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SA, Brazil and others want COP28 to tackle 'unilateral, coercive' trade measures

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news24

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The United Nations Climate Change Conference COP28 will be held in Dubai, United Arab Emirates.

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SA is part of a group of nations that want COP28 to tackle "unilateral trade measures" in this year's negotiations.

Trade measures like the EU's Carbon Border Adjustment Mechanism would essentially reverse climate finance flows from developing nations to developed nations.

Developing nations should ensure they get the most value out of critical minerals that rich nations want to secure, says an economist.

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South Africa is part of a group of countries that have raised concerns that some "unilateral trade measures" related to climate change essentially have the impact of reversing climate finance flows to developed nations.

The group, consisting of Brazil, China, India and South Africa (or BASIC) have formally written to the chair of this year's UN Framework Convention on Climate Change (UNFCCC) climate talks,

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COP28, to consider the implications of specific climate-related trade measures as part of the agenda items to discuss at this year's meeting.

Parties have until 29 November to propose agenda items to the UNFCCC.

COP28 this year is hosted in the United Arab Emirates (UAE). It kicks off on Thursday, 30 November and will run until 12 December. This is said to be the largest UN climate change conference, with over 70 000 participants. It sees countries negotiating on different points regarding climate action, with the intention of reaching a consensus on how to address climate change going forward.

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There are different negotiating blocs. South Africa is grouped in blocs representing developing nations: the G77, aligned with China; the African Group of Negotiators (AGN) and the BASIC bloc – which was formed in 2009 at COP15.

In the letter submitted by Brazil, which is chairing the BASIC bloc this year, the group formally proposed that this year's meeting takes into account the concerns the group has over "unilateral trade measures related to climate change" and their potential negative impact on these economies as they seek to develop sustainably.

BASIC has put forward that some trade measures imposed by developed nations like the EU's Carbon Border Adjustment Mechanism (CBAM) – essentially a carbon tax on imports – are actually a trade protection measure rather than a climate measure:

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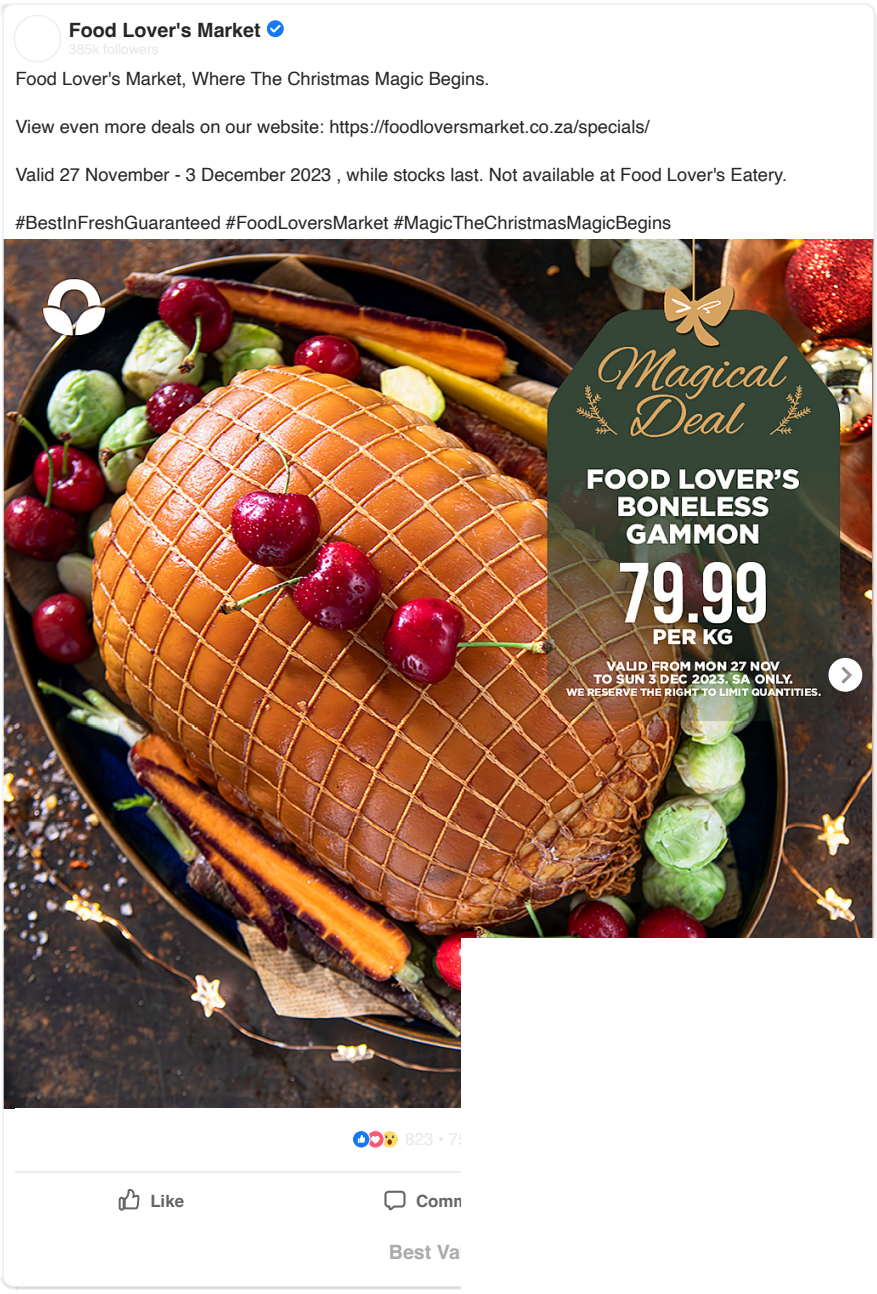

