



## DESENVOLVIMENTO REVIEW

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# EU Carbon Border Adjustment Mechanism should exempt Mozambique and other developing countries to contribute to a just energy transition

- Mozambique and other low-income countries could be severely affected by the European Union's Carbon Border Adjustment Mechanism. There is a strong need to ensure that any action taken to achieve the climate goals is equitable, does not increase inequalities and does not undermine the least developed countries' fight against the climate crisis.



Credits: TALEOT

- - The CDD proposes that the European Union grant a period of exclusion or exemption to least developed countries (LDC) such as Mozambique; and increase financial support and assistance for climate action in LDC, taking into account the resources that will result from this initiative.

In July 2021 the European Commission proposed the regulation of the Carbon Border Adjustment Mechanism (CBAM), one of the key elements for achieving the European Union’s goal (EU) to reduce net greenhouse gas emissions by at least 55% by 2030 (compared to the 1990 level). On March 15th, the Council of the European Union<sup>1</sup> reached a first agreement on the file.

The CBAM is a tariff on EU imports of electricity, cement, aluminium, fertilizers, iron and steel products, depending on the emission content of production. With this measure, EU importers will be required to purchase carbon certificates corresponding to the price of carbon that would have been paid if the goods had been produced under EU carbon pricing rules<sup>2</sup>.

The main objective is to limit carbon leakage, that is, for companies to transport the production of goods to countries with less stringent environmental rules, and to encourage partner countries to

establish carbon pricing policies to combat climate change.

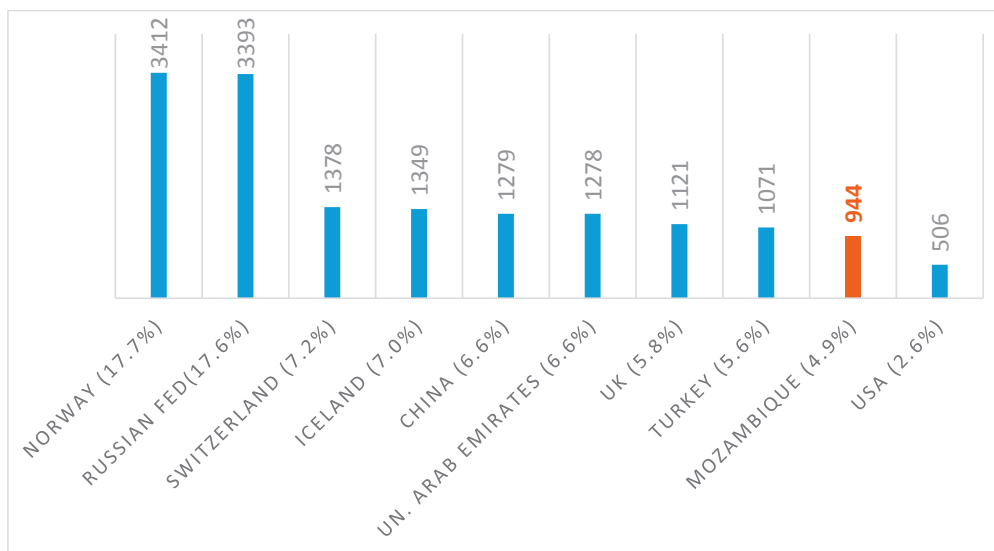
This mechanism will help accelerate the decarbonisation of European industry and, at the same time, protect it from companies from countries with less ambitious climate targets<sup>3</sup>.

However, while this measure responds to the strategy of accelerating Europe’s green transition, it may have severe side effects on least developed countries (LDC).

EU import data indicates that a total of six (6) African countries appear at least once in the list of the 10 most affected importers in each sector, namely: Egypt, Mozambique, Algeria, Morocco, Tunisia and South Africa<sup>4</sup>.

Mozambique, in particular, is the prime example of a LDC that will be severely affected by this measure. As shown in Graph 1, Mozambique is in the group of the 10 largest aluminium exporters to the EU, with an annual export volume well above US\$900 million.

**Graph 1:** 10 Largest aluminium exporters to the EU (million USD) 2015-2019



Source: <https://resourcetrade.earth/publications/which-countries-are-most-exposed-to-the-eus-proposed-carbon-tariffs>

<sup>1</sup> [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_21\\_3661](https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661)

<sup>2</sup> <https://www.consilium.europa.eu/en/meetings/ecofin/2022/03/15/>

<sup>3</sup> <https://www.cgdev.org/blog/eu-tax-african-carbon-assessing-impact-and-ways-forward>

