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Trump's Energy Policy: A Threat to Climate Protection in Latin America?

Christian Hübner

The new U.S. president Donald Trump intends to "unleash" the oil and gas sector in the USA mainly through the deregulation of existing environmental and climate restraints. To which extent these domestic political measures will be replicated in American foreign policy remains to be seen. The withdrawal of the U.S. from the Paris climate agreement, which was one of the elected president's campaign promises, is proving itself no less than difficult to accomplish. Lately there have been only talks about renegotiating the agreement. Nevertheless, one should count on the fact that the U.S. will step considerably back on their international climate obligations. Latin America, which has been counting on a close political cooperation with the U.S. in energy and climate issues, apprehends the beginning of an era of uncertainty.

Energy Dependency Looks Somewhat Different

The foreign policy on energy did not play a prominent role during the U.S. presidency campaign.* That came as no surprise since petroleum is the sole energy resource on whose import the U.S. still is dependent today. And even this dependency has dramatically declined in the past years due to the exploitation of domestic shale oil. Accordingly, the American energy dependency, observable from the 1950s onwards, could be gradually reduced. The U.S. petroleum net import was merely about 24 per cent in 2015.[1] With the suspension of the petroleum export ban, the U.S. has recently begun to export its petroleum. However, political instability in the Middle East has also been one of the causes leading to a change of priorities in the structure of imports. Thus, today the U.S. main oil suppliers are all located on the American continent: Canada (with approx. 40 per cent), Venezuela (approx. nine per cent), Mexico (approx. eight per cent) and Colombia (approx. four per cent).[2] Only eleven per cent of oil is imported from Saudi Arabia.

The "shale gas revolution" in the U.S. led to a substantial change in the global gas market. The largest extraction sites in Texas and Pennsylvania, among others, have put the U.S. in the position of becoming a gas-exporting country. Presently, approximately 40 per cent of U.S. gas exports are processed through pipelines to Canada, and 60 per cent go to Mexico. Since the gas market in North America can be considered a well-integrated system, import and export relations are still defined mainly by market forces. Thus, Canada is at the same time the biggest gas exporter to the U.S. Furthermore, the process of gas liquefaction (resulting in Liquefied Natural Gas, LNG) makes gas trading possible independently from any complex geopolitical pipeline-diplomacy. The biggest share of gas imports will continue to come from North American pipelines, whereas the proportion of the import and export of U.S. LNG towards Asia and Europe will increase.

The increasing energy autonomy and growing energy export capacity of the U.S. brought considerable transformations along for Latin America. Mexico, being the U.S.' immediate neighbour, was probably most affected by it. After that – and contrary to expectations – there were no economic upheavals. Instead, there was a deeper integration in terms of energy policies between Mexico and the U.S. The recently adopted energy sector reform in Mexico, which broke up the hitherto established monopolistic

energy regime, led not only to substantial U.S. investments in almost all areas of the Mexican energy industry. It also aims to achieve the strategic goal of reducing climate-damaging greenhouse gas emissions (such as CO_2). American gas exports will play an important role in the Mexican energy mix. In addition, Latin America is particularly dependent on U.S. petroleum refineries producing diesel, gasoline or heating oil for lack of own capacities. Current U.S. exports of refined products to Mexico are more expressive than their petroleum import. Nevertheless, the American petroleum market remains a significant source of revenue for oil exports from Latin American states such as Mexico, Venezuela, Colombia and Ecuador. Mexico alone exports much more than half of its crude oil to the U.S.

In the event that the new government's *economic nationalism* rationale turns out to be also applied to existing foreign energy supply structures, it can be assumed that this will not result in sudden economic upheavals in Latin America.[3] The American energy dependency has gone sharply down over the past years and this has been leading to a relatively well-balanced energy balance of trade.[4] A one-sided and politically motivated drawback in the political integration of the U.S. and Mexico within the energy sector, for instance through the introduction of an energy import tax, would be extremely painful in economic terms and thus unlikely to happen.

New Competition on the Continent

In the context of the North American Free Trade Agreement (NAFTA) between Mexico, Canada and the U.S., which will be renegotiated, it can be assumed that energy trade, not least because of the LNG transportation system potential and growing gas exports related to it, will be integrated under even stronger competition conditions. Mexico could have advantages over Canada even in the long run. For one thing, Mexico has considerably larger oil reserves and, and for the other, they can be exploited on a less expensive basis compared to Canada's more expensive oil sands. Looking at countries such as Argentina and Brazil, we will more likely see the increase in energy trade than its unbundling. Should the U.S. indeed implement its intended sharp protectionist competition policy, these two countries would present themselves along with Mexico as cheaper energy partners when compared to Canada. Especially Argentina, which owns one of the largest shale gas reserves in the world, could become an attractive partner and at the same time a competitor, not least because of its currently economy-friendly administration.

