

GEOPOLITICS OF THE TRANSITION TO CLEAN ENERGY AND GLOBAL ECONOMIC DECARBONISATION

POLICY BRIEF

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Key Messages

- › Despite collective commitment at COP28 to transition away from fossil fuels and keep the target of limiting global warming to 1.5°C by 2030, the Global South and the Global North face different challenges and therefore have different policy implementation priorities.
- › From an industrial, economic, trade, and global power perspective, the EU and Sub-Saharan Africa also operate at different ends of the spectrum, such that, by 2022, while the EU represented 14.5% of the world's GDP, Africa made up 33 of the world's 46 least developed countries, mainly in Sub-Saharan Africa.
- › Factors impeding significant investment in initiatives include a lack of public financial resources to fund infrastructure, which in turn would pave the way for private sector finance.
- › The geopolitics of critical raw materials manifest through DFIs, loans, and bilateral and multilateral programmes.
- › Poor management of state-owned enterprises in the extractives and energy sector is a common thread across countries and could undermine progress related to national transition plans.
- › Private-sector investments and partnerships, as seen with cobalt in the DRC and manganese in Ghana, are vital for mineral beneficiation but for this to happen both parties must perceive a win-win.

Disclaimer: At the time of finalisation of the Report on the **Commentary of Geopolitics of the Transition to Clean Energy and Global Economic Decarbonisation**, the Carbon Border Adjustment Mechanism (CBAM) had not come to full operation. Therefore, information on this Policy Brief reflects the position prior to the end of the transitional period.

Introduction

The commitments under the Paris Agreement include the scaling up of the use of technologies necessary to generate energy from cleaner sources and processes, among others. There is the recognition that, just as reducing carbon emissions calls for an end to the use of certain fossil fuels, up-scaling clean-energy generation calls for an increase in the supply of minerals and the production of metals necessary for associated technologies and infrastructure.

The EU and Sub-Saharan Africa regions operate on opposite sides of the geopolitical spectrum of the global decarbonisation agenda. This is primarily because of the EU's degree of industrialisation, levels of CO₂ emissions, capacity to meet NDCs based on economic wealth, power based on global alliances and availability of institutional structures to leverage its position of advantage. However, Africa is an important trade partner to the EU, such that European foreign direct investment (FDI) stock in 2017 stood at €222 billion. This is more than five times higher than that between the EU, China and the US.

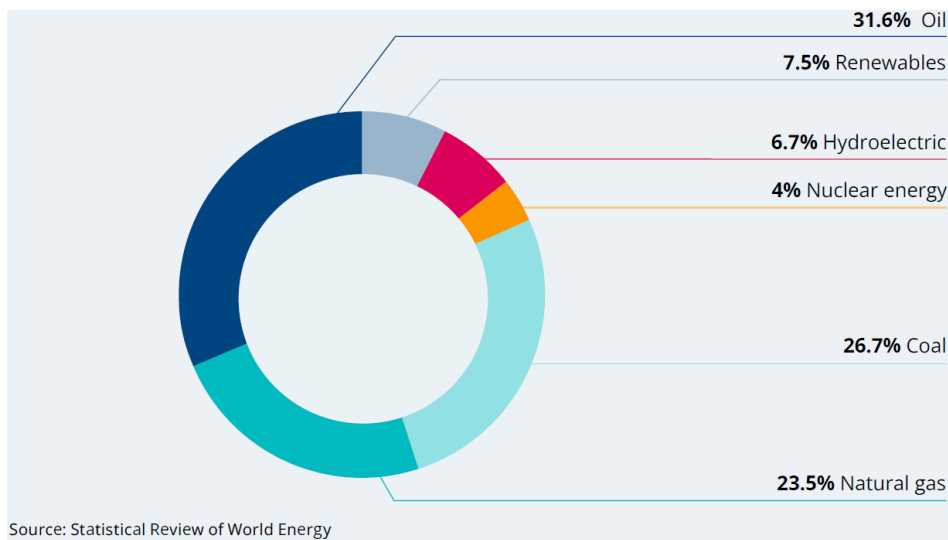
By 2022, investment in renewables in the EU was more than US\$150 billion, while it was only about US\$10 billion in Africa.¹ This offers significant trade and commercial opportunities through R&D, the import and export of raw materials, construction projects, manufacturing, supply chains, logistics and retail. As such, the transition to clean energy is as much a trade-competitiveness undertaking as it is an environmental matter, hence, the pressure of vested geopolitical interests.

Geopolitics of Decarbonisation Policy in the EU and Sub-Saharan Africa

Though it is widely accepted that, based on greenhouse emissions, fossil fuels are an environmental nightmare and that they are the main reason behind the planet's rising temperature and other adverse impacts on climatic conditions, eliminating fossil fuels remains problematic. The main challenge is the integrated nature of fossil fuels with industry and modern lifestyles, especially in industrialised nations. Equally, challenging is the economic and industrial dependence on coal, oil and gas for energy and revenue by several developing countries. These factors make plans to transit to cleaner sources of energy as envisioned at the COPs and through NDCs both costly and difficult to execute.

