The China-CELAC Forum:

Opportunities for Increasing Cooperation on Low Carbon Development

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Outline:

Key Messages:

- The III CELAC Summit should focus on climate change to reinforce and increase Latin America's leadership at the U.N. climate negotiations and boost climate action at the regional level.

- CELAC should use the China-CELAC Forum as means to engage China on taking action on climate change within their bilateral partnerships given the high environmental and carbon footprint of trade and commercial ties.

- The China-CELAC Forum should increase cooperation on low carbon activities, particularly on renewable energy and sustainable cities whilst reducing the environmental and carbon footprint of Chinese-related activities in Latin America.

- The Forum should prioritize dialogue on how the evolving international ecosystem for climate finance, particularly the role of new China-backed financial institutions such as the BRICS New Development Bank can help finance Latin America's transition to low carbon and resilient economies.

- The China-CELAC Forum should ensure Chinese-Latin American relations are transparent and facilitate the participation of Chinese and Latin American civil society organizations within the Forum.

1. Introduction:

This week Costa Rica is hosting the third Summit of the Community of Latin American and Caribbean States (CELAC) from 26-29 January. Although the Summit is focusing principally on poverty it should also focus on climate change needs for two reasons.

This year the U.N. climate change negotiations enter into an intense period as they approach the crucial meeting this December in Paris to create a new climate agreement. At the Lima climate conference in 2014, Costa Rica as the rotating president of CELAC, made an unprecedented statement on behalf of the community. The statement emphasized CELAC's commitment to the U.N. climate negotiations and global efforts to keep temperature increases below 2 degrees Celsius by the end of the century.[1] A priority for the third CELAC Summit will be to consolidate and advance CELAC's work on climate at the regional level and the U.N. climate negotiations.

Secondly, in early January, Beijing recently hosted the first ministerial conference of the China-CELAC Forum where a new joint cooperation plan was presented. China is playing a major role across Latin America and the Caribbean as a creditor, investor and trade partner. However, China's considerable presence in Latin America, like those of other major powers in the region, tends to focus on high-carbon activities including fossil fuel extraction, large-scale agriculture and energy intensive industries. The rapidly expanding economic, commercial and political ties between China and Latin America have far reaching implications for the global effort to confront climate change.

The partnerships between China and CELAC are significant for global efforts to tackle climate change. Together, these countries account for roughly 36% (China 27% / CELAC 9%) of total global greenhouse gas emissions. The world's ability to stay below a global average temperature increase of two degrees this century will rest in part on the willingness of these countries to reduce their emissions and shift to low-emission economies.

The third CELAC Summit therefore should focus on climate change not only within the context of the U.N. climate negotiations but also as part of a broader conversation about Latin America's development path and necessary transition to low carbon and resilient economies.

However, China's activities in Latin America which tend to focus on high-carbon activities may be entrenching high carbon development pathways in Latin America, as well as exposing the region to greater climate impacts. Chinese investments and imports of Latin American commodities may be strengthening the relative power of political and commercial domestic constituencies and of "dirty" ministries (e.g. ministries of mining or energy) in relation to environment and climate change ministries. These actors are less inclined to promote an ambitious climate agenda compared to ministries of environment which are traditionally marginalized in the region. China may thus be inadvertently undermining Latin American countries' attempts to advance climate change policies by reinforcing and strengthening actors within those countries that regard action on climate change as an impediment to growth.[2]

It is debatable whether the current configuration of Chinese-Latin America relations is having a positive impact on the U.N. climate negotiations to push forward an ambitious agenda or advance Latin American countries responses to climate change at the national level.

This discussion paper aims to explore some of the opportunities for low carbon development between China and Latin America. It builds on a the results of a conference organized by the authors held at

Brown University on November 21, 2014 on Chinese-Latin American relations and climate change. We briefly provide an overview of Chinese-Latin American relations before assessing the state of the U.N. climate negotiations and the role of China and Latin American countries at the negotiations and their current mitigation pledges. We then briefly explore four possible areas for improving China-Latin American cooperation on low carbon development and climate change.

