



Chapter 6

International partnerships for a green and just transition

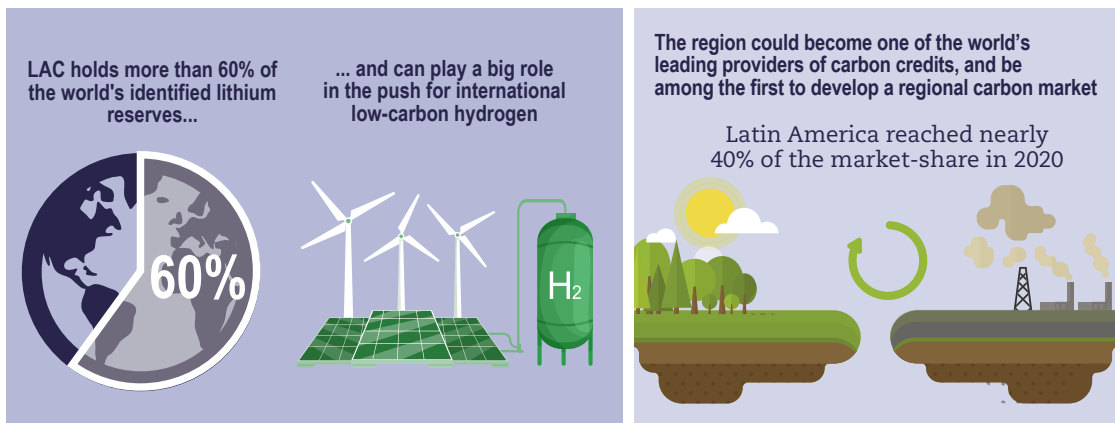
Regional and international co-operation is necessary to ensure the successful implementation of climate change mitigation and adaptation policies. Many countries in LAC are natural resource-intensive exporters with rich biodiversity, placing them as important actors in climate negotiations. However, they also face an export structure biased towards primary sectors, a condition that makes them vulnerable to new international environmental standards and regulations. This chapter argues that, to transition to a sustainable model of development, LAC governments need a strong convening power and to enhance a unified voice in multilateral environmental agendas. This will help to better illustrate the region's particularities and improve alignment of national policies and internationally established environmental goals. In addition, the chapter looks at how governments will also have to face the green economy's impact on trade. Policies will need to take into account the additional costs imposed on exports in the medium term, along with the effects of international environmental standards and regulations. Finally the chapter shows how regional co-ordination and further co-operation among LAC countries, and sub-regional grouping will be the way forward for advancing on renewable energies and green transition policies in the LAC region.

Regional and international co-operation is crucial for the success of a green and just transition in LAC

The LAC region plays an **active but fragmented role** in multilateral efforts for advancing the green transition



Using a **comprehensive tool-mix**, international co-operation can facilitate LAC's active efforts towards the green transition



International partnerships can help the LAC region navigate the trade-offs of the green transition **on trade**



Introduction

The challenges of achieving the low-carbon development targets and a green transition cannot be confronted only at the national level. To transition to a sustainable development model, the LAC region needs a strong convening power and to enhance a unified voice in multilateral environmental agendas. Notwithstanding its fragmented position on climate issues, the region has been active in international climate negotiations and has strongly supported ambitious environmental treaties. Even so, commitments made by LAC countries at the international level do not always translate into national actions, indicating that national policies are in need of further alignment with internationally established environmental goals.

Transitioning to a greener and more sustainable economy has substantial implications for numerous aspects of the region's development path. In particular, a green economy's impact on trade is a concern better addressed earlier than later. Policies will need to take into account the additional costs to exports and the effects of international environmental standards and regulations in the short and long term. In addition, LAC countries can harness international trade in both goods and services to facilitate the transition to a circular economy.

Addressing global challenges, such as climate change, biodiversity loss or pollution, and promoting a green transition as part of coronavirus (COVID-19) recovery are key objectives of the European Union (EU) internally and with respect to key EU partners. The EU's strategic leadership on the green transition has major implications for trading partners, modalities of international co-operation and transition requirements, as stated in the European Green Deal (hereafter, "the Green Deal"). These pose a challenge to the LAC region but, above all, offer an opportunity to make the most of multilateral efforts to bring forth a green and just transition. Boosting international partnerships, in particular with the European Union as part of the "Global Gateway", can help LAC adapt to the new environmental trade norms and regulations.

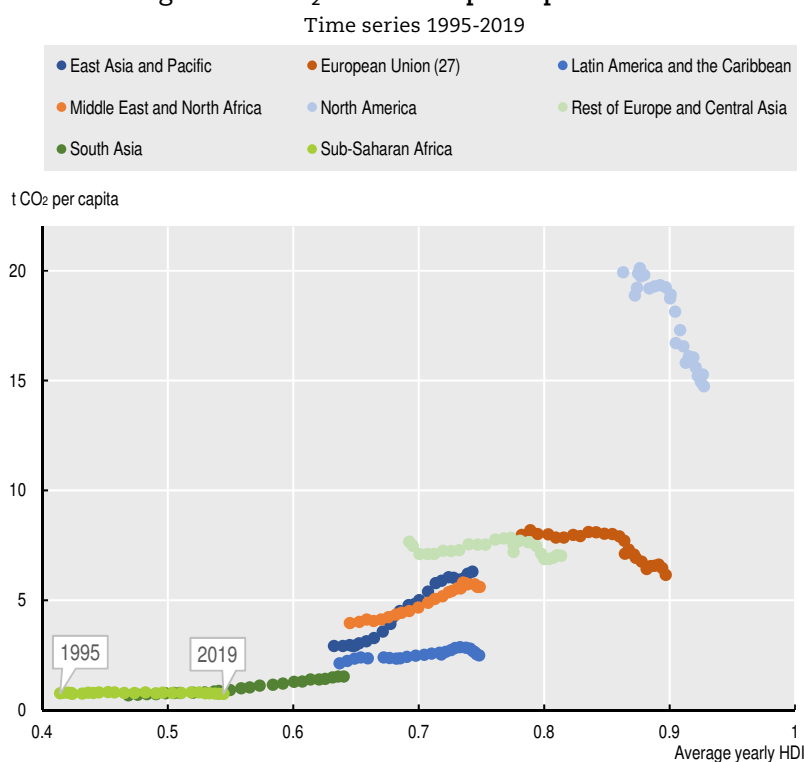
The LAC community can benefit from the renewed impetus of international partners to pursue a green agenda, transforming commitments into action through harmonised use of international co-operation instruments, following the Development in Transition approach. To ensure a sustainable development the region needs to ensure policy coherence across policy sectors and levels (local, regional and international), harness joint efforts for capacity building and technology transfer on energy sources, and co-ordinate common regulations and norms for carbon markets.

The rest of this chapter is organised as follows. First, it analyses LAC's positioning in climate negotiations at the multilateral level and the extent to which the region could benefit from a strengthened regional agenda and better alignment of national strategies with international commitments. Second, it assesses, through a focus on trade, how international partnerships can soften the impact of the green transition in the LAC region while helping the region grasp its opportunities. This section analyses the impacts of the green transition on trade in terms of expected additional costs on exports in the medium term and the effects of international green norms and regulations on the region's imports and exports. This includes an analysis of the EU Green Deal, one of the most prominent climate policies, and its effects on LAC through possible impacts on trade and potential avenues for co-operation. Third, the chapter stresses the importance of international partnerships in facilitating LAC efforts to translate multilateral commitments into concrete progress in advancing the green transition, primarily by implementing a harmonised and integrated use of international co-operation instruments and working towards common norms, standards and regulations. The chapter concludes by providing preliminary key policy messages for further consideration and implementation.

Aligning multilateral efforts with national strategies for a green and just transition

Through numerous environmental fora and summits, the international climate agenda has evolved to include additional priorities and frameworks. From its global nature, all countries are called to participate in the efforts for reducing carbon dioxide (CO₂) emissions. Although the implications of CO₂ reduction targets in human development standards of developing countries remain a matter of debate, it is clear that it is possible to decouple economic development from CO₂ emissions (Figure 6.1). LAC can reach higher Human Development Index (HDI) levels while meeting its low emissions targets. Green transition policy experiences exist within partners that are already reducing their levels of emissions. At the same time, in this global agenda, LAC countries can play a predominant role in climate negotiations by sharing experiences of sustainable development with other regions of similar and lower development levels. Climate change has shown that continuing a path of exponential growth of CO₂ emissions is no longer an option.

Figure 6.1. CO₂ emissions per capita vs. HDI



Note: Climate Watch Historical CO₂ Emissions excluding LUCF.

Source: Authors' calculations based on (Climate Watch, 2022^[1]) and (UNDP, 2022^[2]).

StatLink  <https://stat.link/fsamjk>

From the isolated goal of tackling climate change, international actors have directed their efforts towards green growth initiatives while ensuring that natural assets continue to provide the resources and environmental services on which well-being relies (OECD, 2011^[3]). By recognising the need for a fundamental shift to an economic system that is less damaging to the environment, leaders have moved the discussion towards bringing forward the green transition (Box 6.1). This notion expands the scope of environmental action to include an economy in which growth in income and employment is driven by public and private investments that reduce CO₂ emissions and pollution, enhance energy and resource efficiency, and prevent the loss of biodiversity and ecosystem services (UNEP, 2011^[4]).

The COVID-19 recovery has been a push to advance the green transition. Recovery packages have not, however, met the level of the ambition. If not consistently combined with structural reforms, these programmes are a “flash in the pan” rather than a socio-environmental transformation (Burger, Kristof and Matthey, 2020^[5]).

Efforts to bring forth the green transition can have challenging effects for the labour force if not properly co-ordinated. Policy makers need to ensure that the transition is not only green but also just – in other words, that it balances environmental sustainability with the needs of the people, that are most negatively affected. The Paris Climate Agreement (hereafter, “the Paris Agreement”) takes into account the just transition of the workforce and the importance of creating decent work and quality jobs. The development of social dialogue, expansion of social protection, securing of rights in the workplace and creation of employment are key aspects of a fair and inclusive transition (ILO, 2015^[6]). The Solidarity and Just Transition Silesia Declaration, adopted at the 24th Conference of the Parties (COP24) to the UN Framework Convention on Climate Change (UNFCCC) in 2018, proved a significant step in highlighting the importance of addressing the vulnerability of labour markets in carbon-intensive sectors.

Box 6.1. From climate negotiations to a green and just transition

The signing of the United Nations Framework Convention on Climate Change (UNFCCC) by 154 nations at the Rio Earth Summit in 1992 marked the beginning of multilateral climate negotiations. Aiming for the “stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system”, the convention categorised parties according to various commitments and established the “common but differentiated responsibilities and respective capabilities” principle. In 1997, participating parties adopted the Kyoto Protocol (entered into force in 2005), which set internationally binding emissions reduction targets based on a rigid interpretation of the aforementioned principle.

In the Copenhagen Accord of 2009, countries recognised the need to limit global warming to below 2°C to prevent dangerous climate change but were unable to agree on a clear path towards a legally binding treaty. A consensus was reached in 2015, with a new treaty – the Paris Agreement – and came into force in November 2016. It commits all parties to limit global warming to “well below 2°C”.

In 2021, the Glasgow Climate Pact strengthened ambitions across three pillars of collective climate action. On adaptation, parties recognised “the importance of the global goal on adaptation for the effective implementation of the Paris Agreement” and “welcomed the launch of the comprehensive two-year Glasgow–Sharm el-Sheikh work programme on the global goal on adaptation”. On mitigation, parties agreed to “establish a work programme to urgently scale up mitigation ambition and implementation in this critical decade”. Last, on climate finance, parties reaffirmed their pledge to reach the target of committing USD 100 billion per year to climate action in developing and vulnerable countries.

Bringing forth the green transition requires a whole-of-society approach, capable of addressing the needs of workers. While the Paris Agreement contains some elements related to these needs and priorities, the Solidarity and Just Transition Silesia Declaration, adopted at COP24 in 2018, provides further directions on how to advance a green and just transition.

Source: (Andersen, 2015^[7]), (Climate Strategies, 2020^[8]).

LAC has lacked a unified voice in the international arena, as the region negotiates within multiple coalitions

The fragmented positioning of LAC countries in the international arena for climate negotiation constitutes a missed opportunity for the region. Advancing common priorities and objectives could be easier and more effectively done when backed by the entire LAC community. Greater regional co-operation might favour policy implementation and co-ordination, particularly due to the opportunity to further align national plans with global environmental goals.

The lack of a unified voice in the context of environmental conferences can be attributed to the existing fragmentation of LAC regional integration and often reflects subregional economic ties. In contrast to Europe, where integration has revolved around the European Union, regionalism in LAC encompasses a plurality of groups, which are often competing, complementary and overlapping in function and membership and reflect distinct waves of regionalism throughout the continent (Ruano and Saltalamacchia, 2021^[9]). At the core of the complexity and plurality of LAC organisations is the region's state resistance to the establishment of supranational organs and the delegation of competences (Nolte, 2021^[10]). In addition, a primary focus on tangible economic benefits through regional co-operation and the lack of a deeper philosophical or ideological commitment to the integration process have resulted in regional projects that often lack long-term perspectives (Pastrana, 2013^[11]).

While the LAC region has a reputation for active participation in international climate negotiations, throughout much of its history, there have been few active overall Latin American coalitions operating in climate change talks. Even though the Central American Integration System and the Caribbean Community (CARICOM) have proved longstanding actors in climate negotiations and regional environmental initiatives, their involvement has mostly been limited to operational roles rather than in political negotiations. Similarly, the United Nations regional groups, such as the Group of Latin America and the Caribbean, have not been active in substantive negotiation (Watts and Depledge, 2018^[12]).

