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Elcano Policy Paper

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Executive summary

This Policy Paper analyses the key features of the European Green Deal (EGD), its external impacts and future avenues to enhance EU-LAC cooperation in the net zero transition. The EGD seeks to deliver climate neutrality by 2050. It is a development and competitiveness strategy that strives to decouple growth from resource use, ensure a just transition and maintain an on-going dialogue with citizens to facilitate the acceptance of the increasingly stringent measures that are envisaged and result in an unprecedented change in the EU's economy. In addition to its internal dimension, the EGD is expected to have a significant external impact on partner countries due to both the EU's global ecological and carbon footprint and to the EU's green norm-setting intent. The Carbon Border Adjustment Mechanism (CBAM) and the EU proposal to stop deforestation are examples of initiatives with this potential impact.

The EU and Latin America and the Caribbean (LAC) jointly contribute to under a fifth of global greenhouse gas (GHG) emissions, with some countries in LAC and the EU being considered biodiversity and climate hotspots. Countries across both regions have been instrumental in advancing climate action and strengthening ambition in the past. Although there are stark differences across countries in these two regions as regards climate impacts, ambition, energy mixes and socioeconomic contexts, strong economic and social ties, as well as a shared concern about climate change, bode well for mutual learning and cooperation across the two regions (Escribano & Urbasos, 2023).

Based on expert analyses, closed-door Track II discussions with stakeholders in the EU and LAC, a public side event co-organised by the Elcano Royal Institute and the Grantham research Institute (London School of Economics) in the Spanish Pavilion at COP27 and semi-structured elite interviews, this Policy Paper reflects on three issues. First, the heretofore limited discussion of the external dimension of the European Green Deal in selected countries in the LAC region. Secondly, some of the expected impacts of the EGD. Third, the potential for future EU-LAC collaboration. The analysis indicates that the vulnerability of LAC to climate change makes a just low carbon transition urgent, with energy and land use, land use change and forestry (LULUCF) at its heart. This is expected to require green fiscal reforms, innovative financial and regulatory tools and the strengthening of governance mechanisms, among others. This paper argues that EU-LAC cooperation could help deliver some of the elements of the net-zero transition across both regions.

The main policy recommendations to strengthen EU-LAC collaboration for climate neutrality provided in the article are:

(a) To focus on the diplomacy of the EGD, including developing and communicating an overall external dimension and providing support for adapting to it. EGD diplomacy could also strive to nudge countries such as Brazil and Mexico to enhance their international climate commitments while fostering implementation and accountability.

(b) Strengthen climate governance and legislation that would, among other things, help navigate potentially conflicting policy goals and further explore the linkage of emissions trading schemes.

(c) Ensure just transition principles are observed in local projects developed by EU companies in the LAC region.

(d) Boost international (including EU) and private finance for the energy transition.

(e) Share the EU's experience regarding the taxonomy for sustainable finance.

(f) Enhance collaboration in areas where there has so far been little so far, such as electromobility, protection of biodiversity and adaptation.

Summary

Key features of the external dimension of the European Green Deal (EGD)

Mission	Some key goals and instruments				
The EU seeks to remain a directional leader that diffuses policies & sets standards (Brussels effect) while helping partners decarbonise	Manage the EU's ecological & carbon footptint	Reduce investments in fossil fuels & secure access to strategic raw materials	Green trade agreements & establish transformational climate clubs (e.g., via a Carbon Border Adjustment Me chanism)	Phase-out imported deforestation	Enable low-carbon cooperation, just transition initiatives & scale sustainable finance

Heretofore the external dimension of the EDG has taken a piecemeal approach.
The EGD needs an overall strategy to provide certainty and help partner countries adapt to it.

LAC's priority areas for advancing a just and fair net zero transition in selected coutries

Transformation of energy mixes	Instruments	Industrial policies	Governance	Support
▪ Renewables, hydrogen, and sustainable biofuels ▪ Electrification ▪ Energy efficiency	▪ Phase-out harmful subsidies ▪ Green taxation ▪ Green bonds ▪ Debt-for-Nature swaps ▪ ETS cooperation	▪ Circular economy ▪ Blue economy ▪ Investing in technology, skills and decarbonised value chains	▪ Climate laws ▪ Participative and inclusive processes ▪ Consensus building mechanisms	▪ Develop just transition instituions ▪ Scale up Climate finance (public and private)

Enhanced EU-LAC energy transition and climate cooperation

Diplomacy	Governance	Energy and Land	Just transition	Finance
Energy & climate diplomacy to inform and help partners adapt to the EGD	Strengthen climate governance: share experiences on climate laws, policies, and institutions (citizen assemblies, scientific advisory boards, etc.)	Help accelerate the energy transition and halt deforestation	Enable just transition institutions for fossil fuel phase outs & renewables phase in	Scale-up and promote sustainable finance using Just Energy Transition Partnerships and taxonomies, among others.

1 Introduction[1]

The EU and many countries in Latin America and the Caribbean (LAC) have historically played a key constructive role in the international response to climate change. Many countries in these regions are among the global leaders in terms of national ambition on climate change. Some of them were part of the High Ambition Coalition, which was pivotal for the adoption of the Paris Agreement and the inclusion of the 1.5ºC temperature increase goal in that agreement. These regions jointly contribute around a fifth of global emissions and are characterised by diverse levels of climate ambition, energy mixes, socio-economic and political contexts, vulnerability to climate change impacts and availability of financial resources to address climate change. Yet the strong socioeconomic ties, shared high concern among citizens about climate change and the value placed on international cooperation call for strengthening EU-LAC cooperation and mutual learning, as recognised by the recently presented New Agenda for Relations between the EU and Latin America and the Caribbean (EC and High Representative of the Union for Foreign Affairs and Security Policy, 2023). Current geopolitical tensions between the two largest greenhouse gas emitters (the US and China) make distributed climate cooperation and leadership a key factor in supporting climate action globally.

As Spain takes over the presidency of the Council of the EU in the second half of 2023 there is a unique opportunity to strengthen and expand the existing partnerships to enable a more effective implementation of climate policy domestically and to help fill the deficit in international climate leadership. In fact, Latin America and the green agenda are two key regional and thematic priorities of the Spanish presidency (Ministerio de Asuntos Exteriores, Unión Europea y Cooperación, 2022). Building on its strong connections and climate networks in Ibero-America, Spain is uniquely placed to advance the European Union's diplomacy and collaboration with Latin America and the Caribbean around the Green Deal and help advance the international agenda around implementation of net zero and climate resilience objectives.