2. Upgrading Chinese-Latin American Relations

Chinese-CELAC trade has accelerated rapidly and China recently replaced the European Union as the second largest market for Latin American and Caribbean exports. Between 2000 and 2013, trade in goods between Latin America and the Caribbean and China increased from around US$12 billion to nearly US$275 billion. In 2013 China was the single largest destination of exports from Brazil, Chile and Cuba and the second largest for Argentina, Colombia, Peru and Venezuela. As a source of imports China ranked as one of the four main suppliers for nearly every country in the region in 2013. This trade and investment is overwhelmingly concentrated in natural resources and energy such as oil, copper and soybeans.[3]

Since 2005, China has provided more than $100 billion in loan commitments to Latin American countries and firms.[4] Between 2010 and 2013 almost 90% of estimated Chinese investments between went to natural resources.[5]

China is developing an aggressive "energy diplomacy" to guarantee its secure and long-term access to energy resources.[6] Its investment in Latin America is also driven by profit.[7] Chinese public oil companies are buying up oil and gas reserves and securing energy supplies in Brazil, Argentina, Peru, Colombia, Ecuador and Venezuela.[8]

However, the current economic outlook is a concern. As China's growth slows, commodity prices have returned to their lowest levels since the 2009 global recession. The economic forecasts for 2014 and 2015 make for sober reading compared to the last decade when Latin American economies grew with an annual average growth rate of roughly 5 percent. High prices for Latin America's commodities—driven by Chinese demand and booming economy—were some of the main factors. In 2014 Latin America's economies grew on average by only around 1.3 percent and prospects this year do not look much better with growth of around 2.2 percent expected.

The newly created China-CELAC Forum is an attempt by the Chinese to speak with Latin America and the Caribbean through a single platform. It demonstrates China's commitment to the region and China's growing importance for Latin America and the Caribbean.[9] The Forum aims to reach US$500 billion of bilateral trade and US$250 billion of Chinese direct investment to the region. The Forum passed the China-CELAC 2015-2019 Cooperation Plan which covers various topics including trade, investment, infrastructure, energy, agriculture and science.[10]

The Plan calls for cooperation on advancing the international climate negotiations and strengthening and investment on renewable energy such as solar and wind power. It says to utilize the China-LAC Cooperation Fund as well as other financial resources to support cooperation projects in line with the social, economic and environmental development needs of CELAC. The Plan also mentions enhancing collaboration to improve environmental protection. Finally, the Plan encourages greater collaboration in the energy and mineral sectors, and sustainable use of natural resources with close observance of relevant laws, regulations and best international practices.[11] However, despite these official plans and declarations the level of cooperation on climate change and low carbon development between China and Latin America is currently minimal.

3. The State of the U.N. Climate Talks and the Role of China and Latin American Countries

The U.N. climate negotiations this year are charged with creating a new global agreement. A draft text of the agreement was cobbled together at the Lima climate conference in 2014 but many areas of disagreement remain.

A central goal of the Lima conference was to reach agreement on how countries will devise and submit their national pledges known as "Intended Nationally Determined Contributions" (INDCs). By March this year, all countries, including those from Latin America and China, are invited to put forward their INDCs. These contributions will be a central feature of the new agreement, which will come into effect from 2020. The contributions will include plans for how countries will reduce their greenhouse gas emissions and adapt to the impacts of climate change. They could lead to significant changes across economies, especially in carbon-intensive sectors, and could be integrated with goals to reduce poverty and inequality while sending signals to the private sector to invest in these efforts.[12]

Taking into account the current nature of Chinese-Latin American relations, a strengthened focus on climate change through the China-CELAC Forum could prove significant for whether Latin American countries put forward ambitious or modest INDCs. The emergence of new financial institutions backed by China provides opportunities for attracting finance to support the implementation of ambitious INDCs.

The major breakthrough at Lima was that all countries have to reduce their emissions, based on their "common but differentiated responsibilities and respective capabilities (CBDR+RC) in light of different national circumstances." This represents a significant shift, since previously only developed countries had mandatory obligations while developing countries were required only to make voluntary efforts.[13] As the world's largest emitter of greenhouse gas emissions, China holds a pivotal position at the negotiations.[14]

Latin American countries play active roles at the U.N. climate talks but do not tend to speak with one voice and often have competing positions. Rather countries negotiate within various groups. For example, Brazil is a member of BASIC along with China, India and South Africa. The Independent Association of Latin America and the Caribbean (AILAC) is made up of 6 nations including Colombia, Chile and Peru. Finally, the Bolivarian Alliance for the Peoples of Our America (ALBA) includes Ecuador, Bolivia and Venezuela.[15]

In 2009, China pledged to reduce CO2 emissions per unit of GDP by 40-45% based on 2005 levels by 2020. In November, 2014, as part of a joint statement with the U.S., China announced that it would peak CO2 emissions by 2030 at the latest, and increase the share of non-fossil energy carriers of the total primary energy supply to at least 20%. As a result, China will likely achieve its 2020 pledge [16]

Peru announced a voluntary emission reduction pledge in 2008, offering to reduce the net deforestation of primary forests to zero by 2021. Brazil has established a national emission reduction target of roughly 36 percent below its projected emissions by 2020. Mexico passed a comprehensive climate change law in 2012, with targets to reduce greenhouse gas emissions by 30% by 2020 and 50% by 2050. Despite these pledges and some progress, there are doubts over their level of implementation or whether they are being undermined by policies in other sectors such as energy.