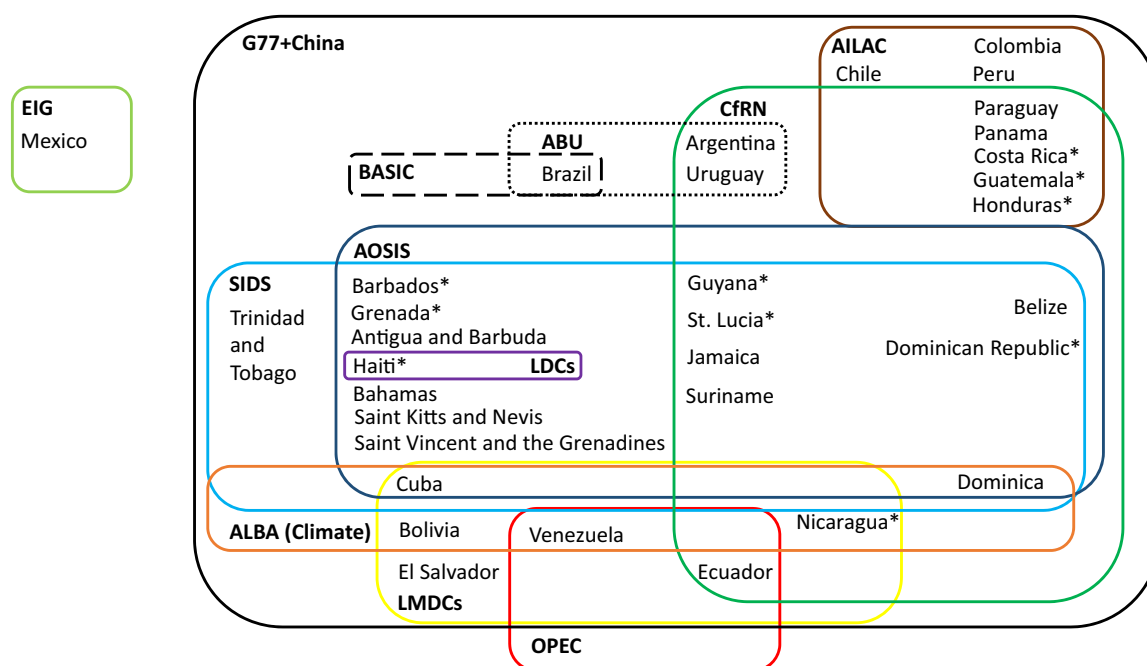
Subregional coalitions with diverse and fragmented narratives have characterised the positioning of LAC in climate negotiations. The first subregional coalition was the Bolivarian Alliance for the People of Our America (ALBA) at COP15 in Copenhagen (2009). This group has adopted a hard-line approach, focusing on climate justice, equity and an uncompromising interpretation of the principle of “common but differentiated responsibilities and respective capabilities”, with an emphasis on industrial countries' historical responsibility for global warming (Marzano Franco, 2016^[13]). While often criticised for its radical positions, the coalition has been impactful in strengthening developing nations' voice in climate negotiations and in reminding developed nations of their obligations under the convention.

The Independent Association of Latin America and the Caribbean (AILAC) – established in 2012 and composed of Chile, Colombia, Costa Rica, Guatemala, Honduras, Panama, Paraguay and Peru – presents itself as a “third way” in the North-South discussion, its primary role being to build bridges among negotiating groups. While partly prompted as a response to ALBA, the group has had significantly more impact on climate negotiations. Its bridge-building language was a major factor in framing the fight against climate change not as a divisive but as a common endeavour, thus ultimately contributing to adoption of the Paris Agreement and celebrated by many as an opportunity to break down the historic North-South divide (Watts and Depledge, 2018^[12]).

Argentina, Brazil, Uruguay (A-B-U) is a regional coalition formed in 2016 among three countries with very strong historical, economic and political ties. This coalition identified climate change adaptation as a strategic agenda item and established a framework of adaptation principles, which were adopted in their majority by the Group of 77 (G77) and the People's Republic of China (hereafter, "China") (Lorenzo Arana, 2020^[14]).

The remaining groups in LAC are not based on regional criteria, are sometimes not limited to countries of the region, and often overlap. The notable exception is Mexico, whose participation is primarily limited to the Environmental Integrity Group (EIG) (Figure 6.2).

Figure 6.2. LAC countries' participation in selected climate-related international coalitions



Note: *Members of the Climate Vulnerable Forum (CVF). A-B-U: Argentina, Brazil and Uruguay. AILAC: Independent Alliance of Latin America and the Caribbean. ALBA: Bolivarian Alliance for the Peoples of Our America. AOSIS: Alliance of Small Island States. EIG: Environmental Integrity Group. CfrN: Coalition for Rainforest Nations. LDCs: Least Developed Countries. LMDCs: Like-minded Developing Countries. OPEC: Organisation of the Petroleum Exporting Countries. SIDS: Small Islands Developing States. Non-exhaustive coalitions in the region; some coalitions relate to the environment as part of a broader agenda. Brazil has been part of the LMDCs in the past.

Source: Authors' elaboration based on (Delgado Pugley, 2021^[15]); (Klöck et al., 2020^[16]); (Watts and Depledge, 2018^[12]).

Preventing fragmentation of environmental policies is crucial to harness the full potential of the green transition. As LAC's fragmented voice in climate negotiations in many ways constitutes a missed opportunity, future efforts will need to prioritise enhanced policy dialogue and a regional environmental agenda. To avoid further tensions, this common agenda would need to be based on a bare minimum consensus among LAC countries and gradually expand to more ambitious plans and strategies that are ultimately integrated into national policies.

Finally, while the green transition's overarching goals can be subject to contestation, a science-based policy approach that mobilises technical expertise and capacities can prove an effective tool in overcoming regional organisations' political paralysis. While

only a national initiative, the establishment in Chile of an independent scientific body that formulates science-based recommendations not only provided the most advanced sectoral perspectives on policy and technology but also identified overlap with other agendas (IDB, 2021^[17]). Similar policies at the regional level could help overcome the limitations of regional initiatives and enhance efforts for technical co-operation.

Strategic international institutional arrangements have helped advance the green agenda in LAC

Despite political fragmentation at the regional level, LAC countries demonstrate exceptional adherence to environmental goals and the green agenda within the framework of international conventions and fora through commitments, plans and strategies established at the national level. Regardless of their approach to climate negotiations, LAC countries' participation in strategic institutional arrangements at the international level has advanced the green transition. Commitments reached are a prominent way of identifying not only LAC countries' dedication to environmental goals but also their specific priorities regarding sustainable development. In particular, numerous LAC countries have set ambitious goals for reaching net zero emissions, with an overwhelming majority aiming for 2050. Furthermore, within the context of the Paris Agreement mandates, all LAC countries have submitted Nationally Determined Contributions (NDCs). In fact, 24 have submitted a second or updated NDC, some of them with notable improvements from one document to the next (IDB, 2021^[17]), demonstrating their firm commitment to ratcheting up efforts in the fight against climate change (Chapter 5) (NDC Partnership, 2022^[18]).

As the region hosts about 50% of the planet's biodiversity, efforts for its protection and preservation remain a top priority. Ever since the Convention on Biological Diversity (CBD) came into force in 1993, LAC countries have been undertaking the challenge of sustaining their natural heritage without losing sight of economic development. As all LAC countries are parties to the convention, they have been submitting ambitious National Biodiversity Strategies and Action Plans. Most countries are party to the CBD's supplementary agreements, ensuring that biodiversity strategies are included in all planning and activities affecting national biodiversity. As the Aichi Biodiversity Targets, aimed at the year 2020, have gone largely unmet, policy makers – especially those in LAC countries – have an enormous responsibility to boost biological diversity efforts in the next and coming decades.

While LAC is well known for its rainforests, about one-quarter of the region is actually desert and drylands. LAC countries are also party to the United Nations Convention to Combat Desertification (UNCCD), established in 1996 to support the incorporation of long-term national action programmes into international co-operation and partnership arrangements to combat desertification and mitigate the effects of droughts. As the convention enjoys strong political support in the region and as most policy makers are in favour of mainstreaming relevant goals into national policies, 22 LAC countries are currently participating in the UNCCD Land Degradation Neutrality Target Setting Programme (UNCCD, 2022^[19]).

With the purpose of facilitating the sharing of experiences, including both successes and lessons learned, 32 countries of the region have presented Voluntary National Reviews (VNRs) to the High-level Political Forum on Sustainable Development (HLPF). Of these countries, 16 have submitted more than one VNR; some have submitted a third (UN DESA, 2020^[20]). More recently, COP26 demonstrated (once again) LAC commitment to a green transition. The region's overwhelming participation in pledges to end deforestation and cut methane emissions is a case in point (Table 6.1).

Table 6.1. LAC international commitments on climate change, selected LAC countries

	COP26 commitments				
	Glasgow's Leaders' Declaration on Forests and Land Use (target: to end deforestation)	Global Coal to Clean Power Transition Statement (target: to quit coal)	Global Methane Pledge (target: to cut methane emissions)	Net zero target date	Updated or second NDC
Argentina	Yes	No	Yes	2050	Yes
Brazil	Yes	No	Yes	2060	Yes
Chile	Yes	Yes	Yes	2050	Yes
Colombia	Yes	No	Yes	2050	Yes
Costa Rica	Yes	No	Yes	2050	Yes
Dominican Republic	Yes	No	Yes	2050	Yes
Ecuador	Yes	Yes	Yes	2050	No
El Salvador	Yes	No	Yes	No target set	Yes
Guatemala	Yes	No	Yes	No target set	Yes
Mexico	Yes	No	Yes	No target set	Yes
Panama	Yes	No	Yes	2050	Yes
Paraguay	Yes	No	No	No target set	Yes
Peru	Yes	No	Yes	2050	Yes
Uruguay	Yes	No	Yes	2050	No

Source: Authors' elaboration based on (UN, 2021^[21]); (UN, 2021^[22]); (European Commission, 2021^[23]); (NDC Partnership, 2022^[18]).

These institutional commitments show the extent to which LAC countries have been advancing their national plans and strategies, in the context of international agreements. These commitments, however, are frequently regarded as a matter of international relations in the region and thus are not always integrated into domestic planning bodies. This lack of integration between the environmental agenda and domestic plans or local governments is reflected in the lack of consistency across numerous policies or sectors related to environmental goals (IDB, 2021^[17]). Advancing the green transition requires going beyond setting priorities and objectives and calls for concrete efforts to align national and international agendas and even find consensus on a regional environmental agenda. Firm political commitment on all these fronts will prove key in advancing from *de jure* to *de facto* implementation of the aforementioned plans and goals.

The implementation of these multilateral agendas ought, indeed, to be the region's focus in the coming years. Achievements in terms of a green transition, however, require more than a clear setting of priorities. They require an alignment of national and international agendas, firm financial commitments, and agreement on common rules at the regional level. It is also a matter of ensuring that spillovers are addressed and accounted for. International co-operation is fundamental to help LAC governments put such agendas in motion.

LAC countries are involved in several international partnerships pertinent to facilitating their green transition. These partnerships include efforts ranging from climate change mitigation to energy transition, sustainable mobility, forest and landscape conservation, and sustainable agricultural practices. In these initiatives, the LAC region has co-operated with multiple partners with the purpose of aligning multilateral commitments with national actions for a green transition. International initiatives include those established between Argentina and the European Commission through the EUROCLIMA+ programme. Other multilateral initiatives in the area of forest rehabilitation and conservation have been carried out with the support of the Green Climate Fund (GCF): USD 82 million have been disbursed to support South American efforts. In the same area, the United States Agency for International Development (USAID) has been a key

partner for Brazil in achieving conservation projects in the Amazon. In other areas, such as renewable energies and improvements in the institutional framework of the national climate change plan, Brazil's partnership with the European Investment Bank (EIB) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation [GIZ]) stands out.

Regional and subregional initiatives can function as drivers of the green transition

While the participation of LAC countries in climate negotiations is characterised by a variety of positions, initiatives taken regionally or sub-regionally highlight the potential of LAC's role in advancing the green agenda. From South-South Co-operation (SSC) and Triangular Co-operation (TrC) to geographically specific agreements, these initiatives have been functioning as major drivers of the green transition and show promising potential for upcoming environmental challenges.

The LAC region now has the Escazú Agreement, the region's first treaty on environmental matters and the world's first to include provisions for human rights defenders in environmental matters. It is the only legally binding agreement stemming from the United Nations Conference on Sustainable Development (Rio+20) and rooted in the tenets of Principle 10 of 1992 Rio Declaration. The Escazú Agreement aims to promote access to information, public participation and justice in environmental matters. By linking global and national frameworks, the agreement sets regional standards, fosters capacity building – particularly through SSC – and lays the foundations for a supporting institutional architecture. It also offers tools for improved policy and decision making (Box 6.2) (ECLAC, 2018^[24]).

Box 6.2. A landmark environmental agreement in LAC: The Escazú Agreement

The Regional Agreement on Access to Information, Public Participation and Justice in Environmental Matters in Latin America and the Caribbean, also known as the Escazú Agreement, is the first environmental agreement adopted in LAC and the world's first treaty to include provisions relating to the protection of environmental human rights defenders. The agreement entered into force in April 2021; to date, it has been signed by 24 countries and ratified by 13.

It contains provisions similar to those of the Aarhus Convention, signed by 39 member states of the United Nations Economic Commission for Europe (UNECE), which grants citizens the right to access information and to participate in the processes of environmental decision making, as well as the right to obtain redress in the event that their rights are not respected. The Escazú text was adapted to LAC's specific needs and contains, for instance, provisions for the protection of environmental human rights defenders and people or groups in vulnerable situations.

The agreement constitutes an important opportunity to promote responsible business conduct (RBC) and to address social and environmental impacts. It might also be a critical tool to generate certainty and stability in investments by bringing together states, companies and societies to optimise the outcomes of sustainable investments, which is crucial for Latin America's green transition. It can certainly also be an important opportunity to raise companies' awareness of the necessity of involving human rights defenders in due diligence processes.

Source: Authors' elaboration based on ECLAC (2018^[24]).

The Declaration for the Conservation of the Marine Corridor of the Eastern Tropical Pacific, announced at the COP26 by Colombia, Costa Rica, Ecuador and Panama, is a good example of a cross-border and subregional initiative for the conservation and sustainable use of the region's biodiversity. The area will span 500 000 km² and will connect the

Galapagos Islands in Ecuador, Malpelo Island in Colombia, and Cocos Islands and Coiba Island in the territorial waters of Costa Rica and Panama. The declaration includes the definition of an adequate model for the protection and management of these protected areas. If it is to be sustained, the support of civil society, international co-operation organisations and the private sector will be important (Climate Tracker, 2021^[25]).

With the Amazon rainforest spanning nine countries and representing over half of the planet's remaining rainforests, regional mechanisms for preserving this particular ecosystem are a region-wide and global concern. The Amazon Co-operation Treaty Organization has been on the front line of these efforts (ACTO, 2022^[26]). The Leticia Pact is another prominent example. This pact has fostered a particularly good balance of financing, regulations and capacity building. Among other efforts, the signing countries have committed to exchange and implement experiences in the comprehensive management of fires; exchange information to improve the capabilities of monitoring the region's climate, biodiversity, water and hydro-biological resources; and develop education and awareness-raising activities on the role and function of the Amazon.

