that their concerns will be treated fairly. Following the failure to uphold climate finance promises, trust levels are extremely low. Another recent example is the debate on vaccine equity, where many rich Western countries (including the EU and Germany) [did not agree to a waiver for the Covid-19 vaccine](#). Current discussions in European countries about building new LNG terminals and increasing energy production from coal in the face of the war in Ukraine also send mixed signals and reinforce the perception that climate 'rules' only apply where they do not undermine EU interests.

The CBAM as a protective measure?

Both the policy-making process, as well as the nature of CBAM itself, were perceived as a unilateral EU move, coercing third countries into inappropriate policy measures. Several participants accused the measure as being driven by the economic interests of EU industry rather than genuinely pursuing climate goals. Representatives of EU institutions countered this and pointed out that the CBAM will not be protectionist as it is designed to be a WTO-compatible climate measure.

"We want to be very clear in the climate ambitions that we have and the laws that will make sure that we will get there. And one of this is CBAM."

Participant of an EU institution explaining the relevance of the CBAM

A just transition

Overall, the main message that was stressed repeatedly was: Transitioning away from coal and cutting CO₂-emissions is necessary and a good thing. Yet, there is a need to ensure that mechanisms like the CBAM do not have detrimental effects on vulnerable countries and already disadvantaged groups of the population. Power relations must always be considered when planning policies, so that less powerful and most impacted actors have a say in their design and implementation. Measures should try to target unequal power relations by empowerment and re-distribution of resources and benefits. Carbon pricing measures must always take into account distributive and justice effects in their design. If the justice aspect of a transition is not sufficiently considered and there is a lack of concrete measures to enable it, resistance to decarbonisation plans can be the result.

A just transition carries immense potential. To achieve it, decarbonisation needs to be mainstreamed into developing plans (climate resilient development) and the capacities for renewable energies on the African continent need to be seized. Upskilling and education need to lead to new green manufacturing hubs and new multilateral processes and reforms of the financial system can compensate for past and current global inequalities.

“The idea of a just transition seems to stop at the European border, and that doesn’t seem in any way fair.”

Workshop Participant talking about the current plans of using the CBAM revenues for the EU budget.

“[A]s we are transitioning and decarbonizing, it should be done in a manner that upholds the principles of a just transition. And the transition should be used to not only alleviate but address some of the structural socio-economic issues we face in South Africa.”

South African participant talking about the necessity of a just transition

Free allocation of CO₂ certificates

Under the EU Emissions Trading System (EU ETS), producers need to purchase a certificate for each ton of emitted carbon. The EU ETS started in 2005 with basically all emission certificates being allocated for free. Subsequent reforms reduced the number of free allowances, but at the moment the sectors at the highest risk of relocating their production outside of the EU still **receive almost 100% of their certificates for free**. European civil society actors have long fought for an end of free allowances, as they are perceived as undermining the effect of the Emissions Trading System. As the argument from the EU’s side for the free allowances is the protection of energy-intensive industries against carbon leakage, implementing the CBAM would replace this system, so the proposals contain a gradual phase out of free allocation. However, the proposed time periods for the phase out are still perceived as too long by civil society. Phasing out of free allowances should happen as fast as possible, not only after the CBAM was phased in. This is not only a question of the environmental effectiveness of the ETS, but also a justice issue. It is not fair if big producers in the EU do not have to pay for their emissions, while imports from outside the EU are already affected by the CBAM.

Current proposals for phase in of CBAM and phase out of free allowances timeframes:

European Commission	European Parliament	European Council
CBAM Phase In: 2023-2025	CBAM Phase In: 2023-2026	CBAM Phase In: 2023-2025
Free Allowances Phase Out: 2026-2035	Free Allowances Phase Out: 2027-2032*	Free Allowances Phase Out: 2026-2035

*The original draft report by the responsible EP Committee, the Committee on Environment, Public Health and Food Safety (ENVI) proposed a phase out of free allowances until 2028. However, this did not find a majority in the European Parliament.

4. Implications for the CBAM process

4.1. What should EU policymakers take into account when designing and implementing the measure?

The following section gives recommendations by reporting comments, opinions and suggestions by participants during the workshop.

Knowledge creation

If a robust debate is to be held about CBAM, more knowledge about this measure will need to be created outside the EU. Included in this are impact assessments for third countries to understand potential consequences and enable collective identification of solutions. The EU should give more priority to these tasks and invest more resources in them. Some civil society participants from South Africa reported that information is hard to access, which leads to a lack of involvement of non-European civil society in discussions about European policy proposals, even if they are expected to have effects on their work and communities. The EU should focus more on enabling conversations with non-European actors by capacity and confidence building and use more of its resources to educate and inform actors in third countries, especially non-governmental actors, so they can participate in policy processes that affect them and thereby increase the acceptance and impact of measures outside of the EU.

Debates and consultations

More spaces should be created for common solutions to be found between the EU and states outside of it. Discussion and consultation processes should be more inclusive. EU institutions should take an active role in facilitating these processes, as they are also the side that actively introduces the new policy. It was noted in the discussion that there is still a lack of such consultations. Power relations should always be considered and actively worked against when discussing the CBAM, but also other climate policy measures. Moreover, not only governments should be perceived as partners, but also civil society groups.

