

THE FIGHT AGAINST CLIMATE CHANGE: HOW CAN TRADE POLICIES IN LATIN AMERICA AND THE CARIBBEAN HELP?

Global and Regional Context

The world has spent an astonishing 7% of the GDP (US\$6 trillion) in fossil fuels subsidies in 2020, a figure that is expected to reach 7.4% in 2025. At the IDB, we have managed to get a reliable estimate of the carbon footprint of Latin America and the Caribbean's (LAC) trade. Domestic emissions for external consumption, including international transportation, account for 20% of the region's greenhouse gas (GHG) emissions, a lower metric than that of the world's trade-related emissions, although greatly varying between countries. Our research also suggests that in roughly half of 20 LAC countries studied, tariffs are negatively correlated with the goods' emission intensity, essentially favoring trade of "dirty" goods over "cleaner" ones.

Globally, there has been a series of private initiatives - such as voluntary sustainability standards that help overcome information barriers and put pressure on local firms to reduce their carbon footprint, but their compliance costs are very high-, and public initiatives, such as enforceable environmental chapters in preferential trade agreements and tariffs on trade of "dirty goods". Carbon border tariffs have yet to be implemented but have already been the subject of several legislation proposals in the United States and have been formally proposed by the European Union (EU) to be phased in as early as 2023.

What the IDB is Doing

The IDB is supporting its borrowing member countries inform the policy debate in questions such as how changes in LAC's trade have been affecting its GHG emissions and the policy changes to reduce LAC's trade carbon footprint while minimizing potential misallocations that can hurt trade and welfare. The IDB is also providing support to implement export promotion programs for sustainable products, including green production and other sustainability certifications; foster green employment in trade/investment-intensive sectors; implement green logistics programs; and apply new technologies for the identification, attraction, and monitoring of sustainable investments, among others.

Last year, the IDB financed a record US\$4.5 billion related to climate change (30% of its total annual approvals). Additionally, at the COP-26 conference in Glasgow, the IDB announced its commitment to align all its operations with the Paris Agreement starting in 2023, and to provide US\$24 billion in climate and green financing from 2022 to 2025.

Our Tools

The IDB Group offers its 26 borrowing member countries a set of tools that include: (i) climate financing to reduce environmental impacts and develop green financial products and services; (ii) technical assistance and cutting-edge knowledge to promote low carbon and resilient policies and regulations and build the capacity necessary for effective use of current and future international mechanisms for climate actions; and (iii) institutional capacity building on pathways to finance low carbon emissions.

The IDB also leverages resources from global instruments such as the Green Climate Fund (GCF), to support LAC countries raise and realize their Nationally Determined Contributions (NDC) ambitions towards low-emissions and climate-resilient pathways. In 2021, the GCF Board approved the Amazon Bioeconomy Fund, an IDB initiative to leverage investments in support to climate change adaptation and mitigation in the Amazon basin.

Some Examples of our Work

In early 2021, the IDB Group launched the Amazon Initiative and mobilized over US\$300 million -including GCF funds- to foster socially and environmentally sustainable economic development models in the Amazon region, that will benefit its diverse communities. Here, the IDB is helping communities and producers in the Amazon increase and diversify exports and attract investments to promote socio-economic development and environmental sustainability with tools such as market insights, local capacity building, verification/certification, product traceability, matchmaking, carbon footprint reduction, and environmentally conscious processes with markets.

The IDB is also providing technical assistance and capacity building to LAC Investment Promotion Agencies (IPAs) to facilitate sustainable investments, including the implementation of cutting-edge knowledge products and digital tools. In Costa Rica, the IDB is supporting PROCOMER's Crecimiento Verde Program that promotes productive transformation processes to improve agricultural SMEs' environmental sustainability and, as a result, their export profile and internationalization.