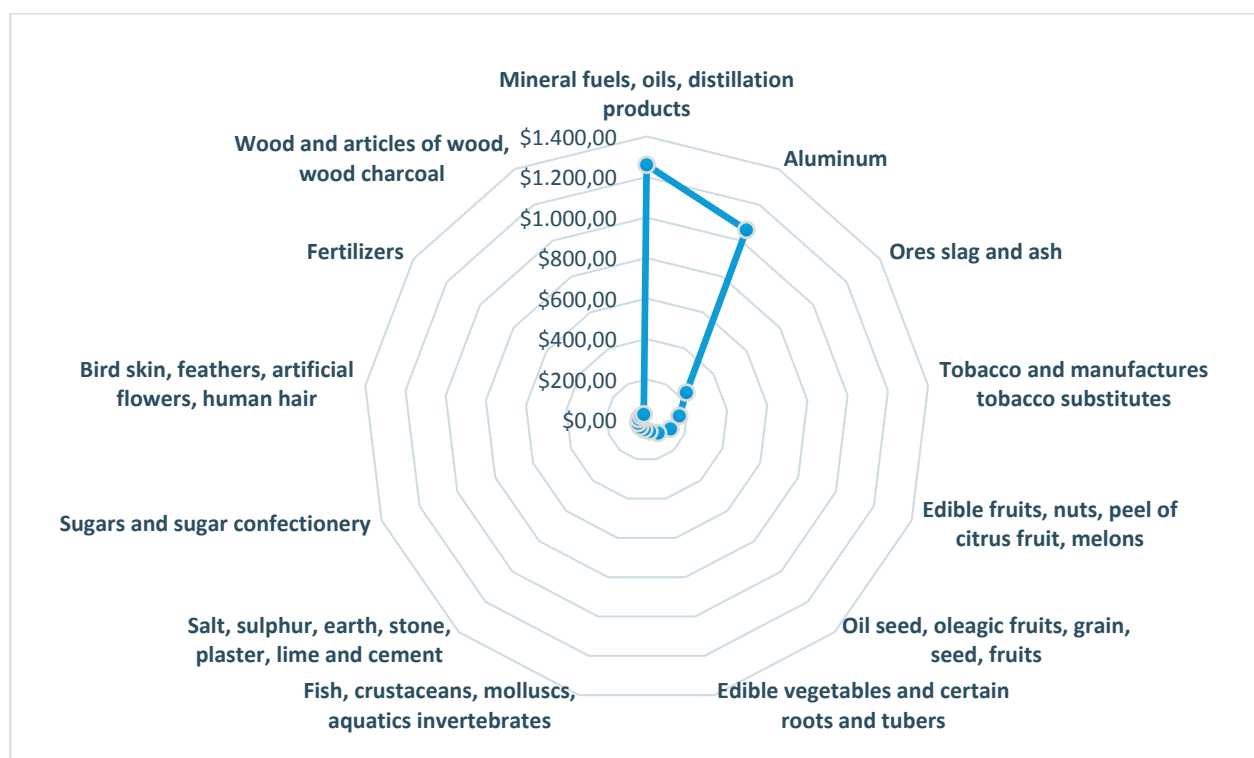
<sup>4</sup> taking into account the resources that will result from this initiative <https://www.cgdev.org/blog/eu-tax-african-carbon-assessing-impact-and-ways-forward>

## A reduction in aluminium exports could affect the Mozambican economy and the ability to finance a fair transition

Mozambique will be particularly affected by the introduction of tariff barriers on its exports to Europe. In fact, the aluminium sector is one of the most important for Mozambican industry and one of the great foundations for the country's external position. This is due to the lack of diversification in the export structure in Mozambique.

As shown in Graph 2, the country's export structure is highly dependent on two export categories, the *Mineral fuels, petroleum & waste products* category, and the *Aluminum* category. These two categories are in the range of 1.2 billion and 1 billion US dollars, respectively, against the other categories, all below 200 million dollars.

**Graph 2:** Exports from Mozambique in 2020 by classes (scale in millions of USD)



Source: Trading Economics (2020)

The dominance of aluminium could therefore affect the economy in several ways.

The direct impact on the volume of transactions will mean lower inflows of foreign exchange to the country, affecting the Balance of Payments, which could negatively influence the position of the exchange rate creating pres-

sures for its appreciation.

Due to the import of most of the products that are part of the basic basket in Mozambique, the depreciation of the national currency could significantly impact the cost of living, affecting the well-being of the most vulnerable families.



Credits: Aluminum Insider; Beluluane Mozal Park , Mozambique

The direct weight of the reduction in exports on industrial companies in Mozambique could affect the employment capacity, thus reducing household consumption and economic activity through a multiplier effect.

Last but not least, it will result in lower revenues

for the State through taxes levied on the activities of this sector, increasing the deficit in public accounts.

This scenario is even more frightening for Mozambique since it finds itself with a shrinking fiscal space in the last five years and in a situation of over-indebtedness (*debt distress*).