Trust building

Before introducing a CBAM, it would be helpful to increase international trust and legitimacy by keeping other promises. For example, it should be ensured that the 100 billion US dollar that rich countries pledged as funding support for climate change activities to developing countries already at the Copenhagen climate summit in 2009, are paid before the introduction of the CBAM is imminent. CBAM shouldn't be decoupled from other initiatives but discussed together with other measures in the areas of climate finance and loss and damage. To gain broader acceptance of measures like the CBAM, the European Union needs to show it is willing to (re)build trust and deliver on promises to support countries in the Global South. This will be a challenge, as the basis of trust is severely damaged by debates like the one on vaccine equity.

Revenues

There was a consensus in the discussion that the revenues should not go into the EU budget (as foreseen in the current Commission proposal). Instead, there was relative agreement that it would only be fair if the revenues were returned, either to all affected countries, to particularly climate vulnerable countries, etc. However, even this is not perceived as an ideal solution; some participants argued that this would first cause damage and only then give something back. The use of the revenues would also have to be worked out in more detail. For what purposes should the revenues be used? Who exactly should get the revenues? Governments do not always act in the interest of citizens and climate protection. In this context, for example, the idea of directly helping victims of climate disasters through immediate compensations or unconditional basic income for people living in areas destroyed by climate disasters was mentioned as a potential use for revenues and for climate finance in general.

Phase out free allocation

The period for the phase-out of Free Allowances should be as short as possible to avoid favouring European industry over non-European industries by having CBAM and Free Allowances for European producers at the same time, as would be the case according to current proposals.

4.2. Strategies within South Africa and the region

Regional alliances and cooperation

The African continent will be quite an important player in relation to CBAM. Most climate vulnerable countries [that are expected to be most impacted by the introduction of a CBAM](#) are located on the continent, for example Mozambique, Zambia, or Zimbabwe. Therefore, there could be a chance for regional alliances and cooperation and finding common strategies. It could be rewarding to dive deeper in the [connection between the African Continental Free Trade Area \(AfCFTA\) and the CBAM](#) and how these issues could be connected.

CBAM could help fights for domestic climate policies

For South Africa, the topic gives a chance to civil society actors to build alliances and engage further with the measure's introduction process. CBAM could be used as an argument to push reluctant governments to more domestic climate policies and to introduce limits and regulations for the biggest domestic polluting companies. Discussions should definitely include further reforms of South Africa's carbon pricing system. It was also noted that South Africa should act according to its responsibility in combating climate change. South Africa is among [the 15 countries with the highest total CO₂ emissions worldwide](#). In result, while building regional alliances is important, the country should not hide behind more vulnerable countries regarding CBAM and decarbonisation issues and use them as an excuse to delay its own climate efforts.

South African carbon tax

Reforming the South African carbon tax and adapting it to a global level could have various benefits. It would provide a strong incentive for domestic industry to decarbonise. The CBAM would not have to be raised (or only partially), and the revenues would be given directly to the South African government. This would save the diversions via the EU and the CBAM. This option needs to be investigated further, considering implications for vulnerable groups. Additionally, it will be relevant to what extent other climate policy measures apart from carbon pricing, such as environmental standards, will be included in the calculation of the CBAM levy.

5. Open questions and issues to be further discussed

Many questions were raised and discussed at the round table, but could not yet be conclusively answered and are still open for debate. These issues, from big systemic questions to precise details of policy design, will certainly be discussed further in the next months and years and can continue to serve as starting points for conversations and opportunities to build alliances. These issues that should continue to be discussed include:

- What are new ways for **multilateral or bilateral cooperation** in the just transition sphere?
- How exactly can the EU legislative process be more **inclusive**, and more non-EU-stakeholders can become part of the discussion?
- What opportunities does **carbon pricing in South Africa** bring for the decarbonisation of the country, and how could it help dealing with border carbon adjustments? What distributional effects could it have?
- How can the different dimensions of **climate justice** be included in global climate measure discussions and what concrete measures are needed?
- What policies can support a **just transition** in South Africa? How can most vulnerable regions and societal groups be protected?
- How exactly should CBAM **revenues** be distributed? To whom, in which funds, for which purposes, etc.?
- How can CBAM be seen as a **chance for civil society** to hold South African policy makers accountable and support them in their fight against big fossil companies?

All these questions are not easy to answer, but still need to be considered and discussed - so we want to encourage everyone to keep these questions in mind and to stay in touch with each other, especially as we will soon enter the intensive phase of CBAM negotiations.

Conclusion

All participants agreed that the world needs to drastically and rapidly cut emissions. Whether the CBAM is a good and just measure to decarbonize was questioned by some in the first place and depends for others on its details – both in procedure and content. Many general underlying questions were posed and need to be addressed within international climate policy. In conclusion, we can say that if policy processes are designed more inclusive, taking into account power relations and proactively reaching out to stakeholders from the side of the EU, a carefully designed CBAM has a chance to become a measure that would not be perceived as protective or industry-led, but rather as a contribution to a just transition.

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