The growing American energy export capacities also affect various Caribbean and Central American states such as Cuba or Nicaragua, which were until recently still dependent on Venezuelan oil. Venezuela ensured to those states that, in the framework of the Petrocaribe Agreement, it would be able to offer lower oil prices than those practiced in the global market. Meanwhile, this advantage has had its days. A politically weakened OPEC and a Saudi Arabia that has been oversupplying the world market with oil have led oil prices to decline to such an extent that the immediate oil and gas export from the U.S. to Central America and the Caribbean states became an attractive political and economic alternative to Petrocaribe states. Venezuela has consistently made political use of Petrocaribe states' petroleum dependency, for instance within the Organization of American States (OAS), to push its interests in foreign affairs through.

Latin American petroleum states, i.e. Venezuela, Bolivia, Argentina, Brazil and Mexico, have been responding to the American energy independence with a focus on Asia in terms of energy policy. Hence, approximately ten per cent of Chinese and 20 per cent of Indian petroleum imports come from Latin America, and China is currently the biggest energy purchaser. The relationship concerning energy policy between Latin America and China is represented by Chinese direct investments, oil supply in exchange for Chinese credits, and also the traditional oil, gas and coal trade. In 2015 alone, China granted 29 billion U.S. dollars in

credits to Latin American countries.[5] With over 14 billion U.S. dollars, since 2005, Chinese banks have granted more credit to Latin American countries than both the World Bank and the Inter-American Development Bank[6]. Once again, far more than half of it went to the Latin American energy industry, whereby Venezuela has received the largest share to date.

The overall situation shows that, due to their actual energy export capacity and their export capacity anticipated by markets, the new U.S. administration can barely set new trends. The U.S. oil and gas sector has already been "unleashed". Nevertheless, the increasing competition on the continent bears the potential of producing completely new energy trade partnerships in which the largest Latin American emerging countries have comparative cost advantages vis-à-vis Canada. Furthermore, many Latin American energy-exporting countries have turned themselves towards China, a process strengthened by the U.S. administration's unilateral withdrawal from the transpacific trade agreement (which would have ruled China out). In the future, the resource-rich Latin American continent will emerge even stronger as an energy supplier to China. Massive Chinese investments in Latin America, for instance in Venezuela and Brazil, carried out despite high economic and political risks, are an impressive sign of this reorientation. To what extent the monetary investments of China will politically pay off remains to be seen. Latin America is definitely an important resource partner for China. Nonetheless, when compared to other energy exporters, mainly in Asia and in the Middle East, Latin America still plays only a minor role.

Climate Policies Are Bountiful in Latin America

Latin America belongs to one of the fastest developing energy transition regions in the world. Mexico, Brazil and as of recently also Argentina are the largest emerging countries and play an important role. Their huge energy demand has led to a superregional breakthrough in the use of renewable energy sources such as hydropower, biomass, wind power and solar energy. For instance, already in 2013, the Brazilian primary energy mix was, alongside energy sources such as oil and gas, composed of 28 per cent biomass and eleven per cent hydropower. Compared to that, Chile, Costa Rica and Uruguay can be considered "real" energy transition states, which could come up with more than 80 per cent of renewable energy sources in their energy mix.

The Latin American energy transition benefits from a specific political environment. On a worldwide comparison, Latin Americans are the ones who most strongly perceive climate change as a direct threat[7]. This comes as no surprise considering the melting Andean glaciers, extreme droughts and increasing extreme weather events as for example hurricanes. Thus, in the past couple of years, various countries such as Brazil, Chile, Mexico, Peru and Costa Rica have been developing initiatives such as the *Asociación Independiente de Latinoamérica y el Caribe* (AILAC), whose members actively contribute to funding climate related initiatives – these have been progressively incorporated in multilateral climate change negotiations. Various Latin American countries, especially Peru, which paved the way for Paris by hosting the COP20 in Lima in 2014, have been contributing to the realisation of the climate protection agreement of Paris.

Many Latin American countries have started to politically enshrine the acceptance of climate protection through the development of renewable energies and CO_2 emission reduction targets. Brazil, for instance, has set the goal of obtaining 80 per cent of its electricity out of renewable sources by 2023, and to bring its CO_2 emissions down to 37 per cent below 2005 levels by 2025. Mexico aims to reduce at least 25 per cent of its CO_2 emissions by 2025 – it could possibly reach a reduction of 40 per cent – depending on its economic development. Right after Mauricio Macri took over his government's duties in 2015, Argentina started giving political priority to the development of

an Argentinian renewable energy sector. With that, until 2030 at least 15 per cent of its CO_2 emissions – depending on the country's economic development – shall be reduced. It would be even possible to reach 30 per cent by that time. The distinct feature of the Latin American energy transition has to do with the fact that it has come into existence by means of competitive tenders that are able to drastically lower the costs for the expansion of the renewables sector.[8] Therefore, and taking into account only cost considerations, renewable energies became competitive in comparison to fossil energy sources.