## The impact of climate changes on Mozambique

On the other hand, the country is highly vulnerable to climate change. Mozambique suffers from prolonged drought, floods, inundations, cyclones and other associated phenomena, such as rising sea levels, saline intrusion and fires, resulting in high economic and social losses.

Cyclones Idai and Kenneth which caused 689 deaths and negative impacts are clear examples of extreme events taking place in Mozambique.

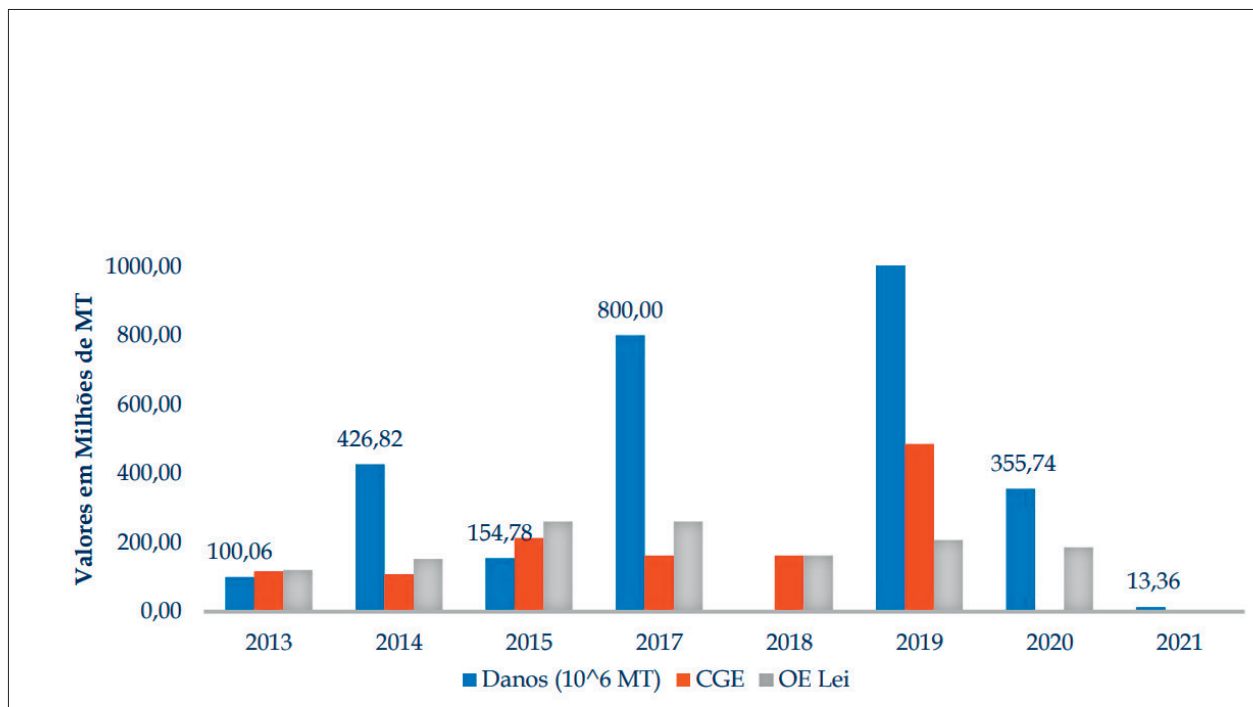
Between 2013 and 2021, Mozambique recorded 46 climatic shocks with emphasis on cyclones Dineio, Idai, Kenneth, Chalane, Eloise and Guambe, which demanded responses far beyond the capacity of the Government.

Graph 3 shows the discrepancies between the budget allocated to the Contingency Plan (CP) and the need to respond to natural disasters. This deviation represents the pressures that the Government has faced in the search for financial resources to respond to climate shocks.

Estimates show that during the period from 2013 to 2021, a value of 1.3 billion meticaís was allocated to the Contingency Plan, while damages were estimated at 193.8 billion meticaís<sup>5</sup>. On average, the resources made available by the Government through the Contingency Plan represent 1.0% of the resources demanded.

<sup>5</sup> <https://www.mef.gov.mz/index.php/todas-publicacoes/instrumentos-de-gestao-economica-e-social/relatorios-de-riscos-fiscais/1286-relatorio-de-riscos-fiscais-2022/file?force-download=1>

**Graph 3:** Evolution of financing for natural disasters (in millions of meticaís)



Source: Tax Risk Report (2021) (CGE – General State account) (OE LEI - Law of State Budget)

With these challenges, Mozambique is implementing the National Strategy for Adaptation and Mitigation of Climate Change by the year 2025, which establishes, through sectoral and local planning, guidelines for action to create resilience, reduce climate risks in communities and in the national economy, and promote low-carbon, green economy development.

Still, challenges persist. For example, the destruction of infrastructure is routine with each storm that hits Mozambique, roads and bridges are the ones that suffer the most, creating se-

rious economic and social consequences.