This Policy Paper discusses the potential for EU-LAC collaboration in the context of the implementation of the European Green Deal. While references are made to several LAC countries, the article focuses on Brazil, Mexico and Chile, that account for 2.2%, 1.3% and 0.23% of global emissions respectively (Cárdenas, Li Ng & Serrano, 2021; European Parliament, 2022; Palma, 2019). It is based on the discussions hosted by the Elcano Royal Institute, data collected from semi-structured elite interviews with climate experts and on exchanges at the side event at the COP 27 in November 2022 that focused on inter-regional collaboration. It also draws on the points raised in the country discussion notes prepared as input for Elcano's working groups on Brazil, Chile and Mexico.[2] The paper starts by analysing

1 The authors are grateful for the comments and suggestions made by Professor Carlos Malamud, Senior Analyst at Elcano Royal Institute, to an earlier version of this policy paper. The usual disclaimer applies.

2 On Brazil by Caroline Prolo from the Latin American Climate Lawyers Initiative for Mobilising Action (LACLIMA); on Chile by Dr Luis E. Gonzales Carrasco, Economic Coordinator for Climate Change, Energy and the Environment at CLAPESUC; and on Mexico by Dr Sandra Guzmán Luna, founder of the Climate Finance Group for Latin America and the Caribbean (GFLAC).

the key features of the EU Green Deal in section 2. Section 3 turns to the green transition in the LAC region with some insights from Mexico, Brazil and Chile. Section 4 proposes a tentative agenda for EU-LAC collaboration on the European Green Deal. The conclusions summarise the discussion and offer some policy recommendations.

2 Key features of the EU Green Deal

The European Green Deal (EGD) was introduced by the European Commission in 2019 (EC, 2019). It is a growth and competitiveness strategy with the aim of making the EU climate-neutral by 2050, decoupling economic growth from natural resources while leaving no one behind. It aims to deliver energy security, finance for a climate neutral economy, an inclusive and just low carbon transition, a continuous dialogue with citizens on acceptable climate action, a circular economy model, a sustainable food system, the reduction of pollution, the protection of biodiversity, and the maintenance of the EU's climate leadership at the global level.

To help implement the Green Deal and the target of reducing the EU's greenhouse gas emissions by at least 55%[3] by 2030 –below 1990 levels– as set out under the European Climate Law, the European Commission in 2021 proposed a package of measures known as 'Fit for 55'. The proposed measures contain new policies and the revision of existing mechanisms based on four instruments: pricing, targets, rules and support measures. Among others, these include the reform and extension of the European Emissions Trading System (EU-ETS) to the building and road transport sectors and the introduction of the Social Climate Fund to address social impacts that arise from this new system, the reform of vehicle standards, the phasing out of internal combustion engines by 2035[4] and new objectives for renewables and energy efficiency (see Figure 1). The measures proposed within the EGD also affect the Union's external relations through, for instance, the proposal to establish a carbon border tax (Carbon Border Adjustment Mechanism or CBAM), which aims to help level the playing field for business globally and to effectively reduce greenhouse gas emissions.

3 A target which is expected to be raised to at least 57% as the European Green Deal implementation package, the 'Fit for 55', comes to a close.

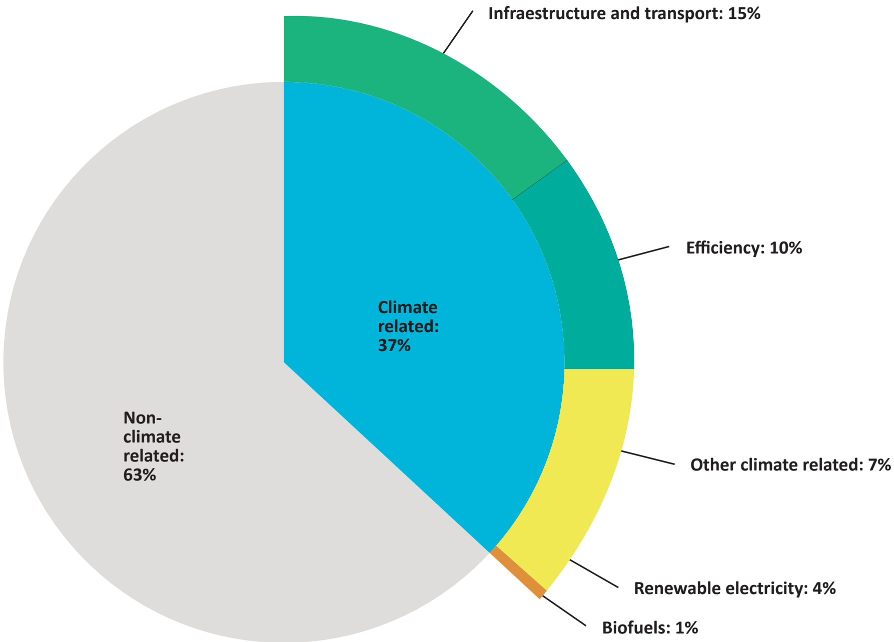
4 Note that, despite the approval of the European Parliament of the deal ending sales of internal combustion engine vehicles in the EU by 2035 (European Parliament, 2023) Bulgaria, the Czech Republic, Germany, Italy and Poland pushed back (against France and Spain among others) finally ensuring e-fuel vehicles can still be sold in the EU in 2035, providing a lifeline to ICEs producers and associated suppliers, with Germany playing a leading role in this last minute change (Posaner *et al.*, 2023; Russell, 2023).

Figure 1. 'Fit for 55': how the EU plans to meet its climate goals

Source: Council of the European Union (2022a).

The EU has put in place special arrangements for financing the implementation of the Green Deal. The EGD has also guided the largest green recovery package in the EU's history, combining the objectives of recovery from the pandemic with enabling compliance with the objectives of the Integrated National Energy and Climate Plans. Spending on climate-related projects will comprise 30% of the overall financial package of €1.8 trillion in 2018 prices to tackle the socio-economic consequences of the COVID-19 pandemic and address the EU's long-term priorities. Specifically, the package comprises the multiannual financial framework (MFF) of €1,074.3 billion plus €750 billion arising from the temporary recovery instrument, the Next Generation EU (NGEU). Funding for the NGEU is being raised in capital markets and will be repaid from 2027 to 2058 (EC, 2022b). Figure 2 shows the breakdown of the NGEU's key planned spending areas.

Figure 2. Next Generation EU total and expected climate- and energy-related spending, 2021-23



Source: IEA (2022).

