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## FEATURED Q&A

# What Would Carbon Tariffs Mean for Steel Producers?



Governments in the United States, Europe and elsewhere are seeking to use tariffs on goods such as steel to help lower carbon emissions. // File Photo: Pixabay.

**Q At the G20 summit on Oct. 30, U.S. President Joe Biden and European Commission President Ursula Von der Leyen agreed on setting carbon tariffs on steel imports in an effort to tackle carbon emissions. Among others, some objectives of the use of carbon taxes are to push trading partners to strengthen their own emissions rules, as well as to even the playing field for domestic companies. What does the plan entail, and what are the benefits and risks for developed countries of imposing the carbon tariffs? How will they affect steel companies and producing countries in Latin America, such as Brazil and Mexico? How will trade flows between the United States, Europe and Latin American countries change due to the planned carbon tariffs?**

**A Devry Boughner Vorwerk, member of the Advisor board and CEO of DevryBV Sustainable Strategies:** "The agreement is considered a landmark bilateral trade deal to decarbonize sectors. Really, it's a 'stopgap' until 2024, when the United States and the European Union plan to reach an agreement on standards used to establish carbon-based tariffs. Until then, beginning in January, the United States will impose a messy tariff rate quota regime, establishing 16 different import quotas for aluminum and 54 for steel. Import tariffs within quota are zero percent, and out-of-quota tariffs range from 10-25 percent. Argentina and Brazil are already subject to quotas negotiated in 2018. For Mexico, the USMCA ended tariffs and monitors import 'surges,' so it's already under a managed trade situation. Brazil leads steel production across the region, having produced 31 million metric tons

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## TODAY'S NEWS

### POLITICAL

## At Least 68 Inmates Killed in Latest Ecuador Prison Riot

At least 68 inmates were killed in a riot between rival gangs in Ecuador's Litoral prison, which was the site of the country's deadliest-ever prison riot just a month and a half ago.

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### ECONOMIC

## Peru Expecting Strong GDP Growth This Year: Official

Peru's gross domestic product is set to surpass pre-pandemic levels this year, said the central bank's head of economic studies.

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### POLITICAL

## Argentina's Peronist Coalition Suffers Major Defeat in Vote

In Sunday's legislative elections, voters dealt a major defeat to the Peronist coalition of Argentine President Alberto Fernández

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Fernández // File Photo: Argentine Government.

## POLITICAL NEWS

## Argentina's Peronists Suffer Major Defeats in Legislative Vote

The Peronist coalition of Argentine President Alberto Fernández lost its majority in the country's Congress for the first time in nearly 40 years in Sunday's midterm legislative elections, Reuters reported. The Peronists lost control of the Senate and were threatened with losing their status as the largest bloc in the lower house, the Associated Press reported. According to an official count, the center-right Together for Change opposition coalition received 40.1 percent of the votes in Buenos Aires province, the country's largest population center, while Fernández's Front for Everyone coalition, which is comprised of Peronist and other leftist parties, received 38.4 percent of the vote, the AP reported today. The opposition coalition also was leading in other important districts, including the city of Buenos Aires, Santa Fe and Córdoba, the wire service reported. In the vote, a third of the seats in the Senate as well as half the seats in the Chamber of Deputies were up for election. María Eugenia Vidal, an opposition coalition leader who was elected to a seat in the Chamber of Deputies for the city of Buenos Aires, celebrated the results. "Millions of Argentines across the country said 'enough'... They said 'enough' and defeated the sadness, the frustration, the anger," said Vidal, the AP reported. In an address to the nation, Fernández called for "patriotic" cooperation from the opposition, which he will now need in order to move legislation through Congress, Reuters reported. Fernández said he was committed to resolving the country's debt with the International Monetary Fund and also fighting the "evil" of inflation as well as sending lawmakers a long-term economic plan, which the IMF and investors have sought, in December. "In this new stage, we will deepen our efforts to reach a sustainable agreement with the IMF. We must clear the uncertainties that come with this sort of unsustainable debt," said Fernández, Reuters reported. The elec-

tions came as Argentina is beset by numerous economic woes. More than 40 percent of the country lives in poverty, the unemployment rate is nearly 10 percent, and inflation last month was running at an annual rate of almost 42 percent, the AP reported.