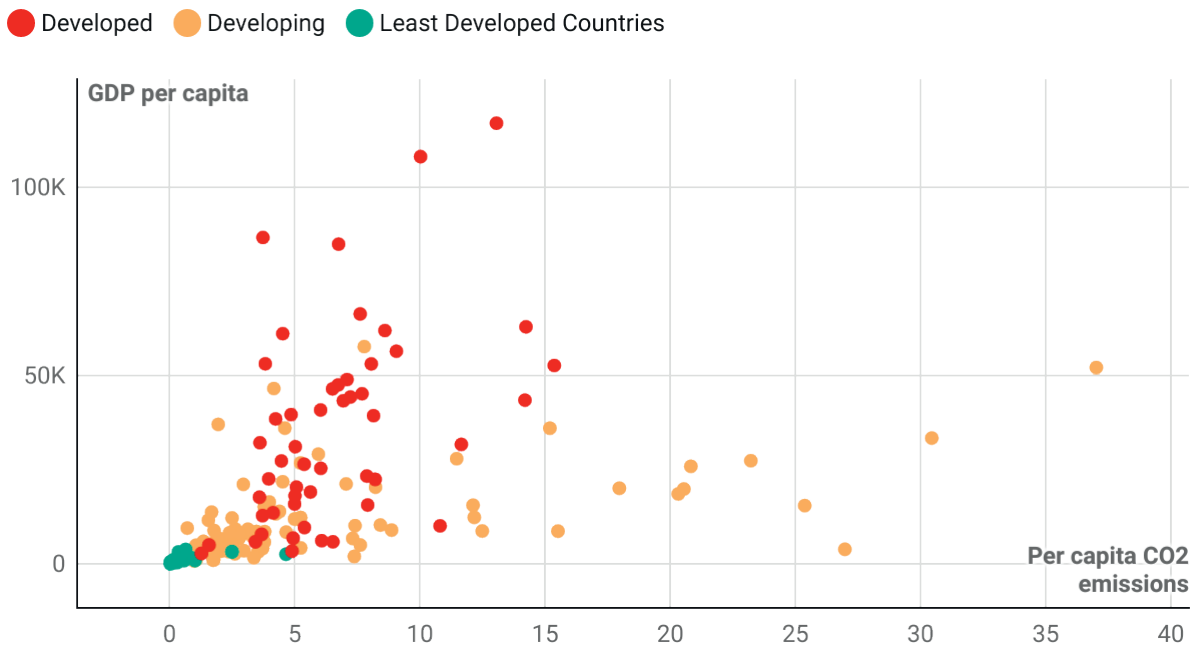
The challenges faced by Mozambique reaffirm the existence of inequalities in the climate crisis, where the poor are the most affected by climate change, while they are the ones who contribute little to carbon emissions.

With data from more than 200 countries, graph 4 illustrates that the least developed countries have the lowest level of emissions per capita.

Furthermore, OXFAM estimates<sup>6</sup> reveal that 50% of the world's most rotten countries were responsible for only 7% of the world's total carbon emissions from 1990 to 2015.

<sup>6</sup> <https://www.oxfam.org/en/press-releases/carbon-emissions-richest-1-percent-more-double-emissions-poorest-half-humanity>

Graph 4: Inequality in CO2 emissions



Source: Global Carbon Project (emissions); UNCTAD Statistics (GDP per capita); Created with Dataweapper

## Policy Recommendations

There is a strong need to ensure that any action taken to achieve climate goals is equitable, given the challenges faced by LDC. A fair transition is what is sought.

The Center for Democracy and Development (CDD), therefore, consider it pertinent that the Carbon Border Adjustment Mechanism (CBAM) incorporates the following aspects:

- i. **Grant an exemption period to Mozambique and other least developed countries.** The European Union must address the issue of CBAM's negative impacts on well-being in LDC such as Mozambique. Designing an exemption would allow more time to adjust and transition to more environmentally friendly production methods.
- ii. **Direct financial support and technical assistance to climate action in LDC to enable**

**a gradual transition.** The transition requires a structural change in the sources of economies, and this aspect can be relatively difficult for low-income countries with poorly diversified economies, such as Mozambique. Rich countries committed to mobilize USD100 billion each year from 2020 to 2025 for climate finance to poorer countries, but Oxfam estimates that they will miss the goal and countries vulnerable to climate change could lose between USD 68 and USD75 billion over the six-year period<sup>7</sup>. In a context where the recession caused by COVID-19 has worsened the fiscal space, it is important to ensure that part of the revenue collected through CBAM goes to support climate action. Furthermore, the European Union must continue to provide technical support to African countries to make the migration to cleaner and more sustainable energy gradually.


<sup>7</sup><https://www.oxfam.org/en/press-releases/poorer-nations-expected-face-75-billion-six-year-shortfall-climate-finance-oxfam>



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