ECONOMY

Where is the outcry over ‘deeply unjust’ EU carbon border tax?

SA should do more to decarbonise and rev up carbon prices at home, says economist

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Steel coils. Picture: BLOOMBERG

The carbon border adjustment mechanism is a “deeply unjust measure” from the perspective of SA and other countries in the global South that are likely to carry the brunt of these tariffs on the carbon emissions of products imported by the EU.

Speaking at the launch of a new working paper produced for the presidential climate commission this week, Gaylor Montmasson-Clair, senior economist at Trade & Industrial Policy Strategies (TIPS), said that the imposition of the mechanism by the EU will have significant implications for SA.

“I can’t understand why there has not been more of an outcry. Many countries will be deeply [affected],” he said.

According to Montmasson-Clair, the best response available to SA now would be to fast-track the decarbonisation of its own economy, and possibly for the Treasury to be more aggressive in its carbon tax approach, to lessen the effect of carbon border taxes.

The mechanism will place a price, in the form of an import tariff, on the direct carbon emissions produced during the manufacture of certain products and on some indirect emissions, such as those emissions associated with electricity used by the manufacturer but generated elsewhere.

SA’s exports to Europe will already be disadvantaged by a tax on direct emissions but given that about 90% of the electricity generated by Eskom, which most businesses rely on, comes from fossil fuels, the EU’s decision to include some indirect emissions would be “particularly disadvantageous to SA producers”, the paper said.

John Ward of Genesis Analytics, who was tasked by the presidential climate commission to compile the paper, said the iron and steel sector is the most at risk, but chemicals and aluminium exports are also at risk given the inclusion of indirect emissions.

While several details still need to be finalised, the European Parliament reached a provisional agreement in December that the “transitional period” for the mechanism will begin on October 1. During this period, importers will incur no financial liability. It will go live in 2026, when tariffs will apply, and it will then be phased in over a period of eight years.

Export earnings

Previous research by TIPS placed the total value of SA’s exports to the EU at about $17bn (R300bn), which was 19% of the country’s export earnings.

Ward said in the paper that about $1.4bn worth of products exported from SA could attract liability under the EU proposals, including in sectors that account for a significant amount of employment in the country. For example, 28,000 people work in the steel industry.

A conservative estimate given in the paper, which takes into account the application only of direct emissions, found that SA exports to the EU could fall by 8.7% for chemicals, 16% for aluminium, 30.5% for iron and steel and 44.3% for cement by 2030. This is estimated to lead to a total reduction in exports to the EU of 4% and a reduction in SA GDP of 0.02%.

One reason for the EU's implementation of the mechanism is to protect the competitiveness of its own producers, which are taxed on their emissions, against importers from countries that levy no such tax.

For this reason, when carbon prices apply in the country of origin, as they do in SA, some allowances may apply to reduce the carbon prices that importers will be liable to pay.

Ward writes: "This is expected to be a pro rata reduction according to the proportion of the EU Emissions Trading System price that is covered by the domestic carbon price. In the case of SA, at current carbon prices, this would imply a reduction in the liability of SA producers of about 10% if the gross rate of the carbon tax is used (R144/tonne of CO2 emissions)."

The reduction could be less if the European authorities seek to account for the various allowances now included in the SA carbon price design.

The Treasury last year extended the first phase of implementation for carbon taxes to the end of 2025. This first phase makes provisions for companies to receive 60%-95% in tax allowances such as rebates or exemptions.

SA's carbon tax rate is expected to reach $20 a tonne by 2026 and $30 by 2030. The EU Emissions Trading System price rose to almost €100 (R1,940) per tonne last year.

Montmasson-Clair said SA should look at "revving up" carbon prices in SA to prevent "exporting of revenue" when the mechanism takes effect.

"SA must look at its own carbon pricing. If products are going to be taxed anyway it makes a lot of sense for SA to tax them locally, rather than 'exporting' that revenue to finance decarbonisation in other countries."

But the government could do a lot to help businesses prepare for the carbon border adjustment mechanism by "fast-tracking decarbonisation".

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