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> **Strongly committed to multilateralism, BASIC is of the view the UNFCCC should consider concerns with unilateral and coercive climate change-related measures that constitute a disguised restriction on international trade... Concerning trends towards unilateralism, trade protectionism and fragmentation of international cooperation jeopardises trust and, consequently, ambitious climate action.**
>
> **- BASIC**

According to BASIC, unilateral trade measures undermine the rules of the World Trade Organization and principles of the Paris Agreement – namely that protecting the climate system for current and future generations should be based on equity or what is termed each country's "common but differentiated responsibilities and respective capabilities". In other words, developed countries which industrialised and built their wealth by polluting have the responsibility to take the lead in combatting climate change.

Historically, developing countries have not contributed to the bulk of emissions that caused the climate crisis.

Acknowledging the special circumstances of low- and middle-income countries is important to uphold the principle of common but differentiated responsibilities and respective capabilities –

or CBDR-RC as it is known.

"Putting forward measures like this could undermine the whole climate agenda. They are not compatible with the CBDR-RC approach," said Gaylor Montmasson-Clair, senior economist at independent thinktank Trade Industrial Policy and Strategies (TIPS).

For example, Africa accounts for under 4% of these historical emissions – but it is still severely impacted by the crisis. "So the burden of decarbonisation is clearly not on the African continent," he explained.

Carbon Border Adjustment Mechanism

The EU's CBAM is one of the environmental measures South Africa **and India** have previously spoken out against because of the adverse impact it will have on trade.

The CBAM will be enforced from 2026 – following a two-year transition period **that started in October 2023**.

The CBAM attributes a carbon cost to certain exports such as cement, chemicals and fertilisers, iron and steel and aluminium. South Africa's **iron and steel exports are most exposed** to the CBAM.

South Africa already has a carbon tax, but the CBAM means that exports would face an additional carbon cost – with the potential to reduce their competitiveness.

A study commissioned by the Presidential Climate Commission earlier this year showed that exports **could fall 4% by 2030.**

A previous study by TIPS, based on 2021 data, also shows that **$1.5 billion of South African exports** are at risk – and this is set to increase as the CBAM extends to other products in future.

In July 2023, the Department of Trade Industry and Competition (dtic) wrote to the EU Commission, indicating that the CBAM would potentially worsen inequality, poverty, and unemployment in South Africa.

"CBAM has the effect of transferring the burden of climate action onto developing economies and places undue and unjust burdens on our country and industries," the DTIC letter read.

"CBAM will not only affect the competitiveness of SA exports to the EU but could also result in increased imports by countries looking for alternate markets, resulting in dumping into SA and other developing countries," the dtic said.

Reversing climate finance flows

Maesela Kekana, chief directorate for international climate change relations and negotiations at the Department of Forestry, Fisheries and Environment, at a briefing in October, said that the CBAM risks reversing the flow of climate finance from developing nations to developed nations.

"There is potential for the reversal of climate finance from developing to developed countries because our products will be liable for [carbon border] adjustment taxes.

"In a sense, we will be funding the developed countries - which is why it (the CBAM) is very contentious," Kekana said.

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Montmasson-Clair also shared views that "green protectionist measures" like the CBAM are clearly "unjust" toward low- and middle-income countries.

"Those measures are effectively pushing the burden of decarbonisation onto other countries. So it's going to have some quite important impacts - negative impacts - on a vast amount of low and middle-income countries," he said.

Essentially, through the CBAM, a South African company would pay for the decarbonisation of the EU, "which of course seems crazy," Montmasson-Clair added.

He also noted that there are no measures in place to allow for exemptions to the CBAM either.

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But it goes beyond the CBAM and other trade policies.

Industrial policies countries adopt that support the decarbonisation of their economies also indirectly impact other countries.

An example is the US Inflation Reduction Act (IRA) – **this legislation offers incentives** that help encourage the development of green industries in the country, like renewable energy or the development of green hydrogen.

This is a domestic intervention for the US – but it puts some countries on the backfoot.

"Certainly, low- and middle-income countries can't afford to provide their own industries that level of support. Of course, that is more difficult to object to because these are more domestic policies, particularly, for green industrial policy strategies," explained Montmasson-Clair.

An area developing nations could push back on is critical minerals – like platinum group metals or manganese, cobalt and vanadium which are important components for clean energy technologies like batteries or solar panels.

Rich nations seek to secure these minerals – to and support their own industries.

Global South countries are particularly rich in these minerals – and rather than handing them over they should instead find ways to get the value they can from them, potentially through beneficiation, or if that is not possible, get the "best deal" for them, Montmasson-Clair said.

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Generally, developing countries can approach this at two levels. First, they need to push back where trade measures are unfair. But that can't be the only response. "Pushback, yes, but in the background, do what you need to do to adapt and transition," said Montmasson-Clair.

Secondly, they need to put forward their own packages to support their own industries. It might not be at the same level as the US with **green subsidies of $370 billion**. "But it doesn't mean that we cannot afford anything. We can afford to be targeted, and have a degree of support for key industries," he said.

Developing nations should instead target key industries or key components, build on their strengths and compete in certain market segments within value chains, like renewable energy, for example.

"We can and we should do it. It's not the IRA, but these are things we can do," said Montmasson-Clair.

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