

The Climate Finance Highlight

Email: info@dclafrique.com | GA – 548 – 3844, Evandy, University of Ghana, Legon -Accra, Ghana
T: + 233302546987 / +233592268939



DC L'AFRIQUE

EU LAWMAKER CALLS FOR CARBON BORDER TAX REVENUES TO BOOST CLIMATE FINANCE.

The European Union (EU), as a regional body, seeks to reduce emissions by about 40 percent in the next ten years and to become the world's first carbon neutral economy. In tandem with this, the EU agreed on the European Green Deal in December 2019 with the aim of achieving climate neutrality status by 2050 through the protection of biodiversity, construction of a circular economy and eradication of pollution, just to mention a few. Since 14 July 2021, the continent has upgraded the European Green Deal with 'Fit for 55', a policy that seeks to add implementation measures while retaining the original structure of the Green Deal. 'Fit for 55' aims at reducing carbon emissions by 50-55% and seeks to apply the EU's Carbon Border Adjustment Mechanism (CBAM) to other countries (Lim et al., 2021). This paper specifically focuses on the EU's proposal of the CBAM Scheme, what it entails and its potential effects on low-income countries.

The Carbon Border Adjustment Mechanism (CBAM), commonly referred to as the carbon border tax, is the first of its kind and it is a tool to achieve the EU's net-zero greenhouse gas emissions by 2050. The CBAM is "a duty on imports based on the amount of carbon emissions resulting from the production of the product in question" (Prazeres & Xie, 2021). The CBAM is also "a tax on imports designed to offset the (notional) difference in carbon price between the EU and its trading partners in high emission traded sectors such as steel and aluminum" (Dadush, 2021). In essence, the carbon border tax implies that high-income countries place taxes on energy intensive imports, relative to the carbon content of these imports, to match domestic carbon taxes. The idea is to level the playing field for producers of carbon-intensive goods who deal with high domestic carbon taxes that foreign competitors do not face (Strand, 2021).

In terms of effects, the CBAM "as a price on carbon, discourages emissions" (Prazeres & Xie, 2021). This means that it gives businesses, within the EU bloc, the financial incentive to reduce their greenhouse emissions. Since 2005, EU manufacturers through the Emissions Trading System (ETS) have paid for their carbon emissions. The ETS places a yearly cap on emissions for industries that in turn creates a carbon market for the trade of emission permits. The market then fixes a carbon price (60 Euros per metric ton). As the carbon price increases over a period, domestic producers are more prone to losing out to low-priced imports from foreign countries that do not necessarily have a strict climate regulation (carbon leakage) (Figures et al., 2021). The EU's CBAM could potentially force non-EU manufacturers to increase efforts towards cutting down on their carbon footprints (Figures et al., 2021).

The CBAM "as a trade-related measure, affects production and exports" (Prazeres & Xie, 2021); the levy does alter and affect the role of trade in the fight against climate change. The CBAM is an attempt to apply the idea of carbon pricing on non-EU manufacturers. While carbon pricing - levying a charge for each metric ton of carbon dioxide emitted by industry - is nothing new to non-EU members, as this is a part of several countries' climate policies, the CBAM marks the archetypal application of this levy equitably on imports (Figures et al., 2021). The first impact of the CBAM, if fully implemented in January 2026, is predicted to be on the cost of products from high-carbon industries like steel, cement, aluminum, chemicals and electricity, of which EU importers and non-EU importers will be expected to bear the brunt. Both are expected to make payments of up to 75 Euros per metric ton of Carbon dioxide emissions (Figures et al., 2021).

The CBAM is seen as a form of green protectionism by some of the EU's trading partners and could result in reciprocal behaviour from other countries. The carbon border tax is seen as a trade barrier initiated by the EU with a climate pretext and aimed at promoting competitiveness of European industries to the detriment of Europe's competitors (Glaser & Caspar, 2021). The CBAM as proposed, will have ramifications on global value chains and drastically change the competitive balance across different industries and

between countries (Figures et al., 2021). The CBAM will present high costs for developing economies, especially the EU's African trade partners and the Arab states of the Persian Gulf (eulerhermes.com). In Africa, oil-producing developing countries particularly will bear the brunt of carbon tariffs imposed by the CBAM. Ghana, for example, is one of the 50 countries predicted to be exposed to the EU's carbon border tax (eulerhermes.com). The country owes its position to the exportation of fuel traded with the EU bloc and finds itself in the same list as other African fuel-exporting countries like Nigeria, Egypt, Cameroon, Congo, Ghana, Zimbabwe and Morocco in that order.

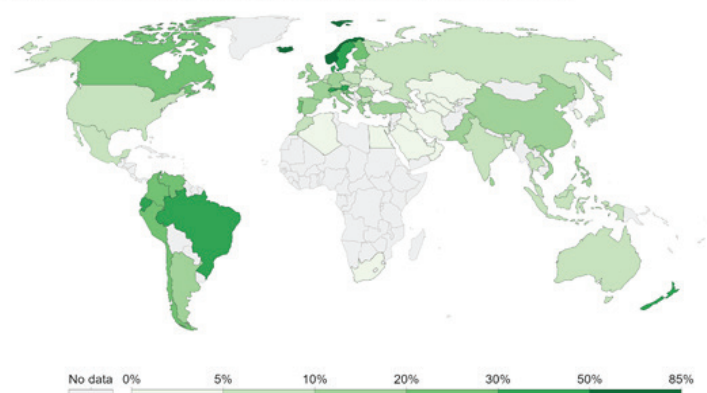
What this means for countries like Ghana is that the prices of carbon-intensive exports to the EU will potentially increase and these may not stand a chance when compared to domestic goods within the bloc. In essence, the policies may change the demand patterns for manufacturing inputs from low-income countries. In the long-run, low-income or developing countries from Africa will lose out given the increasing costs of producing some high carbon-intensive products and the loss of Foreign Direct Investment into their local markets. In the long-run, the possibility of foreign companies investing into certain industries reduces due to the additional costs that would accrue from the CBAM through exports to the EU.

