REJUVENATE MEXICO’S LOW-CARBON SHIFT

Overall objective and context

The next U.S. administration should engage early and robustly with the Mexican administration, under President Andrés Manuel López Obrador (AMLO), to encourage it to reverse its policies that backslide on climate and clean energy goals and commitments. As one of Latin America’s top two emitters and a historically progressive voice on international climate, Mexico has previously been a key actor in the fight against global climate change. Under the Paris Agreement, Mexico committed to reduce GHG emissions by 22 percent and black carbon emissions by 51 percent of business-as-usual levels by 2030; peak net emissions from 2026 and reduce emissions per unit of GDP by around 40 percent from 2013 to 2030; and take numerous adaptation measures. However, expert assessments conclude that these targets are not in line with a 1.5°C pathway. In addition, the government is not doing enough to meet even this insufficient goal. AMLO’s administration has not presented a clear proposal to accelerate GHG emission reductions and, despite early promises, the outlook for the renewable energy sector is increasingly uncertain. Indeed, AMLO has taken specific actions to champion the fossil fuel sector as a misguided strategy to attain energy independence and achieve development.

Mexico is one of the United States’ top two trading partners a position recently re-established with the new U.S.-Mexico-Canada Trade Agreement (USMCA, which replaced the North American Free Trade Agreement or NAFTA). Our markets, transportation systems, energy sectors, ecosystems and natural resources are intricately linked. So are our people; the 2000-mile-long border region is home to a combined 15 million people and that population is expected to have doubled from 2017 to 2025. Impacts to the communities, natural resources and infrastructure on one side of the border affects the other. The U.S. government is in a strong position to encourage AMLO to reverse course on his climate, energy, and environmental policies by presenting opportunities to collaborate on efforts that would benefit both countries.

Priority strategies

The Mexico agenda could be focused around four priority strategies:

1. **Encourage Mexico to meet its climate commitments by adding the Paris Agreement to the list of multilateral environmental agreements (MEAs) in the United States-Mexico-Canada Agreement (USMCA);**
2. **Harmonize and enforce environmental regulations, including for air, water and fuels;**
3. **Seek to reverse the Mexican government’s actions that block renewable energy projects in favor of fossil fuel plants; and**
4. **Address limited water resources along the border.**
Encourage Mexico to meet its climate commitments by adding the Paris Climate Treaty to the list of MEAs in USMCA

As described briefly above, Mexico’s current policies are not in line with its climate commitments. If it does not change course, the country is unlikely to meet its existing NDC, let alone a more ambitious one that it should present in 2020 per the Paris Climate Treaty. As the second largest GHG emitter in Latin America and a very influential country in the region, it is critical that Mexico is strong on climate change.

In addition to the ideas outlined in priorities #2 and #3 below, one way a new U.S. administration could help Mexico reverse course is to reopen the USMCA and incorporate climate change into it. The USMCA contained some important environmental improvements over NAFTA, yet it failed to even mention climate change. The simplest way to have done so would be to have included the Paris Climate Treaty on the list of Multilateral Environmental Agreements (MEAs) that the parties to the trade agreement committed to adopt, maintain and implement. Even though the U.S. Trade Representative refused to add Paris to the list of MEAs, negotiators did add language that leaves the door open for future agreements to be added.

A simple action a new U.S. administration could take early on would be to request that Paris is added to the list of MEAs covered in the USMCA. To be more thorough, the U.S. administration could also request that climate change be incorporated in other areas of the agreement. Doing this would signal to Mexico (and Canada) that the administration understands the links between trade and climate change and takes fighting climate change seriously. It would give the U.S. economic leverage to encourage strong climate action. In addition, it would improve the “template” for any future trade deals that the United States may sign with other countries (e.g., with the United Kingdom).

This would essentially be reopening the USMCA and would initiate the requisite steps with USTR and Congress. Similar processes would have to take place in both Mexico and Canada.

Harmonize and enforce environmental regulations, including for air, water and fuels

The new U.S. administration should prioritize harmonizing key environmental regulations and implementation efforts in Mexico with those of the United States. These include standards for air quality, water quality and fuel quality, which all currently fall far short.¹

The USMCA could have played an important role in facilitating this harmonization and pushing Mexico to improve its air and water quality standards, in much the same way it did for labor standards. But again, as in the case with climate change, the USMCA failed to address them in a meaningful way. Negotiators did not sufficiently consider the negative externalities of Mexico’s air, land and water pollution.