Caribbean countries face particular challenges when it comes to climate change (Box 6.3). Conscious of their limitations regarding their financial, human and infrastructure resources for confronting the effects of climate change, these countries have been implementing efforts towards a green transition not only through government entities but also through multilateral institutions. CARICOM is a prime example of a multilateral organisation working both to push for ambitious strategies regarding mitigation initiatives and to recognise the adaptation needs of the countries most vulnerable to climate change. Its strategic plan for 2015-19 emphasised environmental management and the protection of the region's natural assets across all sectors of development, as well as empowering the community in its preparedness to cope with and manage the effects of natural disasters, both manmade and resulting from climate change (CARICOM, 2014^[27]).

Box 6.3. Climate vulnerability and the Caribbean

Climate change poses a serious threat to all Caribbean nations. According to the Intergovernmental Panel on Climate Change (IPCC), average temperatures in the region have increased by 0.1°C to 0.2°C per decade over the past three decades. Rainfall patterns have shifted, with the number of consecutive dry days expected to increase. Additionally, sea level rise has occurred at a rate of about 2 cm to 4 cm per decade over the past 33 years, a trend that presents risks to the region's freshwater resources and to its largely coastal population, which is dependent on tourism and agriculture. Accordingly, 16 out of 39 members of the Small Islands Developing States (SIDS) belong to the Caribbean region. This all comes in combination with Caribbean countries' minimal contribution to global GHG emissions.

This stark vulnerability calls for adapted approaches when it comes to building specific partnerships with these countries. The Multidimensional Vulnerability Index has been fundamental in the efforts to reopen discussion on eligibility criteria for concessional financing by addressing the structural challenges often faced by SIDS, including those related to their remoteness, economic concentration and dependence on external flows, such as remittances, foreign direct investment (FDI) and tourism revenues. The index is composed of a set of indicators related to economic, financial, environmental and geographic vulnerability and can therefore function as a critical tool for measuring Caribbean countries' needs and priorities. Recent efforts are in the process of expanding the scope of vulnerability. In particular, the Caribbean Development Bank is continuing discussion on vulnerability measures by piloting a new concept of the Recovery Duration Adjuster, which incorporates aspects of both vulnerability and resilience.

Box 6.3. Climate vulnerability and the Caribbean (cont.)

CARICOM has been among the regional organisations placing significant emphasis on the vulnerability of Caribbean countries when it comes to climate change and on the crucial need to push for more initiatives related to adaptation. Within its integrated strategic priorities, the organisation includes environmental resilience, the primary goal of which is to strengthen the community's information gathering, monitoring and analysis infrastructure to reduce countries' vulnerability to the risk of disasters and the effects of climate change and to guarantee effective management of the natural resources of its member states.

Sources: (IDB, 2014^[28]); (CARICOM, 2014^[27]); (Laguardia Martínez, 2017^[29]); (CARICOM, 2017^[30]); (UNDP, 2021^[31]); (Dowrich-Phillips, 2022^[32]).

LAC has also made important efforts in fighting climate change through SSC and TrC (together, SSTC) within Ibero-America. In particular, the share of the environment sector in total SSTC initiatives in Ibero-America has doubled in the last decade, reaching 8.4% of total SSTC in 2020. In the past year, the environment ranked third in terms of number of initiatives, behind only the traditionally most significant sectors, such as health and agriculture, in terms of volume.

It is also noteworthy that the objective of moving towards sustainable development has been mainstreamed in many additional sectors of activity, especially since the approval of the United Nations 2030 Agenda for Sustainable Development. For instance, of 155 initiatives implemented in the agricultural sector between 2019 and 2020, approximately 23% focused explicitly on progress towards sustainable practices within their respective titles or objectives, and 10% focused on the need to adapt to the effects of climate change. In short, almost one out of every three SSTC initiatives (30%) in the agricultural and livestock sector defines key dimensions of environmental improvement as priority objectives (based on *Sistema Integrado de Datos de Iberoamérica sobre Cooperación Sur-Sur y Triangular of SEGIB*).

The various agreements and initiatives reached at regional and subregional levels highlight the commitment and methods of LAC countries in advancing the green agenda beyond the limitations created by political fragmentation in climate negotiations. They are a strong driver of the region's environmental objectives and an important tool for firmly embedding climate policy in LAC growth strategies.

Seizing opportunities and softening the impacts of the green transition for trade in LAC

Inevitably, advancing the green transition goes beyond treaties and multilateral initiatives. It entails ramifications for various aspects of the region's development model, among which trade relations hold a distinctive position. Through proper regulations and policies, the region stands to reap substantial benefits related to the green agenda. LAC countries can take the opportunity to face the entrenched productivity trap and move towards a transformation of its production model.

In particular, much-needed measures will imply additional costs for both LAC imports and exports, at least in the medium term. LAC countries will need to prepare for such challenges and search for effective methods to tackle them early on. The establishment of international green standards and regulations will pose challenges and opportunities for the region's green development, affecting in particular the structure of LAC exports.

Such standards and regulations will boost LAC efforts towards the creation of a circular economy, which will require enhanced co-ordination at the regional level.

Measures will impose additional costs on LAC imports in the medium term

NDCs provide a wealth of information on how each country intends to achieve its goals in terms of climate change mitigation and adaptation. The implementation of NDC commitments is closely linked to the use of so-called “environmental goods and services”.¹ These are products manufactured or services rendered for the main purposes of: 1) preventing or minimising pollution, degradation or natural resources depletion; 2) repairing damage to air, water, waste, noise, biodiversity and landscapes; and 3) carrying out other activities related to environmental protection or resource management, such as measurement and monitoring, control, research and development (R&D), education, training, information and communication (UN et al., 2014_[33]).

NDCs offer benchmarks for understanding their impact on local markets and the strategies that would help LAC countries face the evolution of international regulations and standards. Linking LAC countries’ NDC commitments to their likely impact on import flows in the coming years can reveal possible trade implications and shed light on policy recommendations.

Of the six types² of NDC measures affecting expenditure on manufactured imports, three are assumed to lower the cost: 1) reduction of tariff and non-tariff barriers for renewable energy technology; 2) explicit mention of a policy measure’s intention to reduce dependence on imported fuel; and 3) encouragement of technology transfer from advanced economies. The other three types would raise the cost of imports: 1) ban on the importation of old or energy-inefficient goods; 2) imposition of new standards and labelling requirements; and 3) renewable energy development (Saalfield, forthcoming_[34]).

Banning the importation of old or energy-inefficient goods was mentioned in 36% of the region’s NDCs, imposing new domestic standards was mentioned in 42%, and renewable energy development was mentioned in 85%. The first two measures might reasonably be expected to increase the average cost of goods such as vehicles and appliances, as these measures would lock out older, cheaper substitutes and push consumers towards newer, more expensive alternatives. Both measures are more common in Caribbean NDCs, where higher medium-term fuel savings hasten the payback timeline on products such as electric vehicles (EVs) (Table 6.2).

The third measure, renewable energy development, is common across the region. Renewable energy technologies are considered essential to meeting national emissions reduction targets, so it is not surprising that a large majority of NDCs commit to scaling related infrastructure in the coming decade. While the region’s commitment to renewables is commendable, infrastructure development will likely continue to be led by foreign firms and rely on foreign components, contributing to short-term import expenditure. Establishing local clean technology sectors will require time, financing, technology transfer and the development of a relatively specialised workforce. The region may find opportunities in other areas, for example in the emerging green hydrogen market (ECLAC, 2021_[35]). Even then, the establishment of a substantial green hydrogen industry would be capital-intensive and thus likely to contribute to import expenditure in the short to medium term.

Table 6.2. Country tally of NDC measures affecting short-term import expenditure in LAC

	1	2	3	4	5	6
	Block energy- inefficient imports	Impose new domestic standards	Develop renewable energy	Reduce trade barriers for efficient imports	Reduce dependence on imported fuel	Encourage technology transfer
Latin America						
Argentina	✓		✓			✓
Bolivia			✓			✓
Brazil						
Chile			✓			✓
Colombia	✓	✓	✓			✓
Costa Rica		✓	✓			✓
Ecuador			✓			
El Salvador			✓			✓
Guatemala			✓			✓
Honduras			✓			✓
Mexico			✓			✓
Nicaragua			✓			
Panama		✓	✓			✓
Paraguay	✓		✓	✓		✓
Peru						
Uruguay		✓	✓			✓
Venezuela	✓	✓	✓			✓
Caribbean						
Antigua	✓	✓	✓		✓	✓
Bahamas	✓	✓	✓	✓	✓	✓
Barbados		✓		✓		✓
Belize	✓	✓	✓			
Cuba			✓	✓		✓
Dominica	✓		✓		✓	
Dominican Republic	✓	✓	✓	✓		✓
Grenada		✓	✓		✓	
Guyana		✓	✓	✓		
Haiti	✓		✓			✓
Jamaica	✓					
Saint Kitts and Nevis			✓			✓
Saint Lucia			✓			✓
Saint Vincent and the Grenadines		✓	✓	✓	✓	✓
Suriname	✓	✓	✓			✓
Trinidad and Tobago			✓			

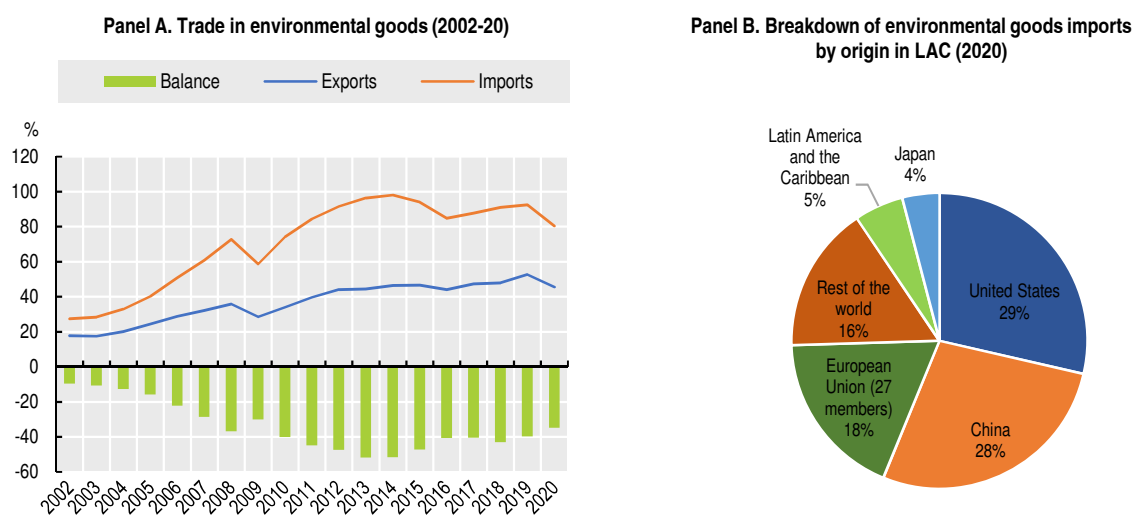
Source: Nationally Determined Contributions, accessed via (UNFCCC, 2022^[35]).

On the savings side, reducing barriers for energy-efficient imports was mentioned in 21% of the NDCs, reducing dependence on imported fuel was mentioned in 15%, and requests for technology transfer were found in 70%. Reducing trade barriers such as tariffs has the shortest time horizon of the three cost-saving policies, as it can lower the cost of energy-efficient imports almost immediately. However, reducing import tariffs may further entrench the region's pattern of high import dependence. Last, in theory, technology transfer has great potential to foster import substitution but it has proved difficult to implement.

Implementation of NDC commitments is closely linked to the use of so-called environmental goods and services. While there is no internationally agreed list of environmental goods, probably the most comprehensive list available is the Combined List of Environmental Goods (CLEG) compiled by the OECD (Sauvage, 2014^[37]). The CLEG includes 248 products at the 6-digit level of the World Customs Organization's Harmonized Commodity Description and Coding System (HS).³

When envisaging the transition to a greener and more sustainable development path, its implications for the region's external position must be carefully considered. In fact, the external restriction is a longstanding constraint on development in LAC. Since 1990, the region registered a current account surplus only between 2003 and 2007, in the context of the so-called commodity super-cycle (Chapter 1). Using the CLEG as a benchmark, LAC has consistently posted a deficit in its trade in environmental goods over the last two decades (Figure 6.3, Panel A). Three-quarters of the region's imports come from China, the United States and the European Union, while intraregional imports account for just 5% of total expenditure (Figure 6.3, Panel B). Moreover, regional export capacity is highly concentrated: just one country (Mexico) accounted for 84% of regional exports of environmental goods between 2018 and 2020.

Figure 6.3. LAC trade balance in environmental goods



Note: Panel B is based on the Combined List of Environmental Goods.

Source: Authors' elaboration using data from (UN Comtrade, 2020^[38]).

StatLink  <https://stat.link/owfzaj>

As a whole, the green transition will likely involve a substantial import expenditure for LAC over the coming years (possibly decades), putting strain on the region's balance of payments. In particular, continuing imports in the renewables sector, on which LAC NDCs place substantial emphasis, can exacerbate the region's existing trade deficit in environmental goods and lead to higher import costs.

International co-operation can play a substantial role in seizing the opportunities and softening the impacts of the transition for the region's imports. Promoting regional production capabilities in the renewables sector will be crucial not only to avoid excessive imports but also from a political economy perspective, to strengthen local coalitions in favour of the green transition. Such initiatives can function as a significant driver of buy-in for the green agenda and can prove a decisive factor in the creation of jobs, thus ensuring both a green and just transition. While it is incumbent on the countries to implement

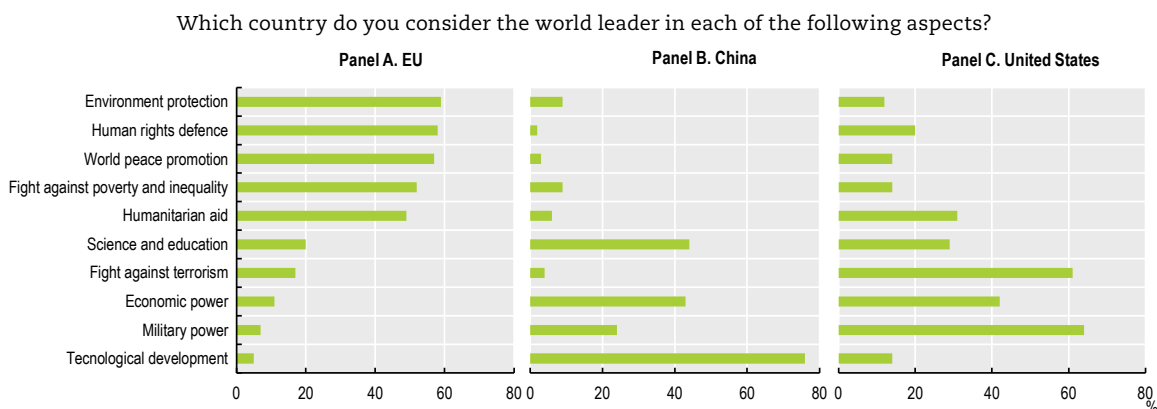
policies aimed at developing local capabilities, development partners and alliances will also play a crucial role in channelling financial resources through investments, digital tools and technical know-how towards that effort.