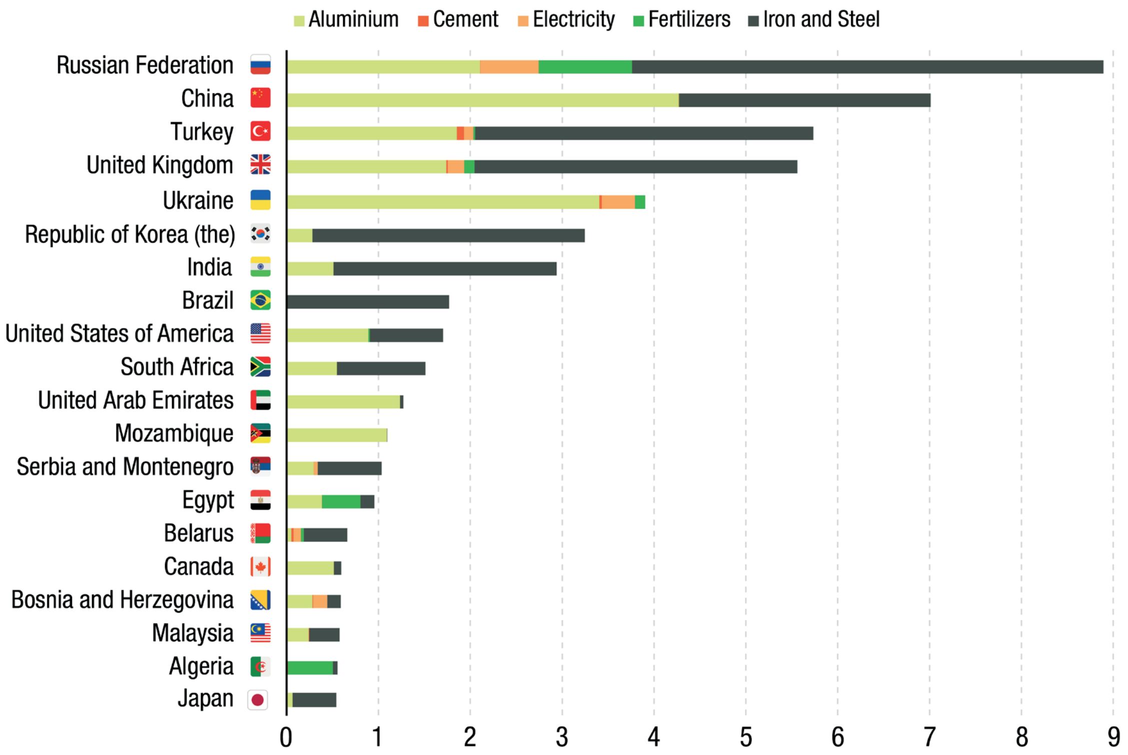
The centrepiece of the NGEU, the European Recovery and Resilience Facility, makes available €723.8 billion (in current prices) –€385.8 billion in loans and €338 billion in grants– to support reforms and investments undertaken by member States (EC, 2022c). The aim is to mitigate the economic and social impact of the coronavirus pandemic and make European economies and societies more sustainable, resilient and better prepared for the challenges and opportunities of the green and digital transitions. It allocates 37% of the funds to investments that support climate action. To have access to the funds the member States have to prepare National Recovery and Resilience Plans outlining the planned reforms and investment projects, explaining the extent to which their plans will contribute to achieving climate neutrality and the 2030 energy and climate targets included in the National Energy and Climate Plans, as well as explaining how they will respect the 37% climate mainstreaming target. The disbursements will be effective until 2023, based on compliance with milestones and objectives included in the plans. Investments must be made before 2026. The European Commission's (EC) analysis shows that member States have allocated almost 40% of the expenditure in their plans to climate measures across the 22 recovery and resilience plans approved at the time of writing. This exceeds the agreed target of 37% for climate.

Acceleration of energy transition is one of the key priorities of the European Green Deal. In 2022, in response to the energy market disruption caused by the war in Ukraine, the European Commission presented the REPowerEU Plan, which sets out a series of measures to rapidly reduce dependence on Russian fossil fuels and accelerate the low carbon transition, while increasing the resilience of the EU's energy system through saving energy, producing clean energy, and diversifying energy supplies and sources (EC, 2022a). The plan proposed a renewable target of 45% by 2030 (compared with the 40% in 'Fit for 55' and the provisional agreement reached in 2023 between co-legislators of a legally binding 42.5%, aiming for 45%). Implementation of this target would imply there would be 1,236 GW of renewable installed capacity in 2030, 320 GW of photovoltaic solar power in 2025 –double the current capacity– and 600 GW in 2030 (Lázaro Touza & Escribano Francés, 2022). The key proposed measures in the plan include an obligation to install solar panels, doubling the deployment rate of heat pumps to reach 10 million in five years, and increasing production of biomethane and renewable hydrogen. It is also proposed to increase electrification in the transport sector (*ibid*.).

While being mainly focused on the measures within the EU's own borders to achieve the goal of climate neutrality and at the same time achieving economic growth, the Green Deal also has a strong external impact on partner countries. This is partly due to the explicit measures contained in the EGD aimed at encouraging partner countries to follow a sustainable recovery trajectory and transition towards climate neutrality, and partly due to the EU's extensive ecological and carbon footprint globally, which needs to be measured and addressed through targeted initiatives. There are also risks arising in the transition years. The reduction in investment in oil exploration and production may lead to difficulties in meeting energy demand in the short term as the transition to renewable sources progresses. There may be negative impacts on large oil- and gas-producing countries with a risk of tension and instability. At the same time, more attention needs to be devoted to transition minerals, such as copper, cobalt and lithium. There is also a growing interest in green hydrogen (Escribano, 2021), as REPowerEU set the goal of producing 10 million tonnes of green hydrogen domestically and importing an extra 10 million tonnes of green hydrogen by 2030 (EC, 2022a). The EU will need to consider these issues in its external strategy around the Green Deal.

One of the key elements under the 'Fit for 55' package that is particularly relevant to the external dimension of the Green Deal is the proposal for the Carbon Border Adjustment Mechanism (CBAM), which targets imports of products in carbon-intensive industries. The objective of the CBAM is to prevent the EU's emissions reduction efforts to be offset by increasing emissions outside its borders through the relocation of production to countries where climate policies are less ambitious than the EU's or through increased imports of carbon-intensive products. The CBAM is designed to function in parallel with the EU's Emissions Trading System (EU ETS), mirroring its functioning for imported goods. The CBAM will gradually replace the existing mechanisms to address carbon leakage, such as the free allocation of EU ETS allowances. Figure 3 shows the 20 most affected countries by CBAM according to the analysis by UNCTAD (2021).

Figure 3. Exports to the EU in 2019 in selected sectors likely to be covered by the CBAM: 20 most exposed countries in terms of aggregated value of exports (US$ billion)



Source UNCTAD (2021).

According to UNCTAD (2021), the Russian Federation, China, Turkey, the UK, Ukraine, the Republic of Korea and India will experience a greater exposure to the CBAM (in terms of the aggregate value of exports) compared with Brazil. Other countries, such as Argentina, Chile, Mexico, Colombia and Uruguay, will also feel the impact on the basis of the *ad valorem* equivalent (the impact CBAM will have as a percentage of the price) in various sectors.

On 13 December 2022, the EC reported that a preliminary agreement has been reached on the CBAM, which envisioned that the CBAM would initially cover several specific products in some of the most carbon-intensive sectors: 'iron and steel, cement, fertilisers, aluminium, electricity, and hydrogen, as well as some precursors and a limited number of downstream products'. The CBAM will begin to operate from October 2023 onwards. Until the 1st of January 2026, the CBAM will operate in a simplified form that would apply essentially with reporting obligations only. From then onwards, the full CBAM would be phased in gradually and ensure compatibility with international rules on trade (the Council of Europe, 2022b). The CBAM file was voted in plenary on 18 April (EP, 2023) and the final act was published on 16 May 2023.