U.S. Climate Funding – (In-)Dispensable to Latin America?

Various national, bilateral and multilateral financial institutions are part of the implementation of political objectives in climate matters in Latin America. In 2015, such institutions mobilised almost 20 billion U.S. dollars that were invested either directly or indirectly in climate protection[9]. Almost 80 per cent of these funds were dedicated to climate change prevention and thus went into the promotion of the Latin American energy transition. Almost 50 per cent thereof were mobilised by national development banks. The Brazilian development bank *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) alone has made approximately nine billion U.S. dollars available for that. Multilateral banks such as the World Bank, the Inter-American Development Bank (IDB) or the Development Bank of Latin America (CAF) accounted for the greatest part of the remaining resources. The main funding instrument for the promotion of climate protection was the assignment of subsidised loans, through which private investments also were set up to a significant extent.

Global climate funds are important financial institutions, along with development banks. Global climate funds render multilateral funds for climate protection available from industrialised countries to emerging and developing countries. In financial terms however, these funds play a minor role in Latin America as compared to funding by development banks. In 2015, they comprised just 1.5 per cent (302 million U.S. dollars) of the total climate funding capacity. The U.S. contributes through its international climate-funding program directly to this fund, so that its possible turning away from its climate policies could bear important consequences. For the U.S., the most important climate funds regarding Latin America are Green Climate Fund (GCF) and the Clean Technology Fund (CTF).

GCF's goal is to spend from 2020 on 100 billion U.S. dollars per year in global climate protection. The fund comprises already almost ten billion U.S. dollars.[10] The U.S. itself has promised three billion U.S. dollars, of which the Obama administration deposited 500 million shortly before the end of the Democrats' term. In turn, in Latin America there are already projects in the areas of seed funding of renewable energy projects, promotion of geothermal sources, sustainable agriculture, solar energy, energy efficiency and green bonds, in countries such as Argentina, the Caribbean, Ecuador, Chile, El Salvador and Peru.

At the same time, other Latin American countries such as Colombia, Peru, Panama, Chile and Mexico pay into the GFC even though some of these countries are recipients themselves of international development aid. The CTF focuses more explicitly on promoting the expansion of capacities in energy efficiency and renewable energies. In view of the accumulated resources, it can be currently considered one of the biggest donors of the past few years in Latin America. Mexico is one of the countries that currently benefits the most from that fund. Between 2003 and 2015, the country received over 820 million U.S. dollars.

In addition to the climate fund, the U.S. promotes various climate protection projects in Latin America through bilateral institutions, such as its own development organisation USAID, or its Export-Import-Bank. Among them, we find projects in Colombia, Mexico,

Peru, Chile, and in the Caribbean. The focus lies on promoting sectorial CO_2 prevention strategies in waste management, supporting the achievement of climate protection goals, expanding renewable energy facilities or financial support for the establishment of public-private-partnerships in energy matters as well as in adaptation to climate change. The U.S. climate protection policy in Latin America is carried out above all by resorting to U.S.-American companies and serves purposes of domestic political interests. A great amount of the climate funding flows back to the U.S. due to the engagement of U.S. companies involved in the matter.

Furthermore, the U.S. American climate funding in Latin America also encompasses strategies in terms of security policies, such as the Caribbean Energy Security Initiative (CESI), which aims at the commitment to clean energy use. Against this background, the members of the Caribbean Community and Common Market (CARICOM) have even determined their own climate protection goals. The U.S. supports the setup and the promotion of low-emission energy supply structures within this framework. The use of gas instead of oil plays a leading role. The North American Climate, Clean Energy and Environment Initiative was initiated still during the Obama administration and shall be object of the U.S. climate-funding program. Within the framework of this initiative, Canada, the USA and Mexico committed themselves to obtain approximately 50 per cent of its energy from clean sources until 2025.