LAC exports need to prepare to face evolving environmental standards and regulations in international trade: The LAC-European Union case

Globally, some of the most important trade partners for the LAC region are China, the United States and the European Union. The three actors contribute the most to GHG emissions and represent important shares of the global economy. The three have led important strategies in the past decades to fight climate change and reach net zero levels. Each follows a different strategy.

The European Union has positioned itself as a global leader on environment. With the adoption of the European Green Deal, climate policy is now firmly embedded in the EU's new growth strategy. This ambitious agenda aims to decouple economic growth from resource use. The European Union and its member states have leveraged their climate leadership and the power of the European single market to engage other countries in raising the ambition of their climate policies. LAC citizens consider the European Union to be the world leader on environment protection (59%), well above the United States (12%) and China (9%) (Figure 6.4).

Figure 6.4. Leadership across diverse sectors among three global players



Source: (Latinobarómetro/Nueva Sociedad/Friedrich-Ebert-Stiftung, 2022₍₄₁₎).

StatLink <https://stat.link/i9leo4>

Required changes or adaptations will be a cost in the short and medium term but could trigger LAC to transform development models based on the green transition. The EU's strategic leadership on the green transition and the European Green Deal's implications for trading partners are a case in point. While such standards imply considerable trade-offs for LAC countries, proper preparation and co-ordination can ensure that the region advances with both its green and its development objectives.

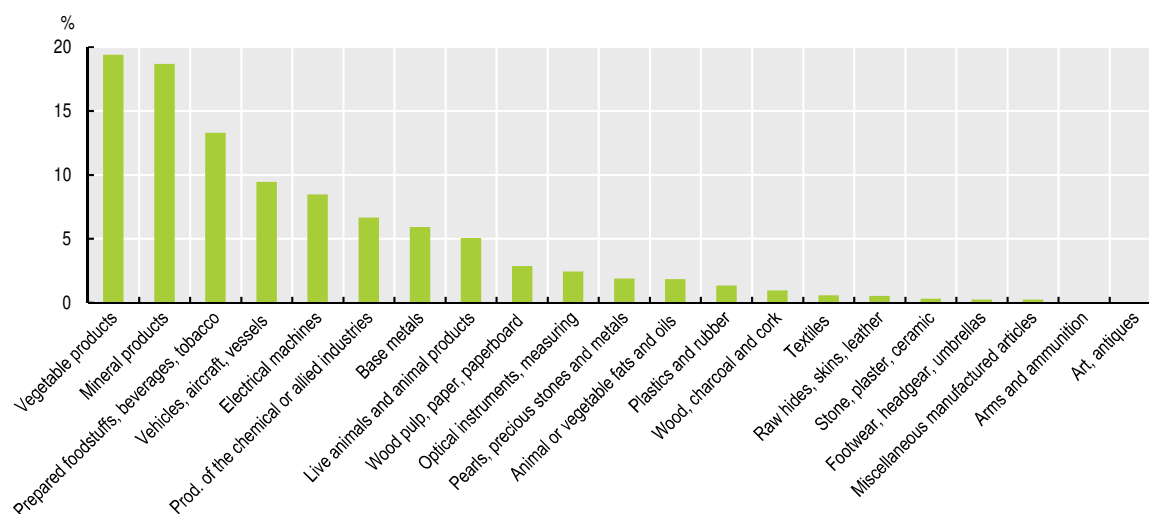
Why will the new norms and regulations of the Green Deal affect LAC exports to the European Union?

The possible effects in LAC of the new standards and regulations of the Green Deal arise from the trade balance between the regions. LAC remains a key supplier of agribusiness products and raw materials to the EU. In 2021, the EU27 was the destination of 8.9% (EUR 89.9 billion) of total exports from LAC. The top five exporting countries were Brazil

(EUR 30.9 billion or 34.4%), Mexico (EUR 13.9 billion or 15.5%), Argentina (EUR 8.34 billion or 9.3%), Chile (EUR 6.56 billion or 7.3%) and Peru (EUR 5.66 billion or 6.3%).

Vegetables are among the top products exported from LAC to the EU at a value of EUR 17.3 billion (19.4%). The second-most important are mineral products. The third-most significant are prepared foodstuffs, beverages, spirits, vinegar and tobacco, representing EUR 11.9 billion (13.3%) (Figure 6.5). Food and feed products are heavily regulated in the EU market, with EU food regulations applying to both imported and EU-made products, while compliance with EU sanitary, phytosanitary and technical requirements varies across LAC countries.

Figure 6.5. Share of LAC exports to EU27 in 2021



Note: Exports by Harmonized Commodity Description and Coding System sections.

Source: Authors' elaboration based on (International Trade Center, 2022^[42]).

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Another element to consider in LAC-EU trade relations is that the similarity of productive structures of some LAC economies makes them natural competitors in the EU common market. The fact that many LAC countries rely on some few export commodities, such as bananas or coffee, entails high competition in reaping the benefits of EU markets.

While the Green Deal is, above all, a transformative agenda for Europe, it also has important implications for the European Union as a global actor and for its relations with other regions like LAC. The Green Deal focuses on eight areas: climate, energy, agriculture, industry, environment and oceans, transport, finance and regional development, and research and innovation. Dozens of interconnected regulations will be reviewed in the coming years, and multiple strategies and action plans have been established to fulfil the carbon-neutral goal. LAC will face important trade-offs from this institutional arrangement and from the need for continued trade and co-operation with the European Union.

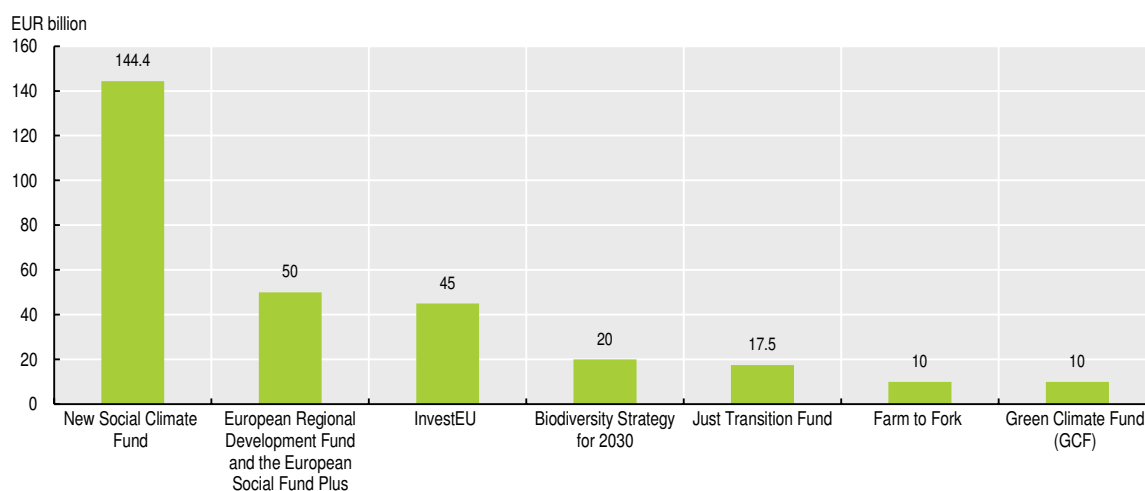
How will Green Deal strategies affect LAC exports and potentially boost both the green transition and strategic autonomy?

The Green Deal policies with the largest potential impacts on LAC countries are those focused on producing healthier food and feed and on the implementation of new standards of sustainability. Given LAC's concentration in exporting agricultural goods and raw

materials to the EU, policies such as the proposal for a regulation on deforestation-free products, the Fit for 55 Package, the New Circular Economy Action Plan, the Farm to Fork Strategy and the Biodiversity Strategy for 2030 will potentially have impacts for LAC that need to be considered.

The Green Deal includes diverse investment strategies (Figure 6.6). One-third of the EUR 1.8 trillion investments from the NextGenerationEU Recovery Plan and the European Union's Multiannual Financial Framework 2021-2027 will finance the Green Deal (European Commission, 2019^[43]). The New Social Climate Fund invests in energy efficiency, new heating and cooling systems, cleaner mobility and a socially fair transition (European Commission, 2021^[44]). The Just Transition Fund, the European Regional Development Fund and the European Social Fund Plus all support eligible territories through territorial just transition plans. InvestEU attracts private investments to help regions find new sources of growth, including renewable energies (European Commission, 2020^[45]).

Figure 6.6. Green Deal investment strategies: Financial compromises



Source: Authors' elaboration based on selected initiatives (European Commission, 2022^[46]); (European Commission, 2020^[47]); (European Commission, 2020^[45]); (Green Climate Fund, 2020^[48]); (European Commission, 2019^[43]); (European Commission, 2022^[49]).

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The Biodiversity Strategy for 2030 will enlarge EU-protected areas with high biodiversity and climate value on land and at sea, and will establish measures to restore degraded ecosystems, especially those with superior potential to capture and store carbon (European Commission, 2022^[46]). The research and innovation component of the Farm to Fork Strategy will focus on food, bioeconomy, natural resources, agriculture, fisheries, aquaculture and the environment. Knowledge transfer will be essential, too. The European Union will collaborate with third countries to support a global move towards sustainable food systems (European Commission, 2020^[47]).

The GCF supports the implementation of climate mitigation and adaptation policies. Projects cover several areas, such as forest conservation and rehabilitation in Argentina, adoption of digital agricultural production and climate adaptation technologies in Colombia, light rail in Costa Rica, cooling in El Salvador, and installation of greenhouses, micro-tunnel facilities and hydrometeorology in Guatemala, among others (Green Climate Fund, 2022^[50]).

The Neighbourhood, Development and International Co-operation Instrument-Global Europe (NDICI-Global Europe) is the new financial mechanism to support third countries.

It merges several former EU external financing instruments, unifying grants, blending, and guarantees to overcome long-term development challenges and contribute to achieving international commitments, such as under the 2030 Agenda and the Paris Agreement. The programme finances three areas: geographic programmes, thematic programmes and global challenges. There is an additional emerging challenges and priorities cushion. Moreover, the EU can promote public and private investment in support of sustainable development through the European Fund for Sustainable Development Plus (EFSD+) (European Commission, 2021^[51]).

The NDICI-Global Europe has a budget of EUR 79.5 billion for 2021-27, with LAC being assigned EUR 3.3 billion, equivalent to 5.62% of the amount allocated to geographic programmes. The areas of co-operation are: 1) good governance, democracy, the rule of law and human rights, including gender equality; 2) poverty eradication, human development and the fight against inequality and discrimination; 3) migration, forced displacement and mobility; 4) environment and climate change; 5) inclusive and sustainable economic growth and decent employment; 6) peace, stability and conflict prevention; and 7) partnership (European Parliament/European Council, 2021^[52]).

In terms of the inclusive and sustainable economic growth and decent employment component, the instrument seeks to: 1) support microfinance, skill and competency development; 2) improve application of international labour standards, gender equality and living wages; 3) reduce the risk of exclusion and marginalisation of specific groups; 4) promote fair taxation and redistributive public policies; 5) strengthen social protection systems; 6) improve the business environment and investment climate; 7) foster an enabling policy environment for economic development, particularly for small and medium-sized enterprises (SMEs); 8) encourage accountability, mandatory due diligence and human rights commitments; 9) promote internal economic, social and territorial cohesion between urban and rural areas; 10) facilitate the development of creative industries and a sustainable tourism sector; 11) diversify sustainable and inclusive agricultural and food value chains; 12) strengthen value addition, regional integration, competitiveness and fair trade; and 13) strengthen multilateralism and co-operation in science, technology, research, digitalisation, open data, big data, artificial intelligence and innovation (European Parliament/European Council, 2021^[52]).

Delving into the details of the Green Deal policies and their impact on LAC, the Directive on mandatory corporate sustainability due diligence for large companies with respect to human rights and environmental impacts in their supply chains is a far-reaching proposal adopted by the EU. Both EU and non-EU companies with activities in the EU should adopt due diligence processes along their value chains. The proposal aims to create legal certainty and a level playing field for businesses, as well as transparency for consumers and investors, and offers enhanced protection of human and environmental rights, in accordance with international conventions (European Commission, 2022^[53]). It also points to a growing global recognition of RBC standards, which includes the OECD Guidelines for Multinational Enterprises and related guidance on supply chain due diligence in addressing environmental threats, dependencies and adverse impacts. At the EU member state level, France and Germany have led due diligence regulations. Belgium and the Netherlands are also laying out their own plans (WEF, 2022^[54]).

The proposal for regulation on deforestation-free products is one of the most recent and ambitious initiatives to promote sustainable consumption. It focuses on halting deforestation associated with the production of soy, beef, palm oil, wood, cocoa and coffee and the products derived from them. Only legally deforestation-free products will be allowed on the EU market. In addition, mandatory due diligence standards will be required in marketing, and countries will be assessed according to their level of deforestation risk.

Deforestation monitoring will be carried out with geolocation systems. Food supply chains will be subject to stricter surveillance (European Commission, 2021^[55]). EU initiatives on general corporate due diligence and on deforestation offer the potential for LAC countries and companies to lead on the implementation of due diligence processes and RBC to gain competitive advantages in global value chains and to strengthen the export economy.

