

The European Union’s Green Deal (EGD): A call to action for South African exporters

South Africa’s key exporters, supported by policy makers, need to start planning now to retain their competitiveness and market position in the face of the new reality of trade with the European Union following the release of their wide-ranging climate policy.

This is the central message of a groundbreaking report which was compiled by Trade & Industrial Policy Strategies (TIPS), Trade Law Centre (Tralac) and Trade Research Advisory (Trade Advisory) to explore the potential trade implications of the European Union’s Green Deal (EGD). The report was prepared immediately after the EU’s announcement on its climate policy in July this year. It explores the risks and opportunities facing South African businesses – with a particular focus on small businesses – and what it would take to retain the current level of South African exports to the EU - currently valued around R300bn per annum.

The report entitled “The European Green Deal: Context, challenges and opportunities for South African SMEs operating in the green economy” provides an initial look at the EGD. Acknowledging that the EGD is still “work-in-progress”, the study stresses that it is “important to monitor the policy and legislative processes in the EU carefully to assess the potential impact and implications for production and trade. Access to information is particularly important for SMEs, as the impact on them may well be through their participation in value chains that are driven by larger firms.”

The proposed headline initiative of the EGD in the form of a Carbon Border Adjustment Mechanism (CBAM) – a form of carbon price at the European border - is unpacked more specifically in this study, while the potential opportunities to expand trade with the EU through “environmental goods” products are also highlighted. The sectors affected by the first phase of the CBAM (which aims to mitigate carbon leakage, whereby EU producers are at risk of losing market share to producers with less strict carbon regulations), will come into effect in January 2023. The CBAM will apply to direct emissions from iron and steel, cement, fertiliser, aluminum and electricity generation sectors. The first phase will not apply to downstream companies in these sectors. It should be noted that the CBAM will have a transitional period, between 2023 and 2026, during which the burden on importers will be administrative rather than financial. Once the transitional period is over, importers will have to purchase CBAM certificates, at a price determined by the EU internal carbon market.

In terms of the CBAM certificates, policy makers should be exploring how they can mobilise countries in SADC to collaborate and apply for regional certification which could be to the benefit of all countries in the region. Such a move (to have a more standardized system around the certification of products to the EU) would reduce overall costs and ultimately make Africa more competitive.



Whilst the study focuses on the impact on SMEs, it also considers the impact on business as a whole. In terms of the impact on small business, there were no red flags in the short term. However, in the medium to long term, small business could face an additional burden of having to report on how green their business is whilst they would also need to green their businesses to be part of zero carbon supply chains for products exported to the EU. For medium to large size companies, the real challenge is whether they are going to be penalized for relying on coal-based electricity, irrespective of whether South Africa has a carbon tax domestically.

Turning to policy makers, national departments would need to explore how to support business to be compliant with EU regulations and what kind of assistance could be given to business to green their supply chains. Ultimately, South African exports would be able to retain their market position and improve their competitiveness if they begin to plan now and implement strategies proactively.

Finally, the study points out that the “risks posed by the EGD are risks that would have been posed by the broader transition to more sustainable trade. However, the accelerated timeline of the EGD, along with the relatively underdeveloped nature of the green transition in South Africa, mean that many small firms are still at risk of being left behind. Small firms in particular will struggle to adapt to these significant changes in the expectations of consumers and regulators, and will need state support to remain competitive.”

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See direct link to the study: <https://www.tips.org.za/research-archive/sustainable-growth/green-economy-2/item/4242-the-european-green-deal-context-challenges-and-opportunities-for-south-african-smes-opering-in-the-green-economy>