Between 2010 and 2015, the U.S. has already spent approximately 3.5 billion U.S. dollars for climate protection in Latin America through its bilateral climate-funding program and through multilateral climate funds[11]. A potential withdrawal of the U.S. from international climate policy discussions could mean a reduction of this amount that would have negative consequences for the Latin American energy transition. Yet, considering mutual dependencies in the framework of bilateral climate projects, one can assume that the U.S. would initially withdraw only from the multilateral climate fund, the amount thereof in comparison to the activities of regional and national development banks being relatively low. Hence, the consequences would be manageable even if Mexico, which strongly benefits from these funds, turns out to be one of the most affected by the measure. This would strike Latin America more severely if bilateral cooperation ends up being weakened and if "economic nationalism" renders consequences in matters of financial support (for instance in the form of duties). To which extent this might happen remains to be seen – over the past years, the U.S. has put forward vital private sector investments in the area of renewable energies, especially in Mexico and in Brazil.

Another question may come up, namely which player would fill a possible climate-funding gap left by the U.S. in Latin America. In the area of fossil energy sources, China has been presenting itself as an alternative to the U.S. in Latin America. This has been so for a time now in the area of renewable energies. However, China is not a climate-funding nation. In spite of that, it invests intensively in the expansion of renewable energy sources in Latin America. China has outpaced many bidders from Europe and the U.S. by participating in tenders for wind and photovoltaic projects in Mexico, Argentina, Peru and Chile over the past years with strong support from these countries' own development banks. Even though the U.S. is still on top of the Foreign Direct Investment list, the Chinese are catching up. On the export of wind turbines for instance, China ended closely behind the U.S. in 2015. Compared to the U.S., which exports almost only to Brazil and Mexico, China has established itself more broadly in the international arena. The main importers of Chinese wind turbines in Latin America are currently Argentina, Bolivia, Brazil, Chile and Mexico.

On the other hand, European countries and the European Union (EU) could become more active through bilateral cooperation. Germany, Norway and Great Britain are already the leading climate-funding donors in the region. This

could create a positive political framework, since the largest emerging countries, Brazil and Argentina, have once again been seeking to become closer to the EU through Mercosur. Mexico has also been attempting to speed up a free trade agreement with Europe since its relationship with the U.S. started showing signs of tension.

The hardly-measurable negative effect of a possible withdrawal of the U.S. from a global climate protection effort could bear a political signal effect to Latin America. Various Latin American states are currently facing tense political situations that burden the overall trust on politics. The energy reforms in Mexico and Argentina are not processed smoothly. In both countries, energy prices for fossil fuels have risen due to reduction of subsidies. This resulted in public protests, some of which with violent outcomes. The "Odebrecht scandal", which besides big infrastructure projects also hit extensive power supply appliances such as oil and gas pipelines, has shaken the continent. Trust in politics has reached an all-time low last year due to various corruption scandals in the energy sector. Distrust in environmental agencies has followed suit considering the catastrophic consequences of a spread of toxic mudflow due to a leak in a sewage sludge basin in the state of Minas Gerais. The withdrawal of a major political actor such as the U.S. from global climate policy decisions could feed the already prevailing uncertainty and hamper commitments to reform.

Overall, the climate-funding entanglements between the U.S. and Latin America are marginal when compared to the funding capacities of regional development banks. A reduction of the American financial engagement in multilateral climate policies would have minor consequences. However, a restriction of bilateral investments in the area of renewables would harm the U.S. and is thus not likely. Moreover, a climate-funding gap left by the U.S. could possibly be covered by China or Europe. A political signal alone indicating a withdrawal from the U.S. from global climate matters could have a harming effect on the Latin American commitment to accomplish reforms in the energy sector.

Possibly much Ado about Nothing

Despite fierce election rhetoric and public uncertainty regarding new actors in the American energy and climate policies, one should not expect a major disruption of the relationship between the U.S. and Latin America. From a market economy perspective, the growing U.S. energy export capacity in Latin America was already priced in, inter alia through its stronger focus on China. To "unleash" the petroleum sector would thus hardly cause any ad-hoc problems. In addition, the intended withdrawal of the U.S. from a multilateral climate policy will have minor consequences since it has a minor importance to Latin America as far as climate-funding policies and mutual dependencies are concerned. China has positioned itself in such a manner that it could rebalance a possible climate-funding gap through investments. However, this political signal could exert negative consequences on the will to undertake energy sector reforms in the region since we are experiencing times in which the trust of Latin Americans on their politics is shaken by massive corruption scandals. One can expect for the future that the new U.S. administration and its potential energy and climate policies will push Latin America more towards China. Europe could and should see this as an opportunity, and could present itself much more as an alternative partner to Latin America in matters concerning climate and energy transition policies.

Dr. Christian Hübner is Head of the Regional Programme Energy Security and Climate Change in Latin America of the Konrad-Adenauer-Stiftung.

URN: urn:nbn:de:0299-20184cb5d3ec-5b07-e811-9e6f-005056b963432

* This contribution is a translation from German into English. The original article had been published before the United States announced to withdraw from the Paris climate agreement.

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