Fit for 55 is a package of proposals aimed at ensuring a just, competitive and green transition. Investments in a low-carbon economy can stimulate economic growth and employment, accelerate the transition to clean energy, and increase long-term competitiveness. Fit for 55 strengthens existing regulations and presents new initiatives on climate, energy and fuels, transport, buildings, land use and forestry to reach an emissions reduction of 55% by 2030. Important proposals within Fit for 55 include ReFuelEU Aviation and FuelEU Maritime, which promote the use of sustainable fuels in the aviation and maritime sectors as a complement to the EU Emissions Trading System (EU ETS) by incentivising fuel suppliers to blend in increasing levels of sustainable fuels and incentivising the use of low-carbon synthetic fuels (electrofuels) (European Commission, 2021^[56]). These energy transition initiatives will require the development of and large investments in new technologies, as well as the transformation of consumption patterns of governments, businesses and end-consumers. These adjustments will not be immediate, hence the importance of protection systems to help mitigate the possible negative effects. In terms of foreign trade, implementation of the new policies could result in further increases in freight rates, which are already at record highs, especially for container cargo (UNCTAD, 2021^[57]).

Another key proposal is the evolution of the EU ETS towards a Carbon Border Adjustment Mechanism (CBAM), which aims to combat carbon leakage by identifying and tracing the emissions involved in EU imports (Box 6.4).

Box 6.4. Regulations to achieve carbon neutrality: The CBAM in the European Union

The EU ETS was the world's first international emissions trading scheme to fight climate change. It limits the amount of GHG emissions that industrial installations in specific sectors can emit. Emission allowances must be purchased on the EU ETS market, and some free allowances are distributed to prevent carbon leakage.

From 2023 onwards, the CBAM will gradually complement the EU ETS. The CBAM will be based on a system of certificates to cover the emissions involved in products imported by the European Union. Initially, it will only apply to a number of selected products with a high risk of carbon leakage: iron and steel, cement, fertilisers, aluminium, and power generation. To ensure its conformity with World Trade Organization (WTO) rules, the rollout of the CBAM must take place in tandem with the withdrawal of free allowances allocated to European producers of the same products under the EU ETS. A reporting system for covered products will be in use from 2023 onwards. A transition period will be put in place between 2023 and 2025. The free subsidies will be phased out gradually from 2026, and importers will start paying a financial adjustment. Products manufactured in the European Union and those imported from elsewhere will receive the same treatment.

Box 6.4. Regulations to achieve carbon neutrality: The CBAM in the European Union (cont.)

This mechanism targets direct GHG emissions of the production of semi-elaborated and elaborated products, not raw materials. After the transition, the European Commission will evaluate whether the mechanism will be expanded to new products and sectors even further down the value chains. In addition, the CBAM will generate additional revenue, estimated at above EUR 2.1 billion for 2030. However, there is a risk that EU companies will relocate their carbon-intensive production to other countries with lower standards or that more carbon-intensive imports will replace European products.

The leading LAC exporters of iron and steel (in tonnes) to the EU27 in 2019 were Brazil, Mexico and Venezuela. Colombia led exports in cement, Trinidad and Tobago in fertilisers, and Venezuela in aluminium. Countries will be required either to match EU standards or to pay the financial adjustment. Other costs for exporting countries, such as the implementation of emissions traceability systems, could also result from the CBAM scheme.

Source: Authors' elaboration based on (European Commission, 2021^[58]); (European Commission, 2021^[59]); (Bellora and Fontagné, 2022^[60]).

Last, the New Circular Economy Action Plan, one of the main components of the Green Deal, lays the foundation for a cleaner and more competitive EU. It focuses on the most resource-intensive sectors with high circularity potential including food, water, nutrients, packaging, plastics, textiles, construction, buildings, batteries, vehicles, and electronics and information and communications technology. Its scope involves the whole life cycle of products: design, sustainable consumption, waste disposal/management, etc. (European Commission, 2022^[61]). At the EU level, a new comprehensive Strategy for a Sustainable Built Environment will be adopted as part of the EU Circular Economy Action Plan to promote circularity principles throughout the life cycle of buildings. At the international level, the plan proposes the formation of a Global Circular Economy Alliance to discuss the potential of an international agreement on natural resource management.

In addition, the EU will collaborate with third countries to support a global move towards sustainable food systems, implementation of animal welfare, reduction of the use of pesticides and the fight against antimicrobial resistance. Moreover, it will assist small-scale farmers in meeting the standards and accessing markets (European Commission, 2020^[62]). These strategies, together with the areas prioritised in the NDICI-Global Europe, will be crucial for LAC to meet the challenges of the new legislation planned or being implemented (Table 6.3).

Table 6.3. Summary of sectors affected by Green Deal policies, and challenges for LAC

Green Deal regulations	Products/supply chain	Challenges for LAC
Farm to Fork: new stricter organic standards for organic production.	Foodstuffs and feedstuffs	Replacement of agrochemicals with organic inputs and obtaining of organic certifications. These production transformations generate higher production costs.
Carbon tax due to CBAM.	Iron and steel, cement, fertilisers, aluminium and power generation	Technology transfer and investments required to achieve a greener production transition that minimises use of coal.
Proposal for a regulation on deforestation-free products.	Soy, beef, palm oil, wood, cocoa, coffee and their and derived products	Implementation of traceability and due diligence systems in supply chains. Operators should collect the geographic co-ordinates of land where products were produced.
Proposal for a revision of the Sustainable Use of Pesticides Directive.	Foodstuffs and feedstuffs	Adjustment of production supply to new requirements that could raise production costs.
Proposal for a revision of the Feed Additives Regulation to reduce the environmental impact of livestock farming.	Foodstuffs and feedstuffs	Adjustment of production supply to new requirements that could raise production costs.
Evaluation and revision of the existing animal welfare legislation, including on animal transport and slaughter.	Foodstuffs and feedstuffs	Adjustment of production supply: 1) to new requirements that could raise production costs; and 2) to the waste control plans that have been approved.
New mandatory requirements to reduce (over)packaging.	Food (i.e. fresh and processed fruits and vegetables, including juices and wines)	Change from plastic to biodegradable packaging that raises production costs. Adoption of new technologies according to new requirements.
New mandatory requirements for recycled content and special attention for microplastics, as well as biobased and biodegradable plastics.	Foodstuffs	Change from plastic to biodegradable packaging that raises production costs. Adoption of new technologies according to new requirements.
New legislative initiative on re-use to replace single-use packaging, tableware and cutlery with reusable products in food services.	Foodstuffs	Increased packaging requirements that raise production costs. Adoption of new technologies according to new requirements.
A new EU Strategy for textiles to strengthen competitiveness and innovation in the sector and boost the EU market for textile re-use.	Textiles	Adoption of new technologies according to new requirements with higher production costs.
A comprehensive Strategy for a Sustainably Built Environment promoting circularity principles for buildings and construction.	Construction materials	Adoption of new technologies according to new requirements with higher production costs.

Source: Authors' elaboration based on (European Commission, 2020_[62]) and (European Commission, 2020_[63]).

Impacts and opportunities of the Green Deal for LAC food production

Food production remains a significant challenge for LAC competitiveness in the EU market. Current EU consumption trends lean towards more responsible, sustainable (organic) and fair consumption. EU organic farming objectives restrict the use of agrochemicals and require the development of sustainable practices in planting, processing, transport, distribution and consumption. However, it is costly for countries to adapt their agricultural practices to organic production when approved pesticides are modified or their use limited. The substitution of chemical agro-inputs with biological agro-inputs directly affects the cost structure of products, requiring time for adaptation. Moreover, authorised fertilisers and pesticides may not work efficiently to control pests, especially those of the tropics. Additionally, given the distance between the two regions, transport times reduce product shelf life for both organic and conventional products.

The implementation of the Green Deal will demand food chain traceability, and there will be additional controls on the use of antibiotics, hormones, biologically active substances, feed additives and chemical residues, as well as on animal welfare, organic production, cold chain and labelling, among others.

In particular, with the Farm to Fork Strategy and the Biodiversity Strategy for 2030, the European Union aims to reduce the use and risk of chemical pesticides and the use of more hazardous pesticides by 50% by 2030. In addition, the new regulations propose to minimise the use of fertilisers by at least 20% and the sale of antimicrobials for farm animals and aquaculture by 2030, and to achieve 25% of total arable land under organic farming by 2030 (European Commission, 2020^[64]). Countries often struggle to realise the infrastructure and resources needed to comply with all the requirements, even while their exports are accepted in other destinations.

Currently, there is strict control of pesticide residues in plant and animal products intended for human consumption, or Maximum Residue Levels. More than 300 fresh products are approved for certain pesticides and maximum quantities of pesticides (European Commission, 2022^[64]). To export animals and their products to the European Union, export countries must have: the approval of veterinary medicine residues; monitoring plans for 13 classes of bovine, ovine/caprine, porcine, equine, poultry, aquaculture, milk, eggs, rabbit, wild game, farmed game, honey and casings products and by-products; and certification establishments producing such products (European Commission, 2022^[65]). The approval of residue plans requires laboratory tests and analyses. Sanitary admissibility and compliance with EU technical requirements are heterogeneous across LAC countries. Most countries (16) have achieved approval of residue plans in aquaculture, followed by honey (11) and casings (7). Some countries have achieved sanitary admissibility for most products, including Argentina (12 approved plans), Chile (9) and Uruguay (8) (European Commission, 2022^[65]).

Private standards used in the EU tend to be even more restrictive than public standards, e.g. those required by retailers from their suppliers for agri-food products. This can add further pressure on third-country exporters to invest in compliance with increasingly stringent standards, introducing an additional barrier such that only companies with significant financial capacities can make the adaptations in the short term. This takes place irrespective of national capacities and institutional arrangements, such as the existence of accredited laboratories that can verify compliance.

Organic certification costs can also become a barrier to trade if not properly addressed with efficient adaptation processes. Regulation instruments, such as heavy compliance costs (especially for small farmers), copious documentation and the inherent difficulties of tropical lands requiring powerful agrochemicals (which often lack sustainable substitutes) are exacerbated to the extent that producers have split systems to serve different markets.

Mutual recognition of equivalent standards in the case of organic products can be a useful option when LAC and the EU have very similar but not equal legislation. These agreements already exist between the EU and largest organic produce exporters. Chile has been recognised as an equivalent third country in organic products since 2018 (European Council, 2017^[66]). Under the new framework of organic production, EU Regulation 2018/848 of 30 May 2018, the European Commission was authorised to open negotiations with Argentina and Costa Rica, among other countries, with a view to concluding agreements on trade in organic products (European Council, 2021^[67]).

There is also the risk at the end of the value chain that the market will not recognise the additional costs involved in the organic production process, especially in the case of commodities that tend to have standard prices. This can be a risk for smallholders, not only for the adoption of organic practices but also for the adoption of any standard that requires significant investments. This is the case of the proposal of the Directive on corporate sustainability due diligence, which although planned to apply to large

companies, may potentially affect the most vulnerable groups in its implementation if no transition support mechanisms are foreseen.

Likewise, the Farm to Fork Strategy proposes that farmers receive a fair price for their products. The EU has several policy tools for its farmers to achieve this objective, such as payments under the Common Agricultural Policy or competition law to enable groups of farmers to negotiate prices collectively. However, Farm to Fork has not so far included mechanisms to guarantee fair income for non-EU farmers that supply EU consumers, or to compensate the costs of the transition, potentially affecting the weakest actors in the supply chain.

Seizing the opportunities and softening the impacts of the Green Deal for LAC exports

Overall, international green regulations, including the Green Deal, are expected to guide the prioritisation of upcoming government agendas in LAC. However, in this policy-making process, it is crucial that trade partners communicate their concerns about draft legislation to make visible potential impacts and design tailored co-operation projects that help mitigate the effects on sectors that could potentially be affected. Moreover, new legislation should offer ample transition periods and flexibility to allow smooth adjustments, as well as tools to cope with the new requirements. Last, it is important to develop programmes for in-depth and direct technical assistance to emerging regions, including LAC. Developing tailor-made productive transformation programmes to adapt the exportable supply to the new requirements and to provide facilities and increased resources for the implementation of large projects (e.g. infrastructure, science and technology) requires significant investments in the long term.

The European Union's ambition to promote sustainable development as part of its external actions has also been part of the institutional framework of Association Agreements (AAs). Moving forward, and although the EU demonstrates an awareness of the challenges posed by the Green Deal to both European and non-European economies, the actualisation of AAs could contribute to confirming and materialising the EU's commitment to supporting the needed adjustments by LAC countries (Box 6.5).

Additional efforts need to be implemented at the national level. For instance, establishing national sustainability roadmaps is a key step for facing international regulations, such as under the Green Deal. LAC countries should strengthen their institutions and create public-private co-ordination mechanisms among agencies that regulate trade, agricultural, industrial, environmental, energy, planning, and science and technology policies and the most representative private-sector companies with an interest in investing in and working with the European market.

Adapting to Green Deal standards would also improve national standards in LAC countries, thus accelerating the achievement of sustainable economic development goals. LAC has an opportunity to foster a productive transformation towards cleaner technologies and to add higher value to exports. One benefit for LAC of adapting to the Green Deal will be the implementation of sustainability standards that meet EU requirements, allowing the region's exports to preserve and possibly expand their share in the European market.

Box 6.5. Revamping Association Agreements (AAs)

The European Union has integrated sustainable development chapters into the trade agreements signed in the last decade to assist the just transition among its trading partners. The AAs between the European Union, its member states and countries of the LAC region are a case in point. While in practice they often remain limited to their trade-related components and can be perceived as mere free trade agreements, AAs are also intended to promote and enhance (political) policy dialogue and development co-operation among contracting parties. Countries including Chile, Colombia, Mexico and Peru, or even regions, such as Central America, have been among the actors benefitting from such initiatives and frameworks for co-operation. Negotiations for modernising the agreement with Chile and efforts to renew Mexico's AA can be considered significant steps in accelerating LAC objectives in bringing forth the green transition.

Nevertheless, the AAs' most ambitious environmental goals also signal their greatest risks. Increased regulations and higher environmental standards can lead to additional barriers to trade and, therefore, to new waves of protectionism. In order for both LAC and EU to contribute effectively to the international agreements on sustainable development, AAs will need to further emphasise the importance of interconnecting the trade pillars with the other two pillars of dialogue and co-operation.

The AAs may be a relevant instrument for bi-regional dialogue. If their full potential is harnessed and a comprehensive approach is adopted, AAs are capable of creating a shared space for policy dialogue, of advancing regulatory convergence and productive transformation aimed at changing the current economic model, and of reconstructing the region's social contract. More importantly, they offer an opportunity to advance the ecological transition to decarbonisation and sustainability.

Sources: (Gómez Arana, 2021^[68]); (Rodríguez Díaz and Sanahuja, 2021^[69]).