A key factor in delivering the EGD, and essential for strengthening EU-LAC cooperation, is the reduction of imported deforestation. After China, the EU is the world's second biggest consumer of products associated with deforestation. As part of the EGD, the European Commission has introduced a proposal to stop deforestation, innovate sustainable waste management and make soil healthy for people, nature and climate. The initiative aims to minimise consumption of products from supply chains associated with deforestation or forest degradation –and increase the EU's demand for, and trade in, legal and 'deforestation free' commodities and products–. The initiative envisions work in partnership with producer countries to address the root causes of deforestation and to promote sustainable forest management, which is particularly relevant for cooperation and trade with Latin American countries, the main producers of those commodities. It also envisions international cooperation with major consumer countries, to minimise carbon leakage and to promote the adoption of similar measures to avoid products coming from supply chains associated with deforestation and forest degradation being placed on the market. Since these regulations will have a significant impact on some developing economies, including Latin American countries, it will be important to support the development of a better understanding about the associated economic and social implications in the context of a just transition, to ensure the effective reduction of emissions in the EU and avoid further burdening developing countries.

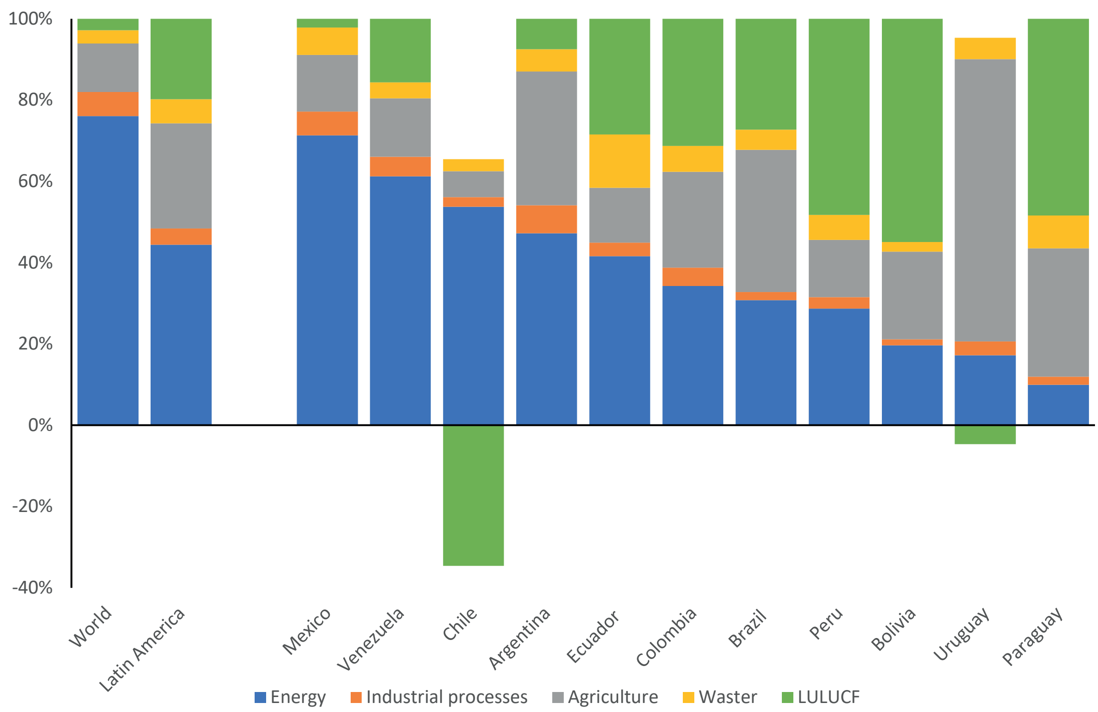
The following sections outline some of the key priorities for climate policy and green transition for LAC countries and discuss the implications for the external dimension of the EU Green Deal and for the EU-LAC cooperation agenda.

3 Green transition in the LAC region: insights from Mexico, Brazil and Chile

LAC is among the most vulnerable regions to climate change, being home to 13 of the 50 countries identified as most affected by the climate emergency globally. It also hosts half of the world's biodiversity (OECD *et al*., 2022; EC and High Representative of the Union for Foreign Affairs and Security Policy, 2023). There is an urgent need for a green and just transition, at the heart of which lies the transformation of the energy matrix as well as changes in Land Use, Land Use Change and Forestry (LULUCF, see Figure 4). LAC has a high potential for renewable energy, with renewables already accounting for 33% of the region's total energy supply, compared with only 13% globally. According to a recent OECD analysis, the green transition can potentially add 10.5% more net jobs in LAC by 2030. The report highlights several domestic priority areas for making progress in the just and green transitions in LAC countries, including:

- Further transformation of the energy mixes away from fossil fuels and advancing decarbonisation and electrification across all sectors, especially heavy industries and transport, while increasing energy efficiency. This requires investments in low-carbon alternative fuels, including green hydrogen and sustainable biofuels in hard-to-abate sectors (eg, chemicals, steel, road freight, aviation and shipping).
- Fiscal policies compatible with just green transitions (eg, phase-out of harmful subsidies, and green taxation) and sustainable financial instruments (eg, debt-for-nature swaps), mobilising development finance institutions and the private sector, including new regulatory tools (eg, sustainable finance taxonomies or green bonds).
- Promote industrial and development policies and create green jobs through the circular economy and leveraging on the blue economy, etc. This requires investing in new technologies and skills, retraining, and scaling-up labour market policies and targeted social protection systems to support workers affected by the transition.
- Strengthen governance mechanisms to foster buy-in around the policy choices for the green transition. Up to 68% of citizens in the region see climate change as a very serious threat to their countries in the next 20 years, which provides a significant basis for a new sustainable social contract. Governments should ensure participative and inclusive processes and platforms for negotiation and consensus building involving the key actors and sectors affected by the green agenda.

Figure 4. CO_2eq emissions by sectors in LAC



Source: the authors.

Achieving these objectives requires expanding the existing international partnerships and building new ones. EU-LAC cooperation is one of the key avenues in this journey. The background notes prepared for Elcano's Track II EU-LAC dialogue highlight the following insights for México, Brazil and Chile.

3.1. Mexico[5]

Being one the highest greenhouse gas emitters in Latin America, due to the burning of fossil fuels (IEA, 2020), the energy transition in Mexico had advanced with the energy reform in 2013 and the measures under the Energy Transition Law (LTE) (Averchenkova, 2019). However, since 2018 there has been a slowdown in renewable generation. In addition to curbing private investment in renewable energy, the López Obrador government has not invested public resources in the energy transition, since a large part of the energy sector's resources (90% in 2020) have been allocated to the production of hydrocarbons (Guzmán, 2021a). European companies have been among the main stakeholders in the development of renewable energy projects in Mexico. However, there have been some projects where the interests of the local communities have not been addressed. Examples of such projects have been used to justify the changes in energy policy. Going forward, local engagement

5 This section is based on the summary of a contribution written for the Elcano Track II dialogue by Dr Sandra Guzmán Luna.

and ensuring that the principles of a just transition are respected will be important (Ramírez, 2021).