4. Building a New Partnership for a Carbon Constrained World:

The China-CELAC Forum has the potential to be a transformative platform to reverse the high-carbon partnership between Latin America and China, and boost low-carbon development.[17] The China-CELAC Forum should address four areas which combine mitigation and adaptation actions: reducing the environmental and carbon footprint of Chinese-related activities in Latin America, promoting trade, investment and technical cooperation on renewable energy and sustainable cities; and capitalizing on the emerging international ecosystem for climate finance led in part by China.

Reducing the Dragon's Footprint in Latin America

China and Latin America's trade and investment activities are concentrated in environmentally risky sectors such as fossil fuel extraction, agriculture, forestry and mining. Latin America's exports to China have a higher concentration of greenhouse gas emissions than exports to other regions.[18] In Brazil, for example, Chinese demand for agricultural commodities may be tied to increased deforestation in the Amazon, both directly through land purchases and indirectly through the rapid rise in exports to China of soybean and beef products.[19]

The China-CELAC Forum should assess China and Latin America trade and investment activities and drastically reduce their heavy environmental and carbon footprint, while improving economic performance and protecting existing environmental and climate policies.

Latin American governments are not passive actors and should enforce and strengthen existing environmental legislation and avoid rolling it back for short term gains. Governments need to exert pressure on Chinese state and non-state enterprises to ensure environmental rules are respected and that activities are carried out transparently. Latin American and Chinese civil society groups are beginning to play a greater role by pushing for Chinese actors to hold consultations with affected communities in relations to their operations in Latin America. Finally, Chinese and Latin America leaders need to ensure investment guidelines are respected and strengthened to minimize or eliminate detrimental environmental and social impacts. Attempts to reduce the environmental and carbon footprint of Chinese-Latin American activities could have multiple benefits. It could help reduce exposure to climate and investment risks related to environmental impacts and social conflicts with local communities and also support a reduction in the greenhouse gas emissions of Latin American countries especially from deforestation.

Capitalizing on Latin America's Renewable Energy Bounty

There is remarkable potential for China and Latin America to cooperate on renewable energy especially in solar, wind, geothermal, tidal and small hydro. China is the largest manufacturer of wind and solar equipment in the world and has made impressive steps to improve its domestic policy framework.[20] China's growing domestic renewable energy market and influence in exporting technology to global renewable energy markets presents excellent opportunities to invest in clean energy in Latin America.

The conditions in Latin America for renewable energy are encouraging . At least 14 Latin American countries have renewable energy targets such as Chile's Non-Conventional Renewable Energy Law which aims to produce 20 percent of the country's electricity from renewable sources by 2025. Latin America and the Caribbean is regarded as one of the great frontiers for clean energy investment. From 2006 to 2013, it attracted a cumulative $132bn for biofuels, biomass, geothermal, solar, small hydro (up to 50MW) and wind.[21] The Inter-American Development Bank says that Latin America can meet its future energy needs through renewable energy sources, including solar, wind, and geothermal, which are sufficient to cover its projected 2050 electricity needs 22 times over.[22]

Chinese activities in the renewable energy sector in Latin America are increasing. In South America, Chinese wind-turbine makers are entering into the market by offering government-backed loans at interest rates as much as 50 percent lower than local banks, to ensure buyers choose Chinese products instead of Western alternatives.[23]

However, there are various obstacles such as domestic fossil fuel subsidies and a lack of capital willing to invest in such projects where there may be policy, regulatory and market risks and barriers.[24] Governments in the region must address such barriers and risks for scaled up renewable energy investments. If Chinese companies can adapt and learn about existing and new legislative, policy and market developments in these domestic markets, as well as political related risks, they could be in promising position to make progress in these renewable energy sectors.[25]

There are calls for Latin America to establish a regional center for trade and investment facilitation in China to promote trade and investment partnerships with Chinese companies. A center could also work directly with China's Ministry of Commerce and the China Council for the Promotion of International Trade.[26] Following this logic the China-CELAC Forum should establish a renewable energy investment facility which can encourage Chinese investment and financing to take greater advantage of Latin America's renewable energy potential.