The productive adaptations required to continue and expand LAC exports under new international regulations will not be automatic and will require important investments in the short term. Therefore, new regulations, such as under the Green Deal, will certainly have an effect on upcoming government agendas in LAC and will present opportunities to put in place policies to foster transformative sustainable development. The speed and depth of the reforms will depend on each government's capacity to articulate a systemic green model. International co-operation can help accelerate this transition and reduce its impacts.

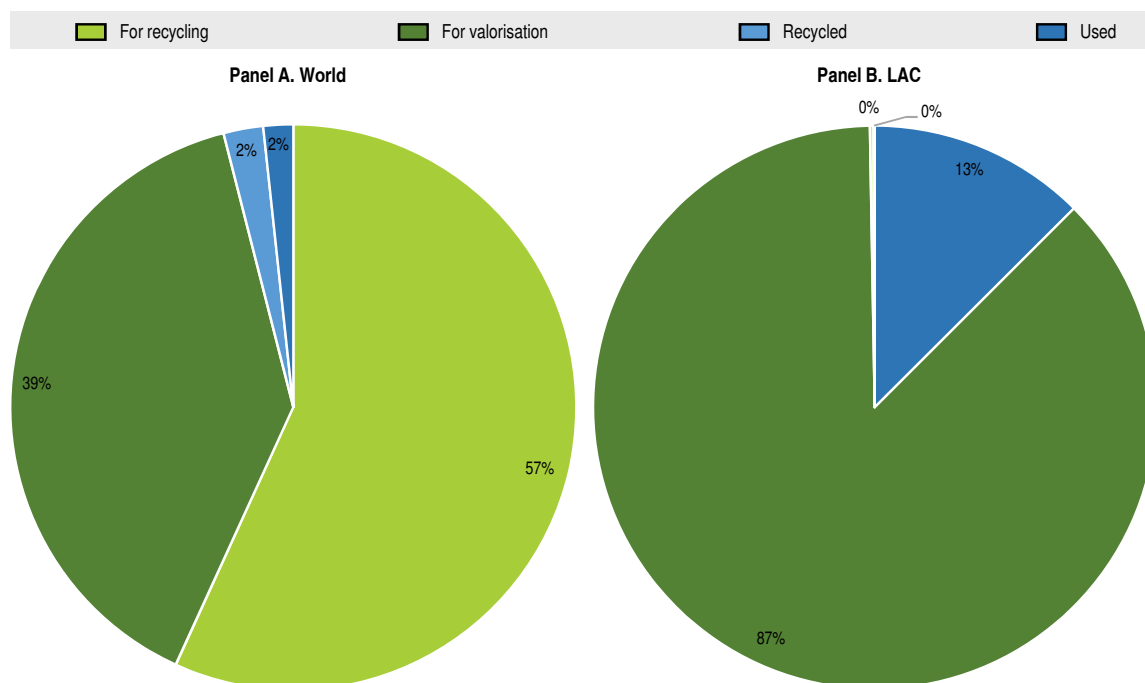
Scaling up the circular economy in LAC: The role of trade and regional co-ordination


International trade can facilitate the transition to a circular economy by providing the technology and scale required to undertake efficiently relevant activities such as recycling, refurbishment, remanufacturing and valorisation of residues and waste as an input for other industries (Chapter 3). Trade may also extend the life cycle of final products and materials and facilitate their reincorporation into production cycles, as well as generate demand for products and business models that support the transition to a resource efficient and circular economy. Moreover, trade in services may promote new business models that facilitate the sharing of under-utilised products through digital platforms and technologies.

The exported volume of economy goods has been increasing over the last decade, both globally and regionally. Globally, the main export category corresponds to products for

recycling, especially waste and scrap metal. By contrast, almost 90% of circular economy exports in LAC correspond to products for valorisation, mostly of residues from soybean oil extraction (Figure 6.7). These are mainly exported to Southeast Asian countries to produce animal and fish feed. At present, the Harmonised Commodity Description and Coding System, used by all countries to compile their trade statistics, does not include separate codes for some circular economy goods. Therefore, trade in circular economy goods is not fully captured by international statistics.

Figure 6.7. Exported volume of circular goods by category, averages, 2017-19



Source: (ECLAC, 2021_[70]), based on (CEPII, 2021_[71]); (International Trade Analysis Database, 2021_[72]).
 StatLink  <https://stat.link/zg1u2f>

The potential contribution of trade to the transition to a circular economy in LAC depends critically on its co-ordination with national and international efforts. The reduction of tariff and non-tariff barriers for trade in goods and services that contribute to circularity at each stage of production and consumption, especially at the end of life phase of the goods, is crucial. Greater granularity in national and international trade classifications will be needed to identify circular economy goods more precisely. Regional integration bodies may also play a key role in harmonising standards and promoting joint solutions, such as the European Union in its Circular Economy Action Plans (from 2015 and 2020). Section 7 of the 2020 Circular Economy Action Plan considers to explore how the European Union can succeed by defining a “Safe Operating Space” in which the use of various natural resources does not exceed certain local, regional or global thresholds and the environmental impact remains within planetary limits. Here, new sustainable models will open up business and employment opportunities with key partners around the world. Last, the promotion of standards and certifications that endorse the circularity of processes could help firms adopt sustainable practices.

Several countries in Latin America are defining standards and formulating strategies for the circular economy, including several aspects related to international trade. These centre around key export sectors, circular firms and products, market access, and the

promotion of FDI or international financing for circular economy projects, especially for SMEs. Other efforts relate to establishing registers of circular suppliers, which facilitates export promotion. Multiple countries are including circularity criteria in their green public procurement strategies. Member countries of the Pacific Alliance are co-ordinating parts of their national circular economy strategies, for example, in relation to the sustainable management of plastics (ECLAC, 2021^[70]).

Several international initiatives are supportive of LAC potential to develop a circular economy. For instance, the International Trade Centre's GreenToCompete initiative focuses on assisting small businesses in developing countries, including in LAC, by providing information about green opportunities and innovations. The programme is divided into three areas: climate resilience, circularity and biodiversity. The circular economy raises global ambitions to reduce pollution, emissions and waste while increasing prosperity. The programme encourages businesses and value chains to implement circular practices to reduce production costs, increase productivity and boost innovation by developing and commercialising new products and services (International Trade Centre, 2022^[73]).

Harmonised use of international co-operation instruments to facilitate design and implementation of a green policy agenda in LAC

In recognising the increasing linkages across domestic and global dynamics, international co-operation and partnerships appear essential for realising the full potential of the needed reforms that will contribute to a greener development model in LAC.

International co-operation can act as a facilitator of LAC's will to transform international commitments into concrete national and regional policy measures that advance a green transition (OECD et al., 2019^[74]). Mission-driven partnerships, along with balanced use of international co-operation tools, can provide capacity building, align standards and ensure the coherence of national and international efforts (as per the Development in Transition narrative), providing the right mix to enhance LAC efforts towards the green transition (OECD et al., 2021^[75]).

Facilitating the design and implementation of a green policy agenda can trigger change of the region's development model. This should at least include increased efforts in policy coherence, aligning national and international priorities; capacity building for creating and adapting to new skills; technology transfer as a method for adding value to the region's production structures; and tapping into LAC's global potential by advancing towards common regulations and standards.

A harmonised use of these international co-operation instruments can ensure that LAC countries adopt an integrated approach to the green transition, placing equal emphasis on each of these priorities and taking advantage of possible synergies in the implementation of the green agenda. The region's existing strengths and weaknesses – particularly in relation to institutional capacities and arrangements that are capable of utilising these instruments – vary from one country to the next. The promotion of a common framework for enhanced co-operation, and a space for policy dialogue and the sharing of experiences based on each country's strong points, advancements and lessons learned, could help in facing the green transition's trade-offs.

Policy coherence can improve alignment of national plans and strategies with international commitments and help manage externalities

Operationalising a sustainable and inclusive recovery is not to be taken for granted. At the national level, the interactions among inclusiveness, the green and digital transitions, productivity, and resilience often imply trade-offs. The design and implementation of

green policies require intense co-ordination in order to exploit available synergies across all political areas and to avoid negative externalities that transcend distinct policy sectors and national boundaries (Chapter 5). Increased efforts in policy coherence as an instrument for international partnerships can foster a green and just transition by accounting for the complexities of policy impacts at various levels of government and the interactions among regional, national and international actors.

The 2030 Agenda signalled the moment for going beyond the traditional principle of Policy Coherence for Development to promote a broader, more ambitious vision, reformulated as Policy Coherence for Sustainable Development, as stated in SDG 17.14. This approach aims to integrate the dimensions of sustainable development through both domestic and international policy making and to advance integrated implementation of the 2030 Agenda by: 1) fostering synergies and maximising benefits across economic, social and environmental policy areas; 2) balancing domestic policy objectives with internationally recognised Sustainable Development Goals (SDGs); and 3) addressing the transboundary and long-term impacts of policies, including those likely to affect developing countries (OECD, 2019^[76]). An example is the OECD International Programme for Action on Climate (IPAC), which supports countries' progress towards net zero GHG emissions and more resilient economies by 2050. Through regular monitoring, policy evaluation, and feedback on results and good practices, IPAC helps countries strengthen and co-ordinate their climate action. It complements and supports the UNFCCC and the Paris Agreement monitoring frameworks. Moreover, the Framework to Decarbonise the Economy aims to design and implement country-specific decarbonisation strategies with a mix of cost-effective, comprehensive, inclusive and acceptable policies. Both IPAC and the Framework for Decarbonising the Economy are part of the OECD-led Horizontal Project on Climate and Economic Resilience, which is intended as a holistic tool to support policy makers (OECD, 2022^[77]).

Even though the importance of enhancing policy coherence for the green transition domestically cannot be overstated, its impact can remain rather limited if not aligned with similar efforts in other countries. Bringing forth the green transition on a global scale requires an immense amount of co-ordination among national leaders and measurable efforts for policy integration. The SDGs, while offering a unique opportunity for the establishment of a common framework and guidance for sustainable development, still require concrete domestic policies and initiatives that are aligned with recognised global sustainable development objectives and goals.

Mainstreaming the SDGs at national and local levels is subject to the specificities of country contexts and the particularities of development needs across borders. Efforts vary, from SDG budgetary and legal initiatives to SDG localisation efforts and establishing the goals as national priorities. Notable regional initiatives include the efforts of Colombia, Cuba, Guatemala, Mexico and Paraguay to localise the SDGs, with some countries already conducting Voluntary Local Reviews and Voluntary Subnational Reviews. Mexico has also been carrying out studies on quantifying the benefits of climate action through the implementation of both the 2030 Agenda and the Paris Agreement, with the purpose of reducing implementation costs, avoiding work duplication, and identifying possible opportunities and synergies (Secretaría de Economía, 2021^[78]). The VNRs submitted to the HLPF, while not comprehensive, offer a notion of some of the methods used in the region to mainstream SDGs domestically.

LAC countries are already directly referencing the various forms of international and regional co-operation and frameworks that allow for greater policy coherence (Table 6.4), but the challenge of implementing these nationally remains. Thus far, the Paris Agreement is the framework most widely used to benchmark progress in the development of climate change mitigation policies and energy transition plans.

Table 6.4. **Methods for mainstreaming SDGs in LAC**

As reported by VNRs of 2019-21

	Considering and identifying SDG interlinkages	SDG-specific plans, strategies and policies	Integrating SDGs into NDPs and strategic frameworks	SDG localisation	Coherence with international and regional co-operation and frameworks
2019					
Chile		✓			✓
Guatemala					✓
Guyana	✓		✓		✓
Saint Lucia	✓		✓		✓
2020					
Argentina	✓	✓		✓	✓
Barbados					
Costa Rica		✓	✓	✓	✓
Ecuador	✓		✓	✓	✓
Honduras	✓			✓	
Panama		✓			
Peru		✓	✓		✓
Saint Vincent and the Grenadines					
Trinidad and Tobago	✓	✓	✓		✓
2021					
Antigua and Barbuda	✓		✓		
Bahamas					
Bolivia	✓		✓		
Colombia	✓			✓	✓
Cuba	✓		✓	✓	✓
Dominican Republic	✓		✓		✓
Guatemala	✓			✓	✓
Nicaragua			✓		✓
Mexico	✓		✓	✓	✓
Paraguay	✓			✓	✓
Uruguay	✓		✓		✓

Source: Authors' elaboration based on (GIZ, 2021_[179]); (GIZ, 2020_[80]); (GIZ, 2019_[81]).

When time is of the essence, as is the case with climate change and biodiversity loss, measurements of progress and results are crucial. The United Nations Environment Programme index on SDG 17.14.1 can be considered the most relevant indicator for measuring national policy coherence for sustainable development (UNEP, 2022_[82]). However, the index has remained on the sidelines, its use limited to a few examples of one-off research. LAC countries need to take greater advantage of such tools in order to identify relative progress and regress, and to collect measurable policy lessons.

The role of regional institutions and organisations is key in balancing national policy objectives with international sustainable development goals. Regional actors can promote internationally recognised environmental goals by accounting for the political, social and environmental particularities of their regions, thus acting as a direct link in aligning international sustainability goals with national policies. The articulation of strategies for sustainable development and the analysis of key policy interlinkages in topics related to trade, technology transfer and financing for development can prove major contributors in advancing both the SDGs and the Paris Agreement's mandates. Existing regional structures can promote the integration of the SDGs and disaster risk reduction measures into national and territorial planning and strengthen countries' statistical capacity to support more effective evidence-based policy making and SDGs measurements (UN DESA,

2020^[20]). The Regional Knowledge Management Platform for the Sustainable Development Goals, or SDG Gateway, is a promising demonstration of the region's efforts in monitoring the progress and needs of countries in implementing the 2030 Agenda (UN, 2020^[83]). The OECD had a steering role in promoting hands-on initiatives for aligning the Sustainable Development Goals with national policies, in line with the Recommendation of the Council on Policy Coherence for Sustainable Development (OECD, 2019^[76]). For instance, in 2020 it accompanied the national government in Colombia, through a peer-to-peer exercise involving Spain and Sweden as peers, in establishing a platform for multi-stakeholder dialogue on the SDGs implementation. This exercise build on the SDG investor Map for Colombia, an UNDP tool to align the private sector to SDG financing in Colombia.

