Regional Programme Energy Security and Climate Change in Sub-Saharan Africa

Conference Report: Energy, Trade and Climate Dialogue III: Opportunities to Link Sustainable Development and Economic Growth

19 April 2024, Maputo, Mozambique

On 19 April 2024, the Konrad Adenauer Stiftung hosted the "Energy, Trade and Climate Dialogue III: Opportunities to link sustainable development and economic growth" in Maputo, Mozambique. The dialogue aimed to:

- Discuss the connection between trade, energy and climate and new trade policies such as Carbon Border Adjustment Mechanism (CBAM), carbon markets etc.
- Understand how African countries can benefit from emerging trade issues and what steps should be taken next; and
- Support research institutions and think tanks to formulate policy recommendations for African governments towards trade- and energy related climate policies.

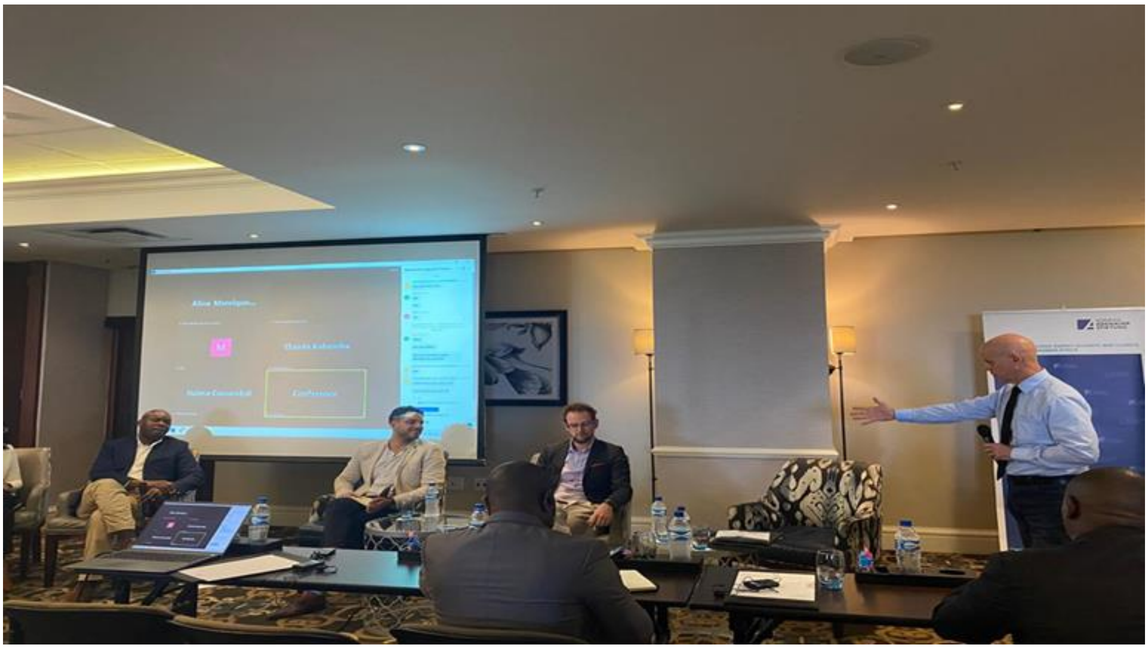
During the dialogue, there were three sessions, the outcomes of these sessions are captured below:

Panel Session 1: CBAM, Global Gateway and Trading: Opportunities for Economic Growth in Africa

The panel session was chaired by Andrew Gilder (Climate Legal, South Africa) who moderated panellists: Gaylor Montmasson-Clair (Trade & Industrial Policy Strategies-TIPS, South Africa), Ash Berman (Climate Action Platform for Africa, Kenya), Prof. Adriano Nuvunga (Centro para Democracia e Direitos Humanos, Mozambique), Maryanne Kamau (Sidley Austin LLP, Belgium) and Alina Manrique de Lara (European Commission - DG TAXUD, virtually).