Increased cooperation on renewable energy could various benefits. Firstly, to meet growing energy demand in Latin America, renewable energy is preferable to fossil fuels as a low-emission alternative to help prevent an increase in emissions. Secondly, the environmental impacts of renewable energy are significantly less than fossil fuel extraction which often takes place in fragile ecosystems. Thirdly, developing renewable energy reserves and markets in Latin America has important potential to boost innovation and productivity gains by advancing the technological base which is far greater than in the case of fossil fuels. Lastly, renewable energy cooperation if generously scaled could enhance both actors' role at the U.N. climate negotiations given the focus on shifting from carbon intensive fossil fuels to renewable energy in order to keep alive the goal of staying under 2 degrees of warming.

Breathing Cleaner, Moving Faster

Latin America is currently the most urbanized region in the world with 80 percent of the population living in cities. According to a number of surveys, the region's citizens are very concerned about climate change. With a high number of cities in the region located along the coast and threatened by sea level rise—or those facing water shortages due to glacial melt or droughts—these cities are very vulnerable to climate impacts. Latin American cities also present a significant source of greenhouse gas emissions, mainly from transport, energy, buildings, and waste. The link between soaring rates of private car ownership, increasing emissions from transport, and poor air quality is a major challenge.

China's rapid urbanization and smog-filled cities also represent a public health crisis and growing source of discontent in the country. Urbanization, along with priority for improving air and water quality are currently at the top of the Chinese Government's domestic agenda.

Across Latin America, cities are attempting to reduce emissions and adapt to climate impacts while improving the lives of citizens. These efforts include Quito's Climate Action Plan and Mexico City's Green

Plan. As the New Climate Economy report points out, better planning and extensive public transport networks can create cities that are economically dynamic, more resilient, and healthier.[27]

China and Latin America could benefit substantially from using the forum as a collaborative platform to promote long-term urban planning and sharing experiences on sustainable urban transport, reducing air pollution and cooperating on electric transport and high-speed rail options.[28] Progress with piloting low carbon zones in some Chinese cities could also be shared through the China-CELAC Forum.

New Options to Finance a Low Carbon Future

China has been playing an increasingly important role as a bilateral donor and through multilateral development banks (MDBs) – particularly as a member of the Inter-American Development Bank (IDB). China set up a $2bn co-financing fund, the first of its kind established by China and a MDB, to provide capital to complement the IDB's resources for various projects including reducing poverty and inequality and supporting programs to mitigate the impacts of climate change and promote greater gender equality.[29]

China's membership of the IDB coincides with a strategic shift to promote climate-related goals that were agreed as part of a capital increase. These goals require 25 percent of the bank's lending portfolio to support tackling climate change by 2015. Given the bank's emphasis on clean energy projects and China's growing role on renewable energy, there is potential for Chinese companies to benefit from IDB financing which will be subject to the Banks stringent Environment and Social safeguards and risk management systems.[30] These standards could therefore permeate to other projects financed by China backed institutions to avoid project delays and closures caused by negative environmental and social impacts. For example, Chinese mining operations at the El Mirador mining project in Ecuador resulted in social conflicts and environmental impacts causing temporary closures in Chinalco, and definite closure in Piura, Peru.[31] Chinese leaders should acknowledge that applying such standards makes good business sense and diminishes the risks of losses of their own investments in the region.

China is also working with other BRICS (Brazil, Russia, India and South Africa) countries to establish a New Development Bank (NDB) with $50 billion in initial capital to fund infrastructure projects in response to the slow pace of reforms at the World Bank and IMF. The NDB will finance infrastructure and "sustainable development" projects in the BRICS countries initially, but eventually other developing countries will also be eligible to apply for funds. This is particularly relevant for Latin America where countries need to develop their energy infrastructure, improve access to energy while developing strategies and policies for low carbon development.

China has also led the effort to form the new Asian Infrastructure Investment Bank (AIIB) which will be an inter-governmental regional development institution that counts 21 members so far. The AIIB is expected to be operational by end of 2015 with a target capital of $100bn.