The budget allocation to sustainability issues, including renewable energy and energy efficiency in Mexico, did not exceed 2% of total public spending in 2020 (Guzmán, *et al*., 2021). This increases the need for international and private financing for the energy transition and is one of the areas that requires collaboration between Mexico and the EU. Specific priorities identified can include support for the development of renewable projects at the local level and the democratisation of energy through decentralisation via various financing mechanisms, including support for local governments and communities. This has the potential to strengthen public-private alliances with the participation of small and medium-sized companies, including family and community businesses (Guzmán, 2022).

The government of Andrés Manuel López Obrador (AMLO) has brought changes to regulatory, institutional, budgetary and policy frameworks that have favoured neither environmental protection nor attention to climate change. Most of the government's priority projects such as *Sembrando Vida*, the 'Maya' Train, the 'Dos Bocas' refinery or the expansion of large hydro projects, have had some negative environmental impacts, with no action being carried out to assess and avoid such impacts. Based on the current scenario, Mexico may not meet its climate commitments and could even increase its emissions. With elections coming up in 2024, the green transition and climate could potentially rise in the political agenda. However, the candidates' landscape is not entirely clear and the agenda for EU-LAC cooperation should consider supporting efforts to bring green transition back to the agenda. The expert dialogues carried out in 2022 highlighted the following priority areas for EU-LAC collaboration from the Mexican perspective: (a) achieving a just and sustainable energy transition; (b) achieving the transformation of the transport sector through electrification, particularly in the public transport sector; and (c) transforming the financial sector towards a more sustainable one.

From the perspective of financing the green transition, collaboration between the EU and Mexico can be helped by focusing on the adequate implementation of sustainable taxonomies, since both already have one (SCHP, 2023), strengthening transparency and access to financial information, and strengthening the capacities of regional, central and local financial institutions on climate change. While CBAM is expected to impact some of Mexico's exports to the EU, the Mexican authorities have not issued any statement or comment on this matter, but it will likely be the subject of future conversations. In transport, Mexico has much to benefit from collaboration with the EU on learning about incentives for the production and sale of electric vehicles (*ibid*). There are many other issues on which alliances could be made, such as green hydrogen and adaptation.

Although it will be the government that will have to take the lead in the proposal of climate policies, currently various civil society organisations have already joined to develop a Plan for Decarbonisation and Climate Resilience in Mexico 2024-30 with the aim of influencing the electoral process (Alavez, 2022). Other actors from various Mexican sectors are expected to move in the same direction, to change the course of policies in the country. The EU's support will be very important to achieve Mexico's climate objectives.

3.2. Brazil [6]

According to President Lula, Brazil is back on the international climate scene. Climate change is once again on the agenda after several years of backsliding and reversal of previously achieved progress, particularly on deforestation. At COP27 President Lula said that Brazil will 'do whatever it takes to have zero deforestation and degradation of our biomes'. Speaking about his priorities on climate change, Lula proposed that Amazon countries come together to look at the development of the region in an integrated way, and that a world alliance for food security and the reduction of inequality should be developed. He also proposed that COP30 in 2025 be hosted in Brazil –particularly the Amazon region– to raise the understanding on the importance of that part of the world.[7] Doubts remain, however, regarding the extent to which Lula will have enough support in Parliament to advance his climate goals and the political capital he is willing to invest in the climate agenda.

Neither Brazil's climate change policy framework nor its climate governance have been properly updated to incorporate the Paris Agreement's new processes and commitments, to which Brazil formally adhered in September 2016. To that end, a review of the overarching national climate-change policy is required, especially to create a clear process for Brazil's preparation of its NDCs, as well as to measure, report and manage its emissions in view of the accounting mechanisms under the Paris Agreement, especially since Brazil might seek to participate in the Paris Agreement carbon market instruments. Furthermore, it is necessary to review the climate change governance structure at the federal level, which does not currently include other sectoral ministerial actors, despite the fact that Brazil's NDCs are economy-wide, which calls for an integrated, concerted and comprehensive approach to climate policies, perhaps with a stand-alone climate change authority that is able to coordinate and oversee the development of a package of climate policies that includes all relevant sectors.

In terms of carbon pricing, although there have been some studies, discussions and many draft bills, more analysis and public debates are necessary to enhance the understanding and assess all the options in terms of the design of this carbon market (Emissions Trading System, ETS), deciding which sectors will be included and what measures will be taken in sectors that will be left out of the system. Furthermore, technical assistance may be required in terms of the design and the legal implementation of the system and its institutional capacity. The EU and researchers across Europe have prior experience in such technical assistance, as they have helped China develop its ETS, potentially being able to further engage with Brazil in the development of its own carbon market.

The restoration and strengthening of the key climate governance institutions will be an important challenge for the incoming government in Brazil. In the first 100 days in office, Bolsonaro's administration moved fast to change personnel and reduce the authority of IBAMA, Brazil's environmental agency, and of ICMBio, the institution that manages its

6 This section is based on a summary note prepared for Elcano's Track II dialogue by Caroline Prolo, Latin American Climate Lawyers Initiative for Mobilising Action (LACLIMA) and the discussions at the COP 27 side event.

7 https://www.euronews.com/green/2022/11/16/lula-tells-cop27-brazil-is-back-as-he-vows-to-end-deforestation-in-the-amazon.

conservation areas, benefiting wealthy elite agribusiness and mining interests.[8] Over the past several years there has been a shortage of funding to these institutions, further contributing to the growing deforestation. Brazil also has almost 6,000 municipalities, the majority of which are small and do not have technical capacities or funds to embrace the climate agenda. Around 30 to 40 municipalities are developing climate-action plans including risk and vulnerability assessments. Municipalities as well as states could need support in this process and learning from European institutions would be very useful.

The legal basis for climate change action is not well developed in Brazil. There is a need to enhance knowledge and capacity to help the government, the municipalities and the private sector to prepare consistent and credible climate action plans. Thanks to the work of civil society, Brazil is about to add the term ‘climate security’ to the Federal Constitution in three different articles: on the environment, on the economy and on civil rights. This will open up different ways to deal with climate change domestically. Around 40 civil society organisations have been working over the past two years to make it happen. Furthermore, last year the Brazilian Supreme Court voted on a green package. For the first time several different lawsuits point to what the government should be doing to protect the Amazon. There is also a need to strengthen knowledge sharing, ensure access to finance, promote green jobs and transfer climate technologies.