## At Least 68 Inmates Killed in Ecuador's Latest Prison Riot

At least 68 inmates were killed and 25 were wounded Saturday in a riot at Ecuador's notorious Litoral prison, the same facility where more than 100 inmates were killed in a similar eruption of violence a month and a half ago, the Associated Press reported. A gun battle between rival gang members linked to international drug cartels erupted in the prison before dawn, officials said. Videos posted on social media showed bodies, some burned, lying on the ground inside the penitentiary. The gunfights lasted about eight hours before new clashes were reported in other parts of the prison on Saturday afternoon, the AP reported. It took authorities most of the day to regain control of the facility, the wire service reported. After nightfall, presidential spokesman Carlos Jijón announced that "the situation is controlled throughout the penitentiary." He said it took 900 police officers to regain control. During the melee, prisoners "tried to dynamite a wall to get into Pavilion 2 to carry out a massacre. They also burned mattresses to try to drown [their rivals] in smoke," said Pablo Arosemena, the governor of Guayas province, the AP reported. "We are fighting against drug trafficking," he added. "It is very hard." The Litoral penitentiary was the site of Ecuador's deadliest-ever prison riot in late September. In a Sept. 28 riot there, 119 inmates were killed, the AP reported. The prison houses in excess of 8,000 inmates. Some 300 inmates have been killed so far this year in riots in Ecuadorean prisons, The Wall Street Journal reported. Ecuadorean President Guillermo Lasso last month declared a state of emergency and sent soldiers into the streets amid rising levels of crime. In a posting on Twitter, Lasso expressed

## NEWS BRIEFS

## Haitian Gang Leader Says He'll Allow Fuel Deliveries for One Week

Jimmy "Barbecue" Chérizier, the leader of the powerful G9 gang in Haiti, said Friday that he would allow the delivery of fuel as the country is experiencing a growing crisis amid shortages in hospitals, gas stations and water supplies due to the gang's roadblocks, the Associated Press reported. During a news conference, Chérizier announced a seven-day reprieve for hospitals, schools and gas stations to send trucks to a refueling station, though he emphasized that the flexibility is only temporary. He also repeated calls for Prime Minister Ariel Henry to resign.

## Honduras' Hernández Calls for Continued Ties With Taiwan

During a visit Saturday to Taiwan, Honduran President Juan Orlando Hernández expressed hopes that his country would continue relations with Taiwan, Reuters reported. The candidate of Hernández's National Party, Nasry Asfura, is facing a tough challenge from opposition candidate Xiomara Castro, who has said she would establish diplomatic relations with China instead of maintaining them with Taiwan.

## Embraer's Shares Slide as Brazilian Air Force Cuts Order

Shares of Brazilian aircraft maker Embraer fell by more than 8 percent last Friday after the Brazilian Air Force said it would unilaterally cut its order for 28 KC-390 military cargo planes to just 15, Reuters reported. Embraer said it was considering legal action as it reviews how the decision could affect its business and results. Bradesco BBI analysts described the cut as negative but added that the jet maker has successfully added new orders from Portugal and Hungary, Reuters reported.

his condolences to family members of inmates who had been killed. “We need suitable constitutional tools to protect the population, recover order in the prisons and fight mafias that profit from the chaos.”

## OAS General Assembly Condemns Nicaragua Election

The General Assembly of the Organization of American States on Friday voted to condemn Nicaragua’s Nov. 7 presidential election, describing the vote as “not free, fair or transparent, and [lacking] democratic legitimacy,” the Associated Press reported. Twenty-five countries in the Americas voted in favor of the resolution. Seven, including Mexico, abstained, and only Nicaragua voted against it. The U.S. administration and several other countries in the region have slammed the presidential election as a “sham.” President Daniel Ortega won a fourth term with more than 75 percent of the votes. Since late May, the Nicaraguan government arrested or forced into exile virtually any presidential candidate who could have seriously challenged him. The OAS resolution instructs the body’s permanent council to prepare a report outlining “appropriate actions” to be taken against the Nicaraguan government.