China and several Latin American governments are active in shaping the governance and approach of the Green Climate Fund which is currently focused on working through accredited intermediaries. This allows the GCF to build and reinforce existing expertise, capacity and financial resources for countries transition to a low carbon and resilient development. The GCF could have a complementary and catalytic role in mobilizing resources from various public and private sector sources. It will be interesting to observe if financial institutions such as the China Development Bank, NDB and South-South Fund seek accreditation to the GCF. Ultimately it is for Latin American governments to lead in identifying how the

GCF, and other international and bilateral sources of public finance, can support them with implementation of their low carbon development strategies and plans.

Last December in Lima, China partnered with the UNEP and UNDP to organize an event on China's South-South cooperation on climate change. This marked a new approach for raising the profile of China's existing cooperation with developing countries on climate change, and signaled increasing ambition moving forward. In China, the importance of the South–South Fund is increasing. The National Development and Research Council are now exploring potential design options for increasing the Fund's impact. This could result in developing the Fund as a multilateral one, which would provide opportunity for partner countries to shape the governance and investment approaches that the Fund supports. However, this could also be viewed as competition to the Green Climate Fund, and lead to greater fragmentation of international climate finance. One way for avoiding such fragmentation would be for the South-South Fund to gain accreditation to the GCF.

A further challenge for the South – South Fund will be the extent to which it mobilizes and directs resources from other Chinese financial institutions, including domestic banks such as the Chinese Development Bank and multilateral ones such as the NDB and the AIIB.

These new institutions bring both opportunity and risk. On the one hand, new institutions bring with them new resources – and there will be a significant amount of additional money available to meet the large infrastructure gap in Latin America once the funds are established. China is aware that climate change is now a priority for Latin America and these new China-backed financial institutions provide an opportunity to improve cooperation. On the other hand, the risk associated with the evolving financial architecture is the possibility of increased fragmentation of the international system. There will be a need to ensure coherence between the various institutions in order to avoid arbitrage opportunities in high carbon investments. Whether the new institutions play a positive role regarding climate change cooperation is yet to be determined. For example, the NDB bank has indicated it will invest in sustainable development – however at this early stage it is unclear what its environmental standards and management practices will be.

The ongoing evolution of the global financial architecture is likely to have far-reaching implications for Chinese-Latin America relations. How the NDB and the new South-South Cooperation Fund interact with or work alongside the GCF and other sources of climate finance, will have implications for Latin America countries as they seek to attract finance for implementation of their INDCs.

China also leads on a number of innovative initiatives on green finance. The People's Bank of China played a key role in the IFC's launch of the Sustainable Banking Regulators Network, which also includes Peru and Brazil as members. The Network will "help regulators in emerging markets develop green-credit policies and environmental and social risk-management guidelines by sharing knowledge and technical resources."[32] China has also launched seven regional emissions trading pilots and plans to launch a national trading system in 2016.

It is clear that China is making positive progress on the green finance agenda, which is already generating valuable lessons for Latin America that are facing similar challenges to China in building a financial system that supports the transition to a low carbon and sustainable economy.

5. Final Thoughts

Latin American countries can use CELAC to identify and agree on common areas of interest in transitioning to low carbon and resilient economies. The third CELAC Summit can advance CELAC's work on climate change at the regional level and at the U.N. climate negotiations and governance of new financial institutions that could play an important role in shaping the international architecture for climate finance.

The China-CELAC Forum has the potential to be a transformative platform to reverse the high-carbon partnership between Latin America and China and boost low-carbon development. CELAC should use the China-CELAC Forum as means to engage China on taking action on climate change within their bilateral partnerships and ensure that Chinese-Latin American relations positively contribute to global efforts to create an ambitious and equitable global climate agreement.

The Forum should prioritize increasing cooperation on low carbon activities, particularly on renewable energy and sustainable cities whilst reducing the environmental and carbon footprint of Chinese-related activities in Latin America. The Forum should address how the evolving international architecture for climate finance, particularly the role of new China-backed financial institutions can help finance Latin American efforts to confront climate change. Emerging international financial institutions such as the New Development Bank and the South-South Cooperation Fund will have significant implications on financial flows to the developing world. Whether or how these institutions challenge the evolving financial ecosystem for climate finance is a key issue for Latin American countries.

Latin America's relationship with China could prove to be a crucial factor in whether Latin American countries are able or willing to take the necessary action on climate change and present ambitious or modest INDCs. The economic slowdown in Latin America and China is not an excuse to undermine environmental or climate policies to attract foreign investments for short terms gains but rather an opportunity to set Latin America on the path towards creating low carbon and resilient economies. To that end Chinese-Latin American relations could prove pivotal to Latin American countries' efforts to respond to climate change.

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