Civil society organisations in Brazil have highlighted that while the Lula government is concerned about climate change, whether Brazil will submit a more ambitious NDC in the short term is unclear at the time of writing. International pressure could help strengthen Brazil’s NDC, as would fostering exchanges between parliamentarians. The protection of the Amazon, of indigenous peoples and halting land grabbing are expected to be priority areas for the Lula government. As for the defence of the rights of indigenous peoples, experts interviewed indicated that there is a need to further recognise these rights by, among other actions, updating the date in which indigenous lands were recognised as such.

3.3. Chile[9]

Chile has been leading regional and global efforts to advance climate change action for over two decades. The Framework Law on Climate Change that was promulgated in June 2022 set the goal of carbon neutrality for 2050. The law institutionalises the previously developed climate policy instruments and introduces new ones that must be implemented by successive administrations. The law is based on current climate management instruments such as the NDC, which to date Chile has already updated in line with the requirements for ratcheting up ambition every five years. It is also supported by the Long-Term Climate Strategy published in October 2021 (to be updated every 10 years), which establishes the carbon budgets for each sector as a reference for the generation of their own strategy for the implementation of mitigation measures.

8 https://news.mongabay.com/2019/05/dismantling-of-brazilian-environmental-protections-gains-pace/.

9 This section is based on a summary of a background note for Elcano’s Track II dialogue prepared by Dr Luis E. Gonzales Carrasco, Economic Coordinator for Climate Change, Energy and the Environment, CLAPESUC.

One of the most effective regulations relevant for low carbon transition in Chile is in electricity generation, which managed to advance the self-imposed goal of renewable generation of electricity by more than 20% thanks to the installation of solar and wind energy (Gonzales, Ito & Reguant, 2022). Together with infrastructure projects interconnecting electricity markets, these measures were able to reduce the generation price by at least 30%. Chile received external investment in renewable energy of over US$12.5 billion in the last seven years (Gonzales & Larraín, 2021), where the top five countries with the highest investments were Spain, Italy, the US, France and Germany.

One of the challenges in the long term is to increase investment in both mitigation and adaptation. Investment in mitigation must be increased to reinforce the plans set out in the NDC and to implement additional measures necessary to increase the probability of reaching carbon neutrality by 2050 (Benavides *et al.*, 2021). This requires foreign investment and international cooperation. As in the case of renewable electricity generation, it is necessary to create legal certainty and market conditions to attract foreign investment in sectors such as: agriculture, forestry, transport and industry, which together with electricity generation are the key sectors for mitigation.

There have been advances in monetary and financial policy starting to take account of climate change. For example, in the latest financial stability report, the Central Bank of Chile has begun to publish the potential climate-related impacts on coastal real estate due to the rise of sea levels (Banco Central de Chile, 2022). Progress has also been made with the reports of public spending on climate change, which is compulsory under the public management law of 2021 (Dipres, 2022).

Chile's trade openness and its commercial relations with the EU mark a concrete path of technological cooperation with the adoption of the green hydrogen strategy. According to data from the Chilean Ministry of Energy and the current state of the electricity generation matrix, which already accounts for more than 20% of generation with solar and wind technology, it is possible that the green hydrogen production scenarios will materialise in the short term with competitive prices and low emission technology.

On the other hand, there is an opportunity for linking with international carbon markets such as the EU ETS thanks to the provisions in the climate change law and carbon tax regulation. The challenge for these measures is implementation efficiency. It is important to find the level of regulation that does not bog down investment decisions with greater bureaucratic acts and does not duplicate regulation.

International collaboration and knowledge exchange can support the implementation of the climate change law and the development of the sectoral and territorial plans and governance mechanisms. Some specific areas that need strengthening as raised by civil society include climate governance and coordination mechanisms, accountability and the enforcement of climate legislation. An important emerging area of attention in Chile seems to be action at the subnational level, with growing interest from cities and regions. Over 30 institutions have formed the Chilean Climate Action Alliance (ACA Chile), an initiative launched within the framework of COP26 in Glasgow following similar alliances in other countries. The objective is to connect various subnational and non-state actors, including civil society and business, to expedite climate action aimed at limiting the global temperature increase below 1.5°C.

4 Towards an agenda for EU-LAC collaboration on the European Green Deal

The EU and LAC face their specific contexts and challenges at the regional and country levels in relation to green transition, decarbonisation and climate resilience, but there are many common ones with the potential for closer cross-regional and bilateral collaboration. The agenda for strengthening collaboration can be structured around the following broad areas: (1) green diplomacy and external dimension of the EGD; (2) strengthening climate governance and legislation; and (3) accelerating sectoral transitions, in particular the transformation of energy and curbing deforestation, and sustainable finance.

4.1. Green diplomacy and the external dimension of the Green Deal

The Green Deal leads to the change in the strategic priorities in external relationships, including in relation to green diplomacy and climate finance. However, some observers have expressed concerns that the EU's external strategy around the Green Deal has been too narrowly focused on sectoral approach, where many specific domestic strategies (eg, biodiversity or blue economy) contain chapters on global aspects, but there was a lack of overall strategy (Teevan, Medinilla & Sergejeff, 2021). The main criticism concerns the uncertainty this approach creates for partner countries on how to adapt to the EU's new rules and standards, and lack of clarity on the extent of support available for adjusting to them. The EGD is also said to lack clear governance mechanisms to address potentially conflicting policy objectives and to ensure coherence of domestic and external EU policies (*ibid*).

The EU has an opportunity to use the Green Deal to strengthen its leadership position and credibility on climate diplomacy and finance. This requires incorporating the relevant aspects of the EGD into development cooperation, foreign policy and knowledge partnerships, while considering the priorities and perspectives of partner countries. The EU has already announced many green alliances with partner countries. The EU's €79.5 billion external action budget for 2021-27 under the 'Global Europe Instrument' includes a 30% spending target for climate and associated biodiversity targets (Koch & Keijzer, 2021). It also provides means to mobilise private investments to promote sustainable development through guarantees, concessional lending and technical assistance.

Transformation in the EU's own economy and its trade regulations and policies, including the CBAM and reduction of deforestation through consumption, will affect global value chains and industries in partner countries. For example, the European Investment Bank (EIB) will no longer be able to finance fossil infrastructure in Europe, while the sustainable finance taxonomy will clarify what types of assets can be considered 'green'. The application of CBAM may lead to new trade tensions and accusations of protectionism by partner countries. Hence, an important external element of the EGD is the consideration of support to partner countries in adapting to the EU's trade regulations, through targeted aid to help developing countries minimise the costs and to ensure that the European Green Deal is embraced as a long-term opportunity rather than being perceived as a threat to the countries that would need to restructure their economies to comply with the new standards (Koch & Keijzer, 2021). It is essential that economic recovery and climate measures are taken considering the implications for and in cooperation with the partner countries.