A likely substitute to the EU's CBAM would be that countries should turn towards their bilateral carbon dioxide pricing commitments with the bloc, but this would be for countries that already have net-zero commitments towards emissions (i.e. South Korea, Japan, China and New Zealand). This automatically means that currently, least-developed countries may be excluded from utilizing this option given their poor administrative infrastructure and limited financial capacity to meet the regulatory prerequisites of the EU's Carbon border tax (Zimmer & Holzhausen, 2021). It is important for countries like Ghana and other fuel-exporting African countries to actively coordinate climate diplomacy with their trade agencies in order to curb some of these potential losses and also negotiate to the benefits of their own industries and exports.

We hold the view that while the intent of the Carbon Border Adjustment Mechanism is commendable in the spirit of climate mitigation, the modalities of implementation should be carefully considered. International climate finance places an obligation on industrial nations to channel funding to developing countries to support their actions to mitigate climate change and to help them adapt to the effects of climate change. In view of the foregoing, a measure such as the CBAM which intends to tax non-EU countries, most of whom are developing countries, would have to be cautiously considered to avoid a counteracting move which will defeat the overall objective of international climate finance.

Share of primary energy from renewable sources, 2019

Renewable energy sources includes hydropower, solar, wind, geothermal, bioenergy, wave and tidal. It does not include traditional biofuels, which can be a key energy source especially in lower-income settings.



Source: Our World in Data based on BP Statistical Review of World Energy (2020)

OurWorldinData.org/energy • CC BY

Note: Primary energy is calculated using the 'substitution method' which takes account of the inefficiencies energy production from fossil fuels.

DISCLAIMER: This newsletter is the copyright of DC L'AFRIQUE LIMITED, is a premier climate finance institution providing advisory service for utilization of low carbon emission technologies across markets in Africa. DC L'Afrique has diversified expertise in Energy Finance, Transactions Advisory, Research, and capacity building. DC L'Afrique focuses on Public Private Partnership (PPP) investments, Project Finance with governments, multinational companies and local corporates across Africa. The information and opinions have been compiled or arrived at based on information obtained from sources believed to be reliable and in good faith.

The Climate Finance Highlight (Cont'd)

Email: info@dclafrique.com | GA – 548 – 3844, Evandy, University of Ghana, Legon -Accra, Ghana
T: + 233302546987 / +233592268939



DC L'AFRIQUE

Economic Indicators – Anglophone Countries (2020)

	GDP (USD 'b)	Population ('m)	GDP per Capita (USD)
Ghana	68.5	30.8	2,225.5
Nigeria	429.4	206.1	2,083.2
Kenya	102.4	48.7	2,103.5
Zimbabwe	21.9	15.2	1443.4

Economic Indicators – Francophone Countries (2020)

	GDP (USD 'b)	Population ('m)	GDP per Capita (USD)
Benin	15.7	12.1	1,290.5
Togo	7.6	8.3	915.6
Cote d'Ivoire	61.2	26.9	2,271.4
Senegal	24.7	16.7	1474.0

Source: IMF World Economic Outlook

CO2 Emissions (kt) - Anglophone Countries

	2012	2014	2016	2018
Ghana	14,220.0	14,370	14,110	16,110
Nigeria	100,680.0	116,200.0	108,420.0	130,670.0
Kenya	12,130.0	15,030.0	18,770.0	18,400.0
Zimbabwe	12,110.0	12,150.0	10,990.0	12,270.0

CO2 Emissions (kt) - Francophone Countries

	2012	2014	2016	2018
Benin	4,740.0	5,510.0	7,230.0	7,910.0
Togo	2,230.0	1,590.0	2,300.0	2,260.0
Cote d'Ivoire	7,890.0	8,960.0	9,320.0	9,910.0
Senegal	7,460.0	8,570.0	9,920.0	9,860.0

Source: World Bank and DC L'Afrique Research

Renewable electricity output- Anglophone countries

	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014
Ghana	100.0	100.0	99.5	100.0	77.5	91.5	69.2	87.4	66.7	74.4	68.8	67.1	64.7
Nigeria	32.6	40.8	35.8	33.9	38.2	38.2	38.2	33.4	27.1	27.1	24.4	19.7	17.6
Kenya	92.9	95.7	94.3	90.5	82.0	47.0	78.0	75.0	70.3	63.1	69.1	74.8	81.5
Zimbabwe	46.7	38.4	27.8	29.5	29.3	45.7	44.4	56.6	67.9	75.9	68.0	60.4	55.6

Source: World Bank and DC L'Afrique Research | Series : Renewable electricity output (% of total electricity output)

Renewable electricity output- Francophone countries

	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014
Benin	0.0	0.0	0.0	0.0	2.5	2.4	3.2	1.2	2.6	1.3	0.9	0.0	0.0
Togo	60.1	76.6	59.9	79.8	57.1	57.1	57.2	44.6	42.5	75.6	54.2	84.7	86.2
Cote d'Ivoire	66.7	56.6	49.7	54.7	34.2	36.8	32.7	33.7	28.7	34.8	28.3	26.4	23.9
Senegal	4.7	4.3	4.2	3.9	3.6	3.3	12.9	14.9	11.8	9.8	10.7	9.8	10.4

Source: World Bank and DC L'Afrique Research | Series : Renewable electricity output (% of total electricity output)