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Development bank head urges African exemption from EU carbon tax

African countries should be exempt from a plan by the European Union to impose a carbon tax on some imports, the head of the African Development Bank noted, putting the cost of the levy to the continent at as much as $25bn a year.

By Simon Jessop 7 Dec 2023

Source: Reuters.

Under the EU's Carbon Border Adjustment Mechanism (Cbam), which comes into force from 2026, imports of cement, iron, steel, aluminium and fertilisers would be taxed if they originate from countries with less onerous carbon-emissions rules.

African countries are relying on fossil fuels as they increase energy production to serve growing populations and as they seek to manufacture more in order to export higher value products, although renewable energy investment has increased.

EU manufacturers have argued for the Cbam because they say they cannot compete with cheaper and more polluting production beyond their borders.

Speaking on the sidelines of the COP28 climate talks in Dubai, Akinwumi Adesina said the net result of the Cbam would be for Africa to revert to exporting more raw materials.

"Africa can't afford to lose 25bn dollars a year," he said. "Secondly is the fact that Africa's use of natural gas to complement its renewable energy would give us the stability that everybody needs to be able to industrialise... So I think Africa deserves a carve-out."

Adesina also said he hoped the International Monetary Fund (IMF) executive board will early next year approve a plan for five wealthy countries to rechannel their Special Drawing Rights (SDRs) through multilateral development banks including the AfDB.

SDRs are rainy day foreign exchange reserves held at the IMF, backed by dollars, euros, yen, sterling and yuan.

On Monday, 4 December, Japan and France announced their support for the re-channelling, with France saying it would contribute to a "liquidity support arrangement" that will act as a backstop.

The AfDB is planning to issue its first hybrid capital note - a deeply subordinated, debt-like equity instrume - when the pricing is right, which will enable its planned four-times leverage of the SDRs, he said.

The bank did an investor roadshow for the hybrid capital note in September, but market volatility has delay its launch.