The EU's recent external energy strategy highlights multiple partnerships to tackle the energy crisis and shows the importance of international cooperation, yet there is little or no reference to Latin America. This could be a missed opportunity and potentially an area for further consideration –eg, Chile has shown high interest in green hydrogen production, (Escribano & Urbasos, 2023)–. Beyond its borders the EU aims to show leadership to advance energy transitions worldwide and to that end it is partaking in Just Transition Energy Partnerships (JTEPs) through the Global Gateway initiative. Yet again, JETPs have not been envisaged so far for Latin American countries and doubts remain regarding the impact of the Global Gateway on renewables development in LAC (Armanini *et al*., forthcoming).

4.2. Strengthening climate governance, legislation and public participation

Successful green transition requires setting clear objectives and making sure they are protected from political change and changing political priorities, eg, due to elections. In this context embedding the objectives into national legislation is a powerful tool to protect against political backsliding on climate change and the green transition. Europe and Latin America have been at the forefront as regards legislating on climate change and governance innovation. European experience starting with the UK's Climate Change Act and then more recently the EU at the regional level and many member states integrating net zero targets into national laws (eg, France, Denmark, Spain, Portugal and Greece) and introducing innovative elements such as requirements for climate risk disclosure and requirements to align national budgets with climate change. There is also legal innovation happening in Latin America, for example by integrating provisions related to public participation and indigenous knowledge in the case of the Peruvian climate change law or addressing deforestation in Colombia's climate law. An important focus area for Latin American countries as well as for many EU countries in Southern Europe, is adaptation. There is much that both regions can learn from each other.

However, much work remains to be done to integrate the objectives set via the Nationally Determined Contributions and net zero targets into the domestic legal frameworks and to ensure their implementation and credible mechanisms for evaluation of progress and accountability. In Europe there are currently 10 countries that have legislated net zero targets at the member State level, while the rest of countries are still lagging in this respect. There is a clear challenge for the EU to ensure that the EU-wide goal of climate neutrality by 2050 set through the European Climate Law is internalised by the Member States into national climate legislation. The same challenge applies in the LAC region, where so far only Chile and Colombia have integrated their net zero commitments into national legislation.

The implementation of the objectives requires a sustained political commitment and buy-in from citizens. The alignment of the whole society behind the objectives helps maintain a political commitment over time. Past experiences show that climate change laws are a good vehicle to help attain broader citizen acceptance through the debate of climate laws and its objectives in the parliament and via public consultations and public participation processes. Both the EU and LAC face the challenge of sustaining and increasing political buy-in from citizens to achieve increasingly ambitions climate goals. The growing support for populist right-wing parties both in Europe and in Latin America makes social acceptance of climate change policies an increasingly important and challenging task (Lipari *et al.*, 2023). The growing use of participatory processes, such as citizen climate assemblies in Europe and participatory budgeting in the LAC, shows the potential that such processes have for improving the quality of policies and strengthening the political mandate for governments to implement ambitious climate and green transition measures. In this context, a promising area for EU-LAC cooperation centres around improving public participation, building upon the experiences with climate citizen assemblies in Europe and relevant experiences in Latin America.

The adoption of the Escazu Agreement about environmental justice, participation and access to information is a major step to enhance social participation in environmental issues in LAC, and an important opportunity for the EU to contribute to its implementation to increase transparency and justice at the regional level. According to Global Witness (2022) and Mongabay (2022), Latin America is becoming a dangerous region for human and environmental defenders, since of the 1,733 attacks on environmental defenders in 2021, 68% happened in LAC, including 200 in Mexico, the country with the highest number of attacks in the region.

A further cross-cutting governance challenge is the need for credible knowledge and independent expert assessment of both climate objectives and the progress towards their implementation to ensure accountability. Many countries are successfully developing mechanisms for independent expert advice on targets and policies and on progress being made with implementation through the independent expert advisory bodies on climate change. In Latin America these bodies have been established in various forms in Chile, Guatemala and Costa Rica to help their governments with advice on climate objectives and to assess progress. Similarly, in Europe similar bodies exist in Denmark, Finland, France, Germany, Greece, Iceland, Sweden and the UK (one of the oldest and better-known advisory bodies that has served as an example for other countries). The European Scientific Advisory Board on Climate Change has been established to serve this purpose at the regional level for the EU. However, many countries both in the EU and in LAC are still lacking such independent advisory bodies: Spain is still working on setting one up. The existing independent advisory bodies also vary in their mandate, capacities, funding and impact on policy making and evaluation. There is a great potential for mutual learning in this area for EU-LAC cooperation.

4.3. Accelerating sectoral transitions and sustainable finance

The EU is a leading provider of funding for sustainable and inclusive development to LAC countries, allocating close to €3.4 billion for bilateral and regional programmes under the NDICI-Global Europe for 2021-27. The LAC region will also have access to the European

Fund for Sustainable Development Plus (EFSD+). Furthermore, the EU's EUROCLIMA and EUROCLIMA+ programmes have been supporting green, climate and environmental action for over 10 years in partnership with 18 LAC partner countries, EU member States and UN Agencies. The EU and several LAC countries are founding members of the Global Alliance on Circular Economy and Resource Efficiency (GACERE). Climate action is also promoted in bilateral trade agreements, eg, with Colombia and Peru and with an association agreement with Central America. These agreements seek to enable trade and foreign investment in green technologies. To guarantee success and to ensure transformational impact, however, long-term sustained support is required rather than a myriad of small short-term interventions. It is also important to continue the technical support and technical exchanges that outlast project cycles of one year.

Furthermore, as discussed earlier, there is a large potential for collaboration around accelerating the energy transition, including financing instruments, regulatory initiatives and technology-based collaborations, eg, around green hydrogen. The Green Jobs for Youth Pact launched at the COP 27[10] is an example of such collaboration. It is a partnership between the International Labour Organisation (ILO), the UN, the European Commission and other agencies, which aims to close the skills gap for young people in developing countries and target climate vulnerable sectors. The goals of the Youth Pact include creating one million green jobs, supporting the greening of one million existing jobs and helping 10,000 green entrepreneurs. The partnership also invited companies to join to provide expertise.

It is also important to build capacity and share experiences and strengthen alliances between Europe and Latin America in the corporate sector. There are existing networks that provide a good basis to build upon. For example, the Corporate Leaders Group in Europe and in Chile are sharing best practices on policy advocacy and business practices across all sectors. There are strong ties between business associations in Europe and Latin America based on their shared interest in the energy transition and large potential of renewable and critical minerals for the green transition. There is also a good basis for collaboration around finance, de-risking tools, sharing good practices in businesses, regulation and climate-goal setting.

10 https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_861228/lang--en/index.htm#:~:text=The%20Youth%20Pact%2C%20a%20partnership,and%20helping%2010%2C000%20green%20entrepreneurs.

5 Conclusions and policy recommendations

The EU and LAC jointly amount to just under a fifth of global GHG emissions. They host climate and biodiversity vulnerable nations. Both regions have heretofore demonstrated shared climate concern and leadership at key international climate negotiations. The EU's response to the climate challenge is materialising via the European Green Deal, a development and competitive strategy that seeks to achieve climate neutrality, entice convergence towards high climate ambition while ensuring a just transition. While the EGD has wide-ranging domestic implications, the external dimension of the green deal is expected to be significant. This is so due to both the EU's climate footprint and the measures within the European Green Deal, such as the Carbon Border Adjustment Mechanism, that are directed towards encouraging partner countries to enhance their climate action.