In an increasingly interdependent world, countries' actions and policies can have positive or negative effects on other countries' ability to achieve the SDGs. If ignored, these international spillovers may result in one country achieving SDGs at the cost of another or in missed positive synergies. Interdependence becomes even more crucial when considering that 97 SDG targets (57% of all 169 targets) entail transboundary elements (OECD, 2019^[84]). Externalities, both positive and negative, need to be understood, measured and meticulously managed in order to avoid situations where one country's achievements are counteracted or neutralised by the transboundary policies implemented in third countries.

Concerning positive externalities, LAC countries seem to have a significant head start at the global level. By taking into consideration the environmental and social impacts embodied in trade, combined with the economic, financial and security dimensions of spillovers, the region scored 95.1/100 in the International Spillover Index, meaning that it has a minimal effect on the ability of other countries to achieve the SDGs, in comparison with the 70.1 OECD average (Sachs et al., 2021^[85]). Similarly, the Global Commons Stewardship Index measures how countries are affecting key components of the environmental system, such as climate change, biodiversity and land-use change, both within their borders and through impacts involved in trade and consumption. The index can prove a useful tool for measuring regions' environmental progress. LAC's population-weighted average spillover impact reaches 69/100, while the OECD is only at 32/100. No region scored as low as LAC in proportional terms, once again demonstrating the minimal negative externalities attributed to the region (SDSN/Yale Center for Environmental Law & Policy/Center for Global Commons at the University of Tokyo, 2021^[86]).

While the significance of LAC's comparatively positive policy spillover cannot be overstated, their contribution is undermined by large negative spillovers generated by high-income and OECD countries. Data on the direct effects of these countries' policies on developing countries – and LAC countries specifically – are still lacking. But unsustainable supply chains, for instance, driven by trade in timber, palm oil, rubber, coffee, soy and other commodities, have led to disastrous deforestation and biodiversity loss (Sachs et al., 2021^[85]).

Even though OECD members have made progress in implementing and raising awareness of the 2030 Agenda domestically, it has often come at the expense of adapting national policies to support developing countries in making progress towards the SDGs or, in other words, developing partner-friendly policies. Comprehensive strategies that balance a broad range of objectives and challenges at home frequently forget or neglect the effects of their policies on developing countries. To increase the positive and the avoid negative impacts of sustainable policies, OECD countries need to work with developing countries to enhance evidence-based dialogue founded on quality reporting and assessments of policies. They also need strengthen efforts to co-ordinate development co-operation with all development partners by aligning with partner country indicators, synchronising planning cycles with partner countries' cycles and using sector co-ordination structures with the aim of ensuring cross-sector coherence (OECD/EC-JRC, 2021^[87]).

LAC would benefit from enhanced efforts in capacity building and technology transfer

Capacity building and technology transfer for developing renewable energies

Building national and local capacities would allow the formulation, monitoring, implementation and evaluation of environmental policies supporting LAC's green transition. Nevertheless, developing the necessary capacities goes beyond enhancing capabilities at the policy level; it requires multifaceted strategies that address all stakeholders and sectors. It is critical that the region encourages the development of strategic projects at the business and academic levels in order to mitigate and adapt to the effects of climate change. Technology transfer related to smart mobility, renewable energies and a circular economy are also key in international efforts to switch to green and sustainable development models.

International and regional partnerships seeking to develop capacity building and technology transfer exist in LAC concerning two interrelated streams: new renewable energies, such as wind and hydrogen; and production of minerals, such as lithium, conducive to the production of renewable energy. Already, a "Latin American Green Deal" is being proposed, given the need for a major rethinking of trade and investment strategies in the region (Lebdioui, 2022_[88]). The region can further learn from the European Union (as mentioned in the previous section) and build its own deal considering the region's needs on trade, investments and economies of scale. International co-operation programmes could play a role, mainly those that include a component of technical assistance, as they can strengthen LAC resilience in the long term. There is a lot of room to expand them, including by further involving the private sector. Regional coordination appears as well as the key to unlock the potential of renewable energies in LAC.

While LAC's great natural reserve is highly vulnerable to the effects of climate change, it also has significant alternative energy potential due to its hydrographic, wind and mineral wealth. Thanks to state-led investment in hydropower and major escalation of onshore wind and photovoltaic solar power development, renewables make up 33% of LAC's total energy supply, well above the global average of 13% (Chapter 2) (Sistema de Informacion energetica de Latinoamerica y el Caribe (SieLAC), 2020_[89]).

Latin America accounts for 60% of all identified global lithium reserves, most located in Argentina, Bolivia and Chile, the so-called "Lithium Triangle" (Chapter 3). Other countries, such as Brazil, Mexico and Peru, also appear to hold important lithium resources. However, it requires significant investment, as most of the profit of the lithium industry comes from a long value chain, with extracting and exporting countries unlikely to realise any significant gains. A sustainable governance perspective is needed to ensure that investment is available and that gains are distributed in ways that improve the well-being of societies, especially local communities. Any opportunity that lithium offers needs to be reinvested in a more ambitious and long-term technological transformation that allows societies to overcome productivity traps (López-Calva, 2022_[90]).

A new lithium partnership between Argentina, Bolivia, Chile and Mexico is already being explored, to co-operate on exploration, exploitation and the development of new technologies (Domínguez, 2022_[91]). In fact, joint initiatives from producer countries have great potential as demand for lithium continues to spike. In order to support the global energy transition and achieve local economic development objectives, there needs to be a rapid increase in production. For that to be possible, a multi-stakeholder approach must be adopted to ensure that LAC countries do not repeat past errors in extractive industries, meaning that there is a need for consultations with local communities and transparency with regards to environmental impacts. Producer countries have an opportunity to join

efforts, share experiences and build partnerships for developing technologies that allow sustainable exploitation of this resource.

Similarly, embracing the potential of green hydrogen production within LAC countries can ease the pressures of energy shortages, increase prosperity, and reduce the risk of climate-related loss and damage. Several initiatives are underway. Chile and Germany have already published roadmaps for the development of their domestic markets and are looking to co-operate with other countries to optimise the demand and supply of low-carbon hydrogen, thus jointly contributing to the decarbonisation of global economies. Chile's strategy in particular focuses on promoting co-operation among industry, academia and technical centres, encouraging the construction of R&D roadmaps by public and private sectors for solving local implementation challenges, and creating work groups with public companies to accelerate adoption of green hydrogen in their activities and supply chains (Government of Chile, 2020^[92]). Colombia has undertaken similar actions recently, publishing its own roadmap for the production of both green and blue hydrogen, specifically focusing on regulating the production process, researching and developing production technologies at a local level, and establishing competitive prices (IDB, 2021^[93]).

Latin America can benefit significantly from early participation in global initiatives and fora on hydrogen production and use and from seeking opportunities for international collaboration. In particular, establishing permanent regional structures for co-operation would allow a co-ordinated regional approach while maintaining national autonomy (IEA, 2021^[94]). For instance, the International Hydrogen Energy Centre, launched in 2021, aims to develop hydrogen energy globally and attract experimental R&D funding, with a significant emphasis on capacity building through appropriately designed training programmes, training in innovative policy formulation and the modernisation of local industry to meet specific development needs (UNIDO, 2021^[95]).

With LAC's relatively low-density population and large distances between cities and towns, wind power also offers substantial potential for supplying the energy needs of inhabitants across the region. While Argentina, Brazil and Mexico currently dominate the sector, more LAC countries are joining the wind market as a result of the expert knowledge provided by the Latin American Task Force of the Global Wind Energy Council. The wind park developed in Guajira, Colombia in 2022, with the co-operation of ISAGEN – a private energy company – and the Spanish company Grupo Ecnor, is the largest and first of many upcoming wind projects planned for the country (Anderson, 2022^[96]).

Partnerships on capacity building and technology transfer for overcoming environmental challenges

The European Union can be a strategic ally to transfer technology and develop innovation towards a green transition. In particular, LAC countries can take advantage of the European Union's strategic leadership on the green transition by building on its expertise, experience and technologies related to environmental goals. Whether this concerns policies and practices regarding public actors or developing the capacities of private companies and stakeholders, the shared values of LAC and EU countries in facing environmental challenges can function as a unifying force for transferring knowledge and know-how from one region to the other.

Initiatives carried out in this regard vary in scope and expected results. The EUROCLIMA+ programme supports intra-regional dialogue and co-operation on climate issues within Latin America and the promotion of bi-regional dialogue between Latin America and the European Union in international fora (EUROCLIMA+, 2022^[97]). The AL-INVEST Verde programme has expanded its scope from past initiatives focused on growth and jobs. It aims to promote sustainable growth and job creation by supporting

the transition to a low-carbon, resource-efficient and more circular economy in LAC through a focus on innovation and digitalisation. The LIFE programme supports the Green Deal by promoting the implementation of energy efficiency and small-scale renewable energies, with the European Commission approving an investment package in 2021 of more than EUR 290 million for 132 new LIFE projects (European Commission, 2021^[98]). Among the Commission's latest announcements on green co-operation with LAC are the European Fund for Sustainable Development Plus (EFSD+), which aims to leverage more than EUR 12 billion of public and private investment for the region, and a new edition of EUROCLIMA+, with EUR 140 million in support to LAC (European Commission, 2022^[99]).

The Responsible Business Conduct in Latin America and the Caribbean (RBCLAC) project, implemented since 2019 by the OECD together with the International Labour Organization (ILO), the Office of the United Nations High Commissioner for Human Rights and the European Union, supports governments, businesses and stakeholders in their efforts to promote RBC in line with international standards (OECD, 2022^[100]). Among other efforts, the RBCLAC project carries out regional and national activities to strengthen the capacity of businesses and governments in order to mainstream environmentally and socially responsible business and corporate due diligence in key sectors. The *Eco-Eficiencia Empresarial* programme demonstrates the initiative attributed to the Central American region along similar lines. The programme originated within the Business Alliance for Development of Costa Rica but has now expanded to El Salvador, Guatemala, Honduras, Nicaragua and Panama. It identified a significant lack of knowledge among member companies on managing their environmental impact. The programme offers a collaborative platform aimed at orienting and strengthening the capacities of businesses, facilitating the exchange of good practices and training and the formation of alliances on priority issues related to sustainable development (ILO, 2021^[101]).

In addition, there is growing recognition of the potential of SSTC to facilitate technology development and transfer for climate action in developing countries. SSTC on climate technologies are taking place in and among all geographical regions and cover all priority areas outlined in developing countries' NDCs and NAPs. While commonly initiated at the national level, the implementation of SSTC projects usually involves various stakeholders, including local government, civil society organisations (CSOs), research and training institutions, and the private sector (Chapter 3) (UNFCCC, 2021^[102]).

International co-operation can prove effective in accelerating the green transition through the use of new digital tools and technologies to develop new skills and productive methods (Chapter 3). Bilateral co-operation between the European Union and Brazil created a partnership for Scientific and Technological Cooperation which allowed calls for joint research and innovation in the domains of water management and agriculture, among others. Triangular co-operation has also helped in promoting the adoption of new technologies to cope with new standards of production and regulations. Peru benefited from a co-operation initiative with Germany and Brazil and created the Environmental Technology Centre (CTA) to cope with the urgent need for environmental technology experts generated by new environmental regulations and production criteria (OECD, 2020^[40]).

Overall, adopting an approach that focuses on building capacities and enhancing technology transfer at all levels of government and in the private sector can ensure that the benefits of sustainable energy sources are exploited and that they foster the well-being of local societies. The region boasts high-quality universities and research centres, specialised CSOs, and peasant and indigenous communities with strong territorial roots. These capacities, if properly developed and strengthened through international partnerships, can prove a key contribution to a green and just transition (ILO, 2021^[101]).

Common approaches represent opportunity to develop a regional carbon market

Protecting the environment and delivering on climate action is also a matter of policy co-ordination at regional and global levels. Common regulations can derive from, for instance, agreements for protecting the oceans or ecological zones, common import standards, international carbon prices and classification systems of economic activities, or green taxonomies.

Market mechanisms are commonly used as national drivers for fostering a greener development model. In fact, economic levers are among those most used to reach net-zero emissions. Carbon pricing is a prominent example of an effective way countries can reduce emissions. Explicit carbon pricing can be implemented domestically through carbon taxes and emissions trading systems. While such explicit forms of carbon pricing are relatively rare in developing countries, almost every country has experience with fuel excise taxes. Fuel excise taxes are economically and administratively similar to carbon taxes, and could be reformed to better align with the climate costs of fossil fuel use (OECD, 2021_[107]).

International carbon markets allow countries that struggle to meet the emissions reduction targets stated in their NDCs – or are in search of less expensive emissions cuts – to purchase emissions reductions from nations that have already cut their emissions by more than the amount pledged. In ideal conditions, carbon markets are capable of generating win-win situations whereby both countries meet their climate commitments and additional finance is provided to the country generating emissions reductions. Poor design and construction of regulations can leave countries “off the hook” in making meaningful contributions by hindering ambition for increased emissions cuts, not ensuring additional emissions reductions and double counting emissions reductions (UNFCCC, 2015_[103]).

Estimates show that setting fossil fuel prices that reflect their true cost would cut global CO₂ emissions by over one-third. In fact, efficient fuel pricing by 2025 would reduce global CO₂ emissions to 36% below baseline levels. Efficient fuel pricing can raise substantial revenues as well: in the case of LAC, revenues could reach around 2% of GDP (Parry, Black and Vernon, 2021_[104]). Over half of the Group of Twenty (G20) nations have in place a form of carbon pricing at the national level, be it a carbon tax or an ETS. Some LAC countries have also advanced the agenda, as many are considering or have implemented a type of carbon tax or ETS (Chapter 4) (Table 6.5). They can also draw on experience with fuel excise taxes and fossil fuel subsidy reform (OECD, 2021_[107]).

Table 6.5. Carbon pricing
Carbon taxes and ETSs in LAC

	Carbon tax	ETS
Argentina	Implemented	..
Brazil	Under consideration	Under consideration
Chile	Implemented	Under consideration
Colombia	Implemented	Under consideration
Mexico	Implemented	Implemented
Uruguay	Under consideration	..

Note: Latest data available: April 2021.

Source: (World Bank, 2021_[105]).

Article 6 of the Paris Agreement sets the stage for a common regulation on carbon market mechanisms. However, it can be considered one of the most complex and controversial aspects of the global accord. Exactly six years after the Paris Agreement, COP26 brought forth an agreement on a Global Carbon Market Mechanism, largely completing the Paris Agreement Article 6 Rulebook. Key decisions were made concerning

the approval process and issuance of credits, the eligibility of projects and activities to be included, how to deal with legacy projects and credits under the Kyoto Protocol's Clean Development mechanism, and the making of corresponding adjustments to host states' emissions accounts (Clifford Chance, 2021^[106]). While progress has been made, critics argue that the language used falls short of fully realising the regulations needed to bring market forces to bear as strongly as possible on emissions reduction.