### ECONOMIC NEWS

## Peru Expecting Strong GDP Growth This Year: Official

Peru’s gross domestic product is on track to surpass pre-pandemic levels this year, Adrián Armas, the central bank’s head of economic studies, said last Friday, Reuters reported. If current economic trends continue, “Peru will be one of the few economies in the region where the GDP for the year will be higher than it was in 2019,” Armas said during a call with reporters. Julio Velarde, the head of the central

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in 2020. In contrast, China produced more than one billion metric tons in the same period. Other top producers in the region are Mexico, Argentina, Chile, Colombia and Peru. Obviously, there is more happening behind the scenes. It’s about shoring up the alliance between the United States and the European Union on their approach to China, combating subsidized steel not subject to the same

“We can expect carbon reduction to become an integral part of trade negotiations...”

— Devry Boughner Vorwerk

environmental or labor standards, reducing prices during an inflationary period and giving a nod to U.S. manufacturers to continue reducing their carbon footprint. That said, we can expect carbon reduction to become an integral part of trade negotiations, resulting in the form of tariffs or border taxes, which can be essential tools to establish the price of carbon and to push the ‘pay for’ onto consumers. Two years is not much time for companies to demonstrate progress on carbon reduction. It would behoove Mexico and Canada under the USMCA construct to request to join those carbon trade negotiations now. Furthermore, the Pacific Alliance countries could make the same request. Ultimately, the way Latin America remains competitive is for companies across the region to expeditiously implement robust ESG frameworks within their businesses.”

**A** Cecilia Aguilón, director of the Energy Transition Initiative at the Institute of the Americas: “The use of trade policy to decarbonize the largest energy- and carbon-intensive industries such as aluminum and steel can be an effective tool to accelerate global emission reductions. The recent U.S.-E.U. trade agreement does not end the controversial import tariffs that former U.S. President Donald Trump imposed. Rather, it allows limited volumes to enter the United States tariff-free. In exchange, the European Union is to eliminate its retaliatory tariffs on U.S. goods. Both parties are to negotiate an arrangement by 2024 to include the use of carbon tariffs to reduce emissions. Both the U.S. and the E.U. markets are large enough to affect manufacturing changes at a global scale, similar to how California’s fuel efficiency mandates caused the car industry to produce low emission vehicles, which affected sales worldwide. Imposing hefty tariffs and emission standards with exemptions for carbon-free commodities could make the production of green steel and aluminum competitive in the United States and Europe, where policies and incentives are already encouraging industries to decarbonize. Latin American countries such as Brazil that have a plethora of renewable energy resources could have an advantage because they can use low-cost hydro, solar and wind to manufacture energy-intensive products and comply with low- or zero-carbon standards. Depending on how the policy is crafted, carbon tariffs might be the mechanism that results in meaningful emission reductions from the global heavy duty industry sector.”

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bank, said last week that Peru’s economy could register a 13.2 percent increase this year, though the official forecast stands at 11.9 percent. The central bank also estimated that economic growth in September was of between 8.5 percent and 9.5 percent, ahead of official data scheduled to be published on Dec. 15. Peru’s GDP contracted by 11.1 percent in 2020, one of the worst economic performances in the

region amid strict lockdown measures. “Growth depends on continuous investment, better productivity and more physical infrastructure,” Constanza Pérez Aquino, associate director of sovereign and public finance ratings at S&P Global Ratings, told the Advisor in a Q&A published Aug. 25. S&P has projected relatively slow growth of 3.5 percent for Peru in 2022, she added.

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**A** **Nasim Fussell, partner at Holland & Knight:** “At the G20 summit last month, as part of a highly anticipated resolution to the section 232 metal dispute, the United States and the European Union announced plans for a green steel club to unite like-minded nations to address climate change and overcapacity. Presidents Biden and Von der Leyen agreed to replace the section 232 tariffs on steel and aluminum imposed by the Trump administration with a tariff-rate quota (TRQ) system. Though complicated, the deal has generally been welcomed as a reset in U.S.-E.U. relations. Biden and Von der Leyen also agreed to negotiate—together with like-minded economies—future steel and aluminum arrangements to restore market-oriented conditions and address carbon intensity. Specifics remain unclear, but broadly, the arrangements would restrict market access for nonmembers, ensure that members’ domestic policies support lowering carbon intensity and refrain from mercantilist practices. It is premature to assume that such arrangements will result in ‘carbon tariffs’ as the mechanics and legality of such border adjustments remain in ques-

tion between even the United States and the European Union. However, metal-producing countries in