The discussion commenced with context setting of the nature and intended purpose of CBAM. The discussants found that CBAM is not a tax but a measure within the context of the EU's efforts to reduce CO2 emissions. As such, CBAM is not a stand-alone mechanism but part of the EU's Green Deal. As such, CBAM is a reinforcement of the European Trading System (ETS). To phase out fossil fuels within the EU also means to avoid carbon leakages in order to do so, the CBAM was brought to life. The EU is currently in the data collection phase until the end of 2025. Until then there will be no financial implications, but all relevant information will feed into the mechanism. The EU is very much aware and understands the consequences CBAM might have for LDCs.

The discussion about CBAM led to the discussion of carbon pricing worldwide. The discussants found that since indirect emissions are not included in CBAM, the aluminium production in Mozambique will not be so much affected as people are currently anticipating. Furthermore, examples from other African countries were used and it was observed that Namibia is using CBAM as an opportunity to get investments in hydrogen, because it will be able to produce fertilisers with a minimal carbon footprint thus making them price competitive on a global level. However, this was dispelled by research that has been conducted and published by TIPS whose modelling shows that CBAM will negatively affect trade and industry in African countries. This research has been conducted in the context of South Africa, which is considered to be far advanced in comparison to Mozambique and Namibia in terms of infrastructure development and thus it was observed that the likelihood of CBAM being positive to growing economies is far outweighed by is negative impacts.



Acknowledging the technical nature of CBAM, the EU has created an expert group on CBAM and has invited experts from outside the EU, including representatives from Mozambique. The expert group intends to resolve all technical questions around CBAM. Moreover, the discussion highlighted that although technical questions remain on how CBAM will affect Africa and African economic growth, climate change is a reality. Africa is most disproportionately affected by climate change while the responsibility of Africa is much smaller as the impact felt on the continent. As of today, the CBAM doesn't have a mechanism to exclude LDCs and it is not foreseen to exclude them either. In theory, if there was a local carbon mechanism offset, it would be taken into consideration before the application of CBAM. Hower this seems to be not a realistic scenario for most African countries. The implementation of CBAM therefore will need to address questions of justice, and some African experts are raising legitimate concerns about the negative impacts of CBAM on African economies. Questions around sustainability reporting and environmental protection were raised and it was noted that in essence, CBAM is an environmental measure that has implications on trade and it cannot be argued that it is purely an environmental measure without economic impact.

As a conclusion, it became clear that CBAM will remain in the foreseeable future, a controversial issue in Africa and beyond. Political stakeholders from the SADC countries expressed their gratitude to have received information on CBAM as some of them had never heard about the mechanism before. The session served as an invaluable opportunity to hear balanced views on the implications for CBAM on African industries as well as the opportunities presented by the Global Gateway Initiative. It also highlighted the technical nature of the operationalisation on CBAM post the transitional phase and sought to address how this will facilitate economic growth.

Panel Session 2: Carbon Pricing and (Voluntary) Carbon Markets to facilitate Climate Action in Africa

The panel session was chaired by Mandy Rambharos (Environmental Defense Fund, USA) who moderated panellists: Isaac Danso (Environmental Protection Agency, Ghana), Paul Muthaura (CEO, African Carbon Markets Initiative, Kenya), Cecilia Bjerborn Murai (Senior Specialist, Capital Markets-Green

Finance, FSD Africa, Kenya), Clarice Wambua (Consultant, Cliffe Dekker Hofmeyr. Kenya) and Olivia Tuchten (Principal Climate Advisor, Promethium, South Africa).

The session delved into discussions on how to mobilise climate finance and creates opportunities for Africa to benefit from the emerging carbon markets. It was highlighted that African countries had not benefited significantly from carbon markets during the Clean Development Mechanism era, and it is important that concerted effort is made to ensure that carbon markets reach their full potential in the Post-Kyoto Protocol era, by enabling African countries to take up all opportunities presented by Article 6 of the Paris Agreement and the Voluntary Carbon Markets.

Panellists highlighted the experiences of countries such as Ghana, which has developed a policy framework to guide its engagement in co-operative approaches under Article 6 and the development of criteria to ensure that this engagement meets the country's sustainable development requirements. The experiences of Kenya were also shared, noting that the country is in the final stages of developing its carbon market regulations. The important role of robust stakeholder consultation in the process of law and regulation-making as well as the importance of government ministry synergy, such as between the Ministry of Environment and that of Finance, was also pointed out as crucial. The panellists also highlighted the importance of clear provisions to ensure equitable benefit sharing, as well as ensure environmental integrity in the carbon market engagement.