For this reason, carbon markets under proper regulation offer an outstanding opportunity for LAC countries' development financing. Under this new structure, and given its unique ability to offer green projects and nature-based solutions at cheaper marginal costs than elsewhere, LAC countries can position themselves as the world's largest providers of carbon credits (Arbache, 2021^[107]). At the same time, policy makers will need to ensure that gains from the development of the carbon credit market do not come at the cost of increased land grabs and other forms of detrimental consequences. An emphasis on proper regulation and transparency is key to minimise possible risks, specifically those related to a just transition.

The region has great potential to offer carbon credits derived from nature-based solutions, such as the forest removal and emissions avoided by preventing deforestation. Some initiatives are already taking shape in the region, such as the Latin America and the Caribbean Carbon Market Initiative (ILACC), which adopts a comprehensive approach (Box 6.6).

Another economic benefit of accelerating the carbon market in the region is the encouragement of companies to comply with environmental regulations and compete in the international context of growing threats to access concessional and non-concessional resources. This acceleration is particularly important for the competitiveness of agro-exports as evidenced by the Farm to Fork programme.

Box 6.6. LAC's quest for a regional carbon market: The ILACC

A promising way to position LAC in the global carbon market is through regional integration of national initiatives (with the potential of creating a regional market) that allows not only economies of scale and cost reduction but also an important pipeline of projects.

The creation of a regional market could position the LAC region as a leader in the new international scenario. The objective of the ILACC is to promote global competitiveness of the supply of carbon credits generated in the region, expanding the impacts on job creation, income, development of value chains, technologies, clusters, green business products and the fight against poverty.

Three critical factors – infrastructure, technical training and a product pipeline – require immediate attention to promote the development of the regional carbon market. The first is infrastructure. This means having an entire services platform that enables, in practice, the correct and adequate functioning of the regional market, including a basic legal framework, monitoring and control, and data collection and compilation systems, as well as the full set of services necessary for the carbon market value chain to function: taxonomy, standards, certifications and legal services, among many others. The second is technical training. The market, still in formation, will require many qualified professionals for the conception, development, execution and management of green projects. Generally speaking, these skills are not available in the quantity and degree of specialisation needed. Without these skilled workers, it will be difficult for a market to gain the trust of players or develop a pipeline of projects with the speed and quality required. The third is a pipeline of diversified and quality projects. For the regional market to establish itself as an international hub, it will be necessary to attract demand through a timely and diversified supply of credits from conservation, agroforestry, ecological restoration, energy and many other projects.

Source: (CAF, 2022^[108]).

Another key element regarding common regulations from which the LAC region stands to benefit is classification systems of the sustainability of economic activities, or green taxonomies. Such regulations can offer investors clearer standards, reinforce transparency and commitments to green, social and sustainability-linked activity, and mitigate the risk of greenwashing. Although there is currently no specific transition taxonomy in LAC, a few countries (including Brazil, Colombia, Chile, the Dominican Republic and Mexico) are in the process of developing sustainable or green finance taxonomies. Other LAC countries are considering similar actions or carrying out relevant research through their co-operation with the International Finance Corporation, the IDB and the GIZ. If properly implemented, such initiatives can play a promising role in protecting the environment and delivering on climate action (Chapter 4).

Tools from policy coherence to capacity building, technology transfer and common standards can play crucial roles in adopting a multidimensional and integrated approach to advancing the green agenda. Nevertheless, their utility and potential are nullified if they are not implemented within the context of international partnerships. In view of the global nature of the climate crisis, international co-operation remains a crucial – if not the only – means of fostering a green and just transition.

Overall, international co-operation is needed for the transition to a greener and sustainable economy, but the transition's impact on the labour force and the most vulnerable populations should not be left on the sidelines. LAC population is highly vulnerable to the effects of climate change due to its high dependence on agribusiness and natural resource exploitation. For a green transition to be just, well designed and multi-stakeholder, international partnerships should be considered not only key to mitigating the effects of climate change but also a strategy for transforming LAC development and production models, strengthening the social structure, and smoothing labour market adaptation as a consequence of international regulations. Bringing forth a green economy is itself a challenge; a multi-stakeholder approach that takes into consideration citizens' needs and priorities can ultimately function as a multiplier force for gaining popular support and contributing to the final push for a green and just transition.

Key policy messages

International partnerships are crucial to facilitate LAC countries' efforts towards a green transition. They can contribute to: 1) overcoming current implementation shortcomings of multilateral agreements and instruments; 2) aligning national and regional priorities with multilateral sustainability goals; and 3) promoting technology transfer and capacity building, including through policy dialogues and sharing experiences in peer learning. International partnerships can also play a role in helping LAC countries address trade challenges when facing new international green norms and regulations (Box 6.7).

Box 6.7. Key policy messages

With regards to regional and international partnerships:

- Regional integration and co-operation can enhance the effectiveness of sustainable policies by addressing LAC's existing fragmentation and lack of a unified voice at the multilateral level, and by supporting the alignment of national green strategies with global environmental goals.
- Ratify and implement the Escazú Agreement. It represents a unique opportunity to enhance the protection of environmental human rights defenders.

Box 6.7. Key policy messages (cont.)

- International partnerships should promote further dialogues across regions on green transition policy experiences. LAC countries can play a predominant role in this global agenda by sharing experiences of sustainable development with other regions of similar and lower development levels.
- International partnerships can contribute to softening spillover effects caused by green transition efforts within and outside the LAC region – mainly in trade channels, labour markets, and consumption and production patterns.
- International partnerships can support new policies needed to address the substantial expenditure on exports. Promoting regional production capabilities in the renewables sector, with financial resources and technical know-how, will be crucial not only to avoid excessive costs but also from a political economy perspective, to strengthen local coalitions in favour of the green transition.
- International partnerships can also support LAC countries to address the effects on LAC exports of newly established international environmental standards and regulations.
- Ensure the coherence of domestic green policy objectives with internationally recognised sustainable development goals. Approaches should take into account the transboundary impacts of policies, the articulation of strategies at the local, regional, national and global levels.
- International partnerships need to put more emphasis on capacity building and technology transfer to develop renewable energy sources in LAC.
- Regional partnerships within LAC are the key to unlock the region's potential on renewable energies.
- Accelerate a regional carbon market under proper regulation.

With regards to trading partners:

- Trade partners need to communicate their concerns about draft legislation to make visible any potential impacts and to design tailored co-operation projects that help mitigate the effects on sectors potentially affected.
 - New legislation should offer transition periods to allow smooth adjustments.
 - Increase investments in developing tailor-made productive transformation programmes to adapt exportable supply to the new requirements and to provide facilities and increased resources for the implementation of large projects (e.g. infrastructure, science and technology).
 - Accompany measures, such as funding, technical co-operation and capacity building, to help trading partners adopt more sustainable practices, especially in the most vulnerable countries.
- The actualisation of AAs between the European Union and LAC countries, taking into better account the impacts of the green transition, along with further integration across the political, trade and co-operation pillars for the purpose of supporting LAC's green transition, remains crucial.
- Harness international trade in both goods and services to facilitate the transition to a circular economy.

With regards to LAC governments:

- Adapt to green regulations including Green Deal standards. This would improve national standards in LAC, thus fostering opportunities for materialising a productive transformation towards cleaner technologies and adding value to exports.

Box 6.7. Key policy messages (cont.)

- Establish national roadmaps for environmental sustainability and climate change adaptation to new norms and regulations, in particular those affecting LAC.
- Support efforts to strengthen institutions that favour public-private co-ordination mechanisms, with a view to promote investments in LAC related to the green transition.
- Promote sustainable product industries, such as biodegradable plastics, smart materials and bio-inputs, in order to support the transition of traditional sectors to the new green sectors.

Notes

1. The first type of environmental goods and services in the EGSS is environmental specific services.

These services comprise environmental protection and resource management products that are “characteristic” or typical of those activities. Hence, environmental specific services are environmental protection and resource management specific services produced by economic units for sale or own use. Examples of environmental specific services are waste and wastewater management and treatment services, and energy and water-saving activities.

Consistent with the definition of environmental protection and resource management activities, environmental specific services are those services that have the main purpose of:

- (a) Preventing or minimising pollution, degradation or natural resource depletion (including the production of energy from renewable sources);
- (b) Treating and managing pollution, degradation and natural resource depletion;
- (c) Repairing damage to air, soil, water, biodiversity and landscapes;
- (d) Carrying out other activities such as measurement and monitoring, control, research and development, education, training, information and communication related to environmental protection or resource management.

The second type of environmental goods and services is environmental sole-purpose products. Environmental sole-purpose products are goods (durable or non-durable) or services whose use directly serves an environmental protection or resource management purpose and that have no use except for environmental protection or resource management. Examples of these products include catalytic converters, septic tanks (including maintenance services), and the installation of renewable energy production technologies (e.g. solar panels).

The third type of environmental goods and services is adapted goods. Adapted goods are goods that have been specifically modified to be more “environmentally friendly” or “cleaner” and whose use is therefore beneficial for environmental protection or resource management. For the purposes of the EGSS, adapted goods are either:

- (a) “Cleaner” goods, which help to prevent pollution or environmental degradation because they are less polluting at the time of their consumption and/or scrapping, compared with equivalent “normal” goods. Equivalent normal goods are goods that provide similar utility except for the impact on the environment. Examples include mercury-free batteries and cars or buses with lower air emissions;
- (b) “Resource-efficient” goods, which help to prevent natural resource depletion because they contain fewer natural resources in the production stage (e.g. recycled paper and renewable energy, heat from heat pumps and solar panels); and/or in the use stage (e.g. resource efficient appliances and water-saving devices such as tap filters).

The fourth type of goods and services is environmental technologies. Environmental technologies are technical processes, installations and equipment (goods), and methods or knowledge (services), whose technical nature or purpose is environmental protection or resource management. Environmental technologies can be classified as either:

- (a) End-of-pipe (pollution treatment) technologies, which are mainly technical installations and equipment produced for measurement, control, treatment and restoration/correction of pollution, environmental degradation, and/or resource depletion. Examples include sewage treatment plants, equipment for measuring air pollution, and facilities for the containment of high-level radioactive waste;

- (b) Integrated (pollution prevention) technologies, which are technical processes, methods or knowledge used in production processes that are less polluting and less resource-intensive than the equivalent “normal” technology used by other producers. Their use is less environmentally harmful than that of relevant alternatives.
2. The six types of NDC measures affecting expenditure on manufactured imports considered in this chapter are:
- 1) Banning the importation of old or energy-inefficient goods (such as used cars). Because such bans favour new, higher-tech versions that tend to be more expensive, this type of measure is generally assumed to increase the average cost of the product group and contribute positively to short-term import expenditure. Four of 17 Latin American NDCs and 8 of 16 Caribbean NDCs include commitments to such bans (almost all refer to banning the importation of older or less efficient vehicles). In the case of five Caribbean countries, this measure is proposed to reduce dependence on imported fuel.
 - 2) Imposing new domestic standards. This measure refers to the introduction of standards and labelling requirements for goods sold or used domestically, such as home appliances. Again, favouring newer, higher-tech goods over older, less-efficient substitutes is assumed to increase the average cost of goods in the product group and contribute positively to short-term import expenditure. Five of 17 Latin American NDCs and 8 of 16 Caribbean NDCs include commitments to new domestic standards. These are mostly efficiency standards for vehicles and durable goods or regulations on specific refrigerants found in appliances such as refrigerators and air conditioners.
 - 3) Renewable energy development. 15 out of 17 Latin American NDCs and 13 of 16 Caribbean NDCs include commitments on renewable energy development. As most of the world’s major renewable energy developers are based in advanced economies, LAC countries have historically relied on FDI to execute renewable energy projects. As of 2020, four of the five biggest renewable energy developers active in the region were European (Smith, 2020_[106]). The components for solar, wind and geothermal energy projects are mostly imported from abroad via local subsidiaries or project developers, thus contributing to the region’s overall import bill. Until local manufacturing capabilities are substantially scaled up, renewable energy development will continue to require substantial imports in the coming years.
 - 4) Reducing trade barriers for energy-efficient imports. This measure refers to the reduction or removal of tariff and non-tariff trade barriers, allowing specific environmental goods to enter the domestic market at lower prices. This measure is assumed to reduce overall import expenditure, particularly if demand for the goods is relatively inelastic. Only 1 of 17 Latin American NDCs and 6 of 16 Caribbean NDCs include commitments to reduce trade barriers for energy-efficient imports. For example, Guyana’s NDC notes that “legislation has been enacted to remove import duty and tax barriers for the imports of renewable energy equipment, compact fluorescent lamps, and LED lamps to incentivize and motivate energy-efficient behaviour.” The Bahamas, Saint Lucia and Saint Vincent and the Grenadines committed to reducing import duties on low-emitting vehicles.
 - 5) Reducing dependence on imported fuel. Lower dependence on imported fuel is a strong economic co-benefit of climate change mitigation in the region’s energy sectors, with potential to slash significantly overall import expenditure. While 5 of the 16 Caribbean NDCs commit to policies explicitly intended to reduce expenditure on imported fuel, to date, none of the 17 Latin American NDCs do. This is particularly significant for island states, where fuel costs are generally higher.
 - 6) Technology transfer. The UNFCCC encourages the transfer of technology and intellectual property from developed to developing countries, so references in NDCs are often *pro forma* and short on details. In principle, technology transfer might allow LAC manufacturers to produce more environmental goods domestically, thus reducing expenditure on clean technology from abroad. Thirteen of 17 Latin American NDCs and 10 of 16 Caribbean NDCs express interest in receiving technology transfer. Most countries cite their developing status and historical lack of responsibility for climate change and request financial and technological assistance from the international community to meet their emissions goals.
3. The World Customs Organization’s Harmonized System (HS) uses code numbers to define products. A code with a low number of digits defines broad categories of products; additional digits indicate sub-divisions into more detailed definitions. Six-digit codes are the most detailed definitions that are used as standard.

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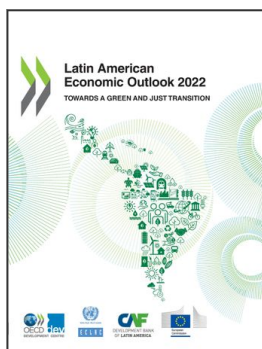
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