Both conflict and cooperation are possible outcomes of the external impact of the EGD. To promote future collaboration as the key elements of the EGD are implemented this paper provides recommendations for moving forward. Across the countries analysed there is an emerging consensus regarding the need to:

1. Focus on the diplomacy of the EGD, including developing and communicating an overall external dimension of the EGD and providing support for adapting to it. EGD diplomacy could also strive to nudge countries such as Brazil and Mexico to enhance their international climate commitments while fostering implementation and accountability.
2. Strengthen climate governance and legislation that would, among other things, help LAC partners navigate potentially conflicting policy goals and further exploring the linkage of emissions trading schemes.
3. Ensure just transition principles are observed in local projects developed by EU companies in the LAC region.
4. Boost international (including EU) and private finance for the energy transition.
5. Share the EU experience regarding the taxonomy for sustainable finance.
6. Enhance collaboration in areas where little cooperation has happened so far, such as electromobility, and protection of biodiversity and adaptation.

As for concrete actions in selected countries, the following could further enhanced climate collaboration with the EU:

- In México, there is scope for further engagement with local communities and adherence to just transition principles when implementing EU-led projects. There is also a need to scale up international and private funding for renewable projects for local governments and communities. Given the upcoming elections in 2024, there is also scope for helping to bring the low carbon transition onto the political agenda.

In addition, experts in Mexico recommend investing in capacity building in financial institutions to ensure an adequate implementation of the sustainable taxonomy. A further area for collaboration and mutual learning is related to the support measures for the uptake of electric vehicles, particularly for public transport. Furthermore, there is also room for exploring new areas of joint climate action on hydrogen, while adaptation and loss and damage are highly important agendas that require further and long-lasting collaboration since the impacts of climate change are rapidly growing in Mexico and the rest of the region as well.

- As for Brazil, the key suggestions to deepen collaboration with the EU include the provision of assistance and knowledge exchange on the development of market-based instruments such as the Emissions Trading System. Given the expectation that the Lula government could consider the possibility of strengthening its NDC (and hosting the 2025 COP), exchanges with EU parliamentarians and international nudging are hypothesised to help yield higher ambition. Support would also be needed for the development of climate plans, according to the experts consulted.
- In Chile, the key climate levers include scaling up international and climate finance for the low carbon transition, exploring technical cooperation initiatives on hydrogen, furthering the analysis for ETS linking possibilities and exchanging knowledge regarding streamlining regulation and permitting processes while ensuring environmental integrity.

The arrival of new governments in Chile, headed by Gabriel Boric, in Colombia, with Gustavo Petro and Francia Márquez, and, most recently, Lula in Brazil, could galvanise some progress towards green transition (AP, 2022). This also offers an opportunity to strengthen collaboration with the EU and fuel a more distributed climate leadership beyond the US-China binomial.

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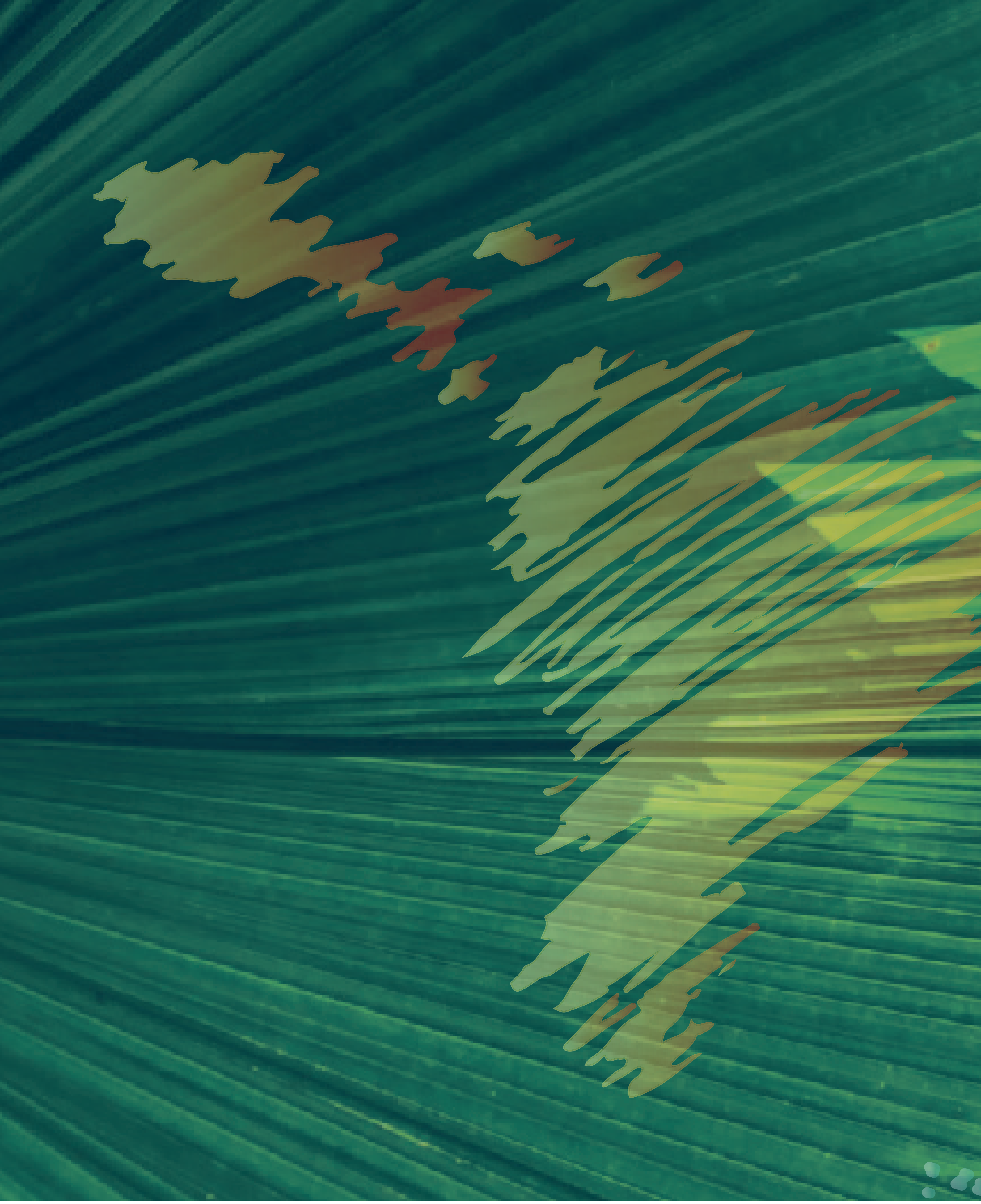

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