That missed opportunity could be addressed by a new U.S. administration via bilateral action between the two countries’ environmental authorities who could work together to harmonize standards and share enforcement experiences. Additionally, USMCA negotiators could add relevant language to the USMCA trade agreement, akin to what was described above for climate change in priority number one.

Similarly, regulations for fuel quality—and their implementation—lag significantly behind those of the United States. As a result, Mexico’s transportation sector is the country’s second highest GHG-emitting sector. The country has enacted vehicle emissions regulations, but the technologies to reduce emissions work most effectively when paired with ultra-low sulfur fuels. While historically there has been a regulatory disconnect between the vehicle emissions standards and the fuel quality standards, both are in place today. Still, in December 2019 the Energy Regulatory Commission gave Petróleos Mexicanos (PEMEX) five additional years to comply with the fuel quality standard and produce ultra-low sulfur fuels. PEMEX has been delaying their implementation of these standards for 15 years at the expense of the Mexican people; experts have estimated that the combination of ultra-low sulfur fuels and low-emission heavy duty vehicles would save 6,800 premature deaths, 24,000 tons of fine particulate matter, and 54 million tons of CO2-equivalent. Harmonizing with the U.S. on both regulations and implementation is a climate and community priority.

Seek to reverse the Mexican government’s actions that block renewable energy projects in favor of fossil fuel plants

The current Mexican administration has made no effort to hide its plans to stop the development of renewable energy projects and instead champion the fossil fuel sector. This is because AMLO is intensely focused on achieving energy sovereignty, or energy independence,

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2 At 155 Mt CO2e, it is surpassed only by Electricity / Heat Generation’s 196.1 Mt CO2e: https://www.wri.org/blog/2020/02/greenhouse-gas-emissions-by-country-sector.

3 A summary of this disconnect is described here: https://www.nrdc.org/experts/amanda-maxwell/climate-priority-1-mexico-2016-adopt-strong-emissions-standards-heavy-duty

and he views the state-owned enterprises—which only own fossil fuel exploration, development, generation and distribution assets—as the sole way to achieve that goal. To that end, government authorities have taken many steps in the past two years that increasingly make it difficult for renewable energy projects to succeed. See item IV below for a bulleted list summarizing those actions.

This is a problem generally, as it will prevent Mexico from being able to meet its existing climate commitments and national clean energy targets. Some of these actions are also problematic specifically for U.S. companies which either own or are invested in solar PV or wind projects that are being blocked by the Mexican government, even though they won contracts in previous energy auctions. Some of these plants have already begun construction, while others are on the point of operation, waiting for the government’s permission to feed into the grid.

A new U.S. administration can approach this issue in two ways. First, it could take a collaborative approach, endeavoring to educate AMLO and his top advisors of the benefits of renewable energy and how those technologies are the best way to achieve energy independence in the 21st century. This could take the form of working groups, bilateral outreach at different levels, etc. An important focus could be sharing educational and exchange opportunities for universities, high schools, technical training facilities, etc. to help create a strong, informed workforce to complement new employment opportunities in the clean energy sector.

Second, the administration could take a more combative approach by addressing the fact that U.S. investments and companies are being threatened by the Mexican government’s actions. The U.S. government would make clear that the free and fair investment of American businesses in energy matters should not be attacked, pressured or discriminated against. Indeed, these were protected in the USMCA. If pressed, the United States could take action in the form of opening a complaint under Chapter 31 of the USMCA.5

Address limited water resources along the border

A new administration should work closely and ambitiously with Mexican authorities on bilateral regulations and practices that protect ecosystems and water resources that span the U.S.-Mexico border which are vital to communities and to climate.

For example, the Chihuahuan Desert, the largest North American Desert, is facing numerous threats including the overuse of water resources and poorly-planned energy development.

Unrestricted conversion of the desert’s grasslands to agricultural land, the continued over-exploitation of groundwater resources, and projected growth in oil, gas, and wind projects could further degrade this vital region in both the United States and Mexico, threatening the environmental services it provides, particularly as a nature based solution for carbon soil storage. Semiarid grasslands store from 10 to 30 percent of world soil carbon, versus grasslands converted to intensive agriculture which releases soil carbon and increases atmospheric carbon pollution. A new administration should highlight the importance of preserving the grassland ecosystem through establishing a broad bilateral agreement on U.S.-Mexican border groundwater management and use that takes into account communities’ best practices on both sides of the border. It should also work with the International Boundary and Water Commission, which has deep experience in bilateral work to preserve water basins and ecosystems along the border.