The outcome is that, as can be seen in Figure 1, according to the 2023 Statistical Review of World Energy, oil continues to have the largest share of the global energy mix (31.6%), followed by gas and coal at 22.7% and gas at 23.5%.

¹ [https://cinea.ec.europa.eu/programmes/life/clean-energy-transition_en#:~:text=.](https://cinea.ec.europa.eu/programmes/life/clean-energy-transition_en#:~:text=)

Figure 1 **Global Energy Mix as of 2023**

Pertinent observations on the geopolitics decarbonisation policy in the EU and Sub-Saharan Africa include:

Policy Inconsistency and Conflicting Regional Interests: There appears to be some inconsistency in the EU as relates to the decisions by the bloc and those of individual member states. For example, the EU first decided that gas should be phased out, only to reconsider the matter and classify gas as a transition fuel. However, following the Ukraine war, some EU countries have also resumed coal power generation followed by nuclear power stations. Similarly, while the EU contemplates a less-carbon-intensive environment in the bloc through demands for low carbon imports and a circularised economic order, the EU does not support a movement in this direction in parts of the Global South.

Future Investments in Fossil Fuels: Following COP 26 in Glasgow, it appeared that the demise of the petroleum and coal industries was inevitable since investments in oil exploration by listed international oil companies had been declining. The exception is state-owned enterprises (SOEs), some of which have large enough sovereign funds to fund projects and enjoy the benefits of the interim period before demand for oil and gas dries up. For instance, in 2021, the federal government of Nigeria invested \$2.76 billion in the Dangote Refinery. In 2022, total investment in the Sangomar oil project in Senegal was estimated at between \$3.8 billion and \$4.2 billion, compared to \$3 billion in 2021.² This suggests that investments in new oil and gas projects might be on the rise.

Decarbonisation and Affordability: The failure of COP negotiations to fully address the question of who pays the price for decarbonisation remains problematic. In this respect, the controversy revolves around culpability based on current and historic levels of carbon emissions and the north's failure to meet its commitment to pay the \$100 billion pledge. Nevertheless, no one argues against the need for the Global North to assist the Global South in meeting the costs of mitigating the impacts of climate change.

² <https://energycapitalpower.com/market-report-woodside-advances-oil-and-gas-projects-in-senegal>.

Geopolitics of critical minerals and decarbonisation in the EU and Sub-Saharan Africa

The EU's critical classification of minerals was influenced by the bloc's strategy for CRMs aimed at ensuring the security of the supply of metals to several industries. The goal is to meet increased raw-material demand arising from the need to scale up the production of energy-transition technologies and other supplies. The EU first produced a list of strategic critical minerals in 2011, with the latest version published in 2023. In the lists there are considerations of economic importance of a mineral to the EU economy and risk, based on the likelihood of disruption to supply.

The EU's €300 billion Global Gateway investment programme will be used to incentivise raw-material projects in partner countries. Evidently, the long-term goal is to end an over dependence on other jurisdictions. However, the EU is not alone in seeking partnerships with African countries, because China, Russia, the UK and the US have policies aimed at achieving the same goal. This heightens the need for the EU to put forward a more attractive value proposition.

Africa has significant mineral resources, some of which are deemed critical for EU industries and the transition to clean energy. The region's leading mineral producers include the DRC, Guinea, Mozambique, Niger, South Africa, Zambia and Zimbabwe. Export of CRMs from Sub-Sahara, however, requires reconsideration, for two important reasons. The first is that the idea of CRMs is a policy concept designed to address the security of supply of certain minerals in industrialised regions (including the EU) such that governments can sustain economic growth albeit under less carbon-intensive conditions.

One of the most recent laws is the EU's Carbon Border Adjustment Mechanism (CBAM), which will be effective in 2026. Through this, the EU will impose import charges on products such as steel, cement, and electricity, based on the carbon dioxide emissions embedded in their production. Though not seen by the EU as a form of tax, some analysts suggest that, while the charges may reduce global exports to the EU by around 0.4% while negatively affecting the output of some manufacturers within the EU, the long-term impacts on the transition to clean energy may be negligible. For high emitters in Sub-Saharan Africa, this also potentially decreases prospects for trade in energy-transition technology parts and finished goods.

Conclusion

While legislation like EU's Carbon Border Adjustment Mechanism (CBAM) intends to foster carbon neutrality in the long-term, countries in Sub-Saharan Africa which still depend heavily on fossil-fuel generated electricity to manufacture goods might face immense challenges in doing business within the EU in the short-term. This is largely because the energy transition in both the EU and Sub-Saharan Africa faces difficulties. This is largely attributable to shifting policy priorities, institutional shortcomings and most importantly, financial barriers. For the global South, public finance is insufficient, with budget deficits and a private sector still largely informal, exposed to high financial, economic, and social risks. As such, financing of sub-Saharan Africa's energy economy is still largely dependent on external aid. Therefore, it is imperative to explore the possibilities in partnerships between public and private sector entities in the EU and in Sub-Saharan Africa as these will be essential in the energy transition. These partnerships will not only provide innovative forms of finance but will also bring with it the technical and technological advancements in the development of clean energy projects that will in turn aid sub-Saharan Africa region to align with the demands of less-carbon emissions in the production of goods that can be traded with the EU and the rest of the world.

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