The pricing of carbon credits was pointed out as an area of concern, with low prices listed as amongst the challenges faced by the continent and the need for quality carbon credits to fetch higher prices. The session emphasized that governments had a critical role to play in creating an enabling environment for carbon markets to thrive, with increased ambition likely to raise demand and in turn prices. On the supply side, checks and balances were pointed out as necessary to ensure environmental and social integrity as this is vital to generate a pipeline of high-quality carbon credits. The existence of the Africa Carbon Markets Initiative (ACMI) was pointed out as an initiative that would unlock the potential of voluntary carbon markets for financing Africa's energy, climate and development goals. It was also empathized that is important for national prioritization of carbon market activation to drive climate action, decarbonization, and green growth, and ensure that Africa's potential to meet global demand for carbon credits is met. Innovative financing including the role of capital markets in enabling climate action was also emphasized as a key tool for empowering the continent.

The session served as an important knowledge sharing moment, particularly with the host, the Republic of Mozambique, currently in the process of developing its carbon market regulations. It also set the scene for discussion during the Q&A session on the overall benefits of carbon markets for Africa and the role of different market actors in ensuring the climate change challenge is dealt with in a way that ensures sustainable development, a just transition, and fulfilment of the principle of common but differentiated responsibilities and respective.

Panel Session 3: Value addition to Africa's Critical Mineral Materials for Just Energy Transition (JET) Technologies

The panel session was chaired by Dr Chantelle Moyo (KAS) who moderated panellists: Prof. Hubertus Bardt (Cologne Institute for Economic Research, Germany), Ian Mwinga (EITI Zambia Secretariat, Zambia), and Dr Claude Kabemba (South African Resource Watch, South Africa).
The discussion commenced with a short presentation on the EU priorities from the extraction of minerals that they deem critical or strategic for their climate change and digitalisation goals by 2023. The presentation explained the list of some of the minerals needed to meet these goals as well as the need for partnerships with Africa and especially African countries like the Democratic Republic of Congo and Zambia which have an abundance of some of the listed minerals and metals under EU law.

The second presentation highlighted the need to ensure that resource-rich African countries do not continue being suppliers of raw materials to the Global North. Therefore, the age of decarbonisation presents an opportunity for these countries to maximise on this demand and facilitate their economic growth through local value addition. An example of how this is already being carried out is the partnership between the DRC and Zambia for battery manufacturing. Novel as this can be, the discussion highlighted that there are some challenges that this partnership has already encountered in ensuring successful implementation**.**

The third presentation highlighted that in as much as we can speak about value addition, we need to start with some of the mining waste that still contains minerals. If we can start by value adding on these, we can gradually consider doing the same with critical minerals as well.
The discussion highlighted that although partnership and collaboration is needed between the EU and Africa in the value-addition of these critical minerals, some of the challenges being faced in local value-addition cannot be resolved by international partners but need to be addressed in Africa through overhauling the existing legal architecture of many African countries to include the regulation and governance of these specific minerals and metals needed for the just energy transition. Athe the same time, there needs to be a balance between environmental protection and economic development.

The session highlighted the ‘rush’ towards the so-called critical minerals and provided the basis for discussion the different priorities for the EU and Africa for the extraction of these minerals. Furthermore, it provided an opportunity to spotlight the ongoing initiatives by African countries to ensure that there is value addition of these critical minerals.

Acknowledgements:

KAS Regional Programme Energy Security and Climate Change in Sub-Sahara Africa wishes to express its gratitude to all the valuable stakeholders who were part of the dialogue, especially the German Embassy in Maputo for their invaluable support and coordination before and during the event as well as their kind invitation to all speakers to participate in the Climate Talks event at the German Embassy Maputo.

Imprint

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Publisher: Konrad-Adenauer-Stiftung Kenya
Typesetting: Michelle Nambiro , Konrad-Adenauer-Stiftung.

Image credits: KAS