Much of the work towards these efforts could be addressed in the framework of relaunching tri- and bi-lateral energy and climate initiatives that existed prior to and during the Obama Administration, such as the North American Leaders Summit.

Throughout the Obama administration, the executive branch engaged in a series of bilateral initiatives that demonstrated the importance of fighting climate change and developing clean economies. In 2009, the presidents of the U.S. and Mexico announced a Bilateral Framework on Climate Change and Clean Energy. In 2015, the two countries reaffirmed their commitment to the issue by announcing a high-level bilateral clean energy and climate policy task force. These efforts were prioritized among relevant executive branch agencies – both countries’ Energy Secretaries chaired the task force – and resulted in positive collaboration on a variety of issues, from transportation and energy efficiency, to HFCs, to adaptation measures. The North American Leaders or “Three Amigos” Summit similarly was an opportunity for the U.S. and Mexican presidents and the Prime Minister of Canada to highlight the importance of their priority issues at the highest levels of government, thereby setting the tone for collaboration between and among each other.

The Trump administration has entirely neglected and ignored these initiatives, as has the AMLO administration in Mexico.

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8 https://fas.org/sgp/crs/row/R43312.pdf, p. 4
Stock take of Mexico’s support for the fossil fuel sector

The AMLO administration has taken a series of actions that champion the fossil fuel sector at the expense of clean energy, including but not limited to:

- Dismantling the Environment Ministry, including the area in charge of climate change policy. The already inadequate and insufficient human and financial resources have been reduced by at least 30 percent.
- Cancelling the 4th 2018 “Long-term electricity auction” round and therefore its pipeline of new clean energy projects.
- Cancelling important grid expansion projects necessary to transmit wind power like the high-tension electricity line from Oaxaca to the central part of Mexico.
- Constructing a new oil refinery and a new budget allocation to the “modernization” of coal, diesel, gas and oil-fueled power plants, some of which were planned to be retired.
- Reconfiguring existing refineries to produce a huge volume of high-sulfur fuel oil which the Federal Electricity Commission (CFE) could burn in its old gas fueled power plants.
- CFE’s announcement of six new fossil fuel power plants, despite historically low renewable energy prices. These infrastructure projects will rapidly turn into stranded assets that the environment and economy cannot afford.
- Modifying the Clean Energy Certificates (CEls by its acronym in Spanish) rules in ways that negatively and retroactively affect the investments and deployment of ongoing renewable energy projects.
- In May 2020, the National Energy Control Center (CENACE) created measures designed to prioritize dispatch of fossil fuel plants and delay the entry into operation of 28 wind and solar PV plants.

Indicative timeline for action

Pre-election:

- Reach out to Mexican government with list of bilateral priorities, including climate change, clean energy, and environmental concerns

First week:

- Bilateral conversation with AMLO outlining the U.S.’s new climate, clean energy and environmental priorities, and identifying opportunities to collaborate
  - Include adding Paris Climate Treaty to USMCA within that conversation
  - Include the need to remove regulatory obstacles to renewable energy plants
**First 100 days:**

- Arrange a bilateral meeting of heads-of-state (either U.S. President to Mexico, or Mexican President to U.S.) with full agenda focused on climate, clean energy and environmental issues of bilateral import
- Arrange to reconvene the North American Leaders Summit

**First year:**

- Bilateral meeting of heads-of-state (either U.S. President to Mexico, or Mexican President to U.S.)
- Establish new bilateral working groups on climate, clean energy, and environmental collaboration
- North American Leaders Summit

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1 This section is based upon input from the following individuals (section leads are noted with an asterisk and additional contributors are listed in alphabetical order): Amanda Maxwell (Natural Resources Defense Council)*; Jessica Carey-Webb (Natural Resources Defense Council); Carolina Herrera (Natural Resources Defense Council); and Marilyn Martinez (Natural Resources Defense Council). The views reflected in this document are not intended to be consensus perspectives and do not reflect the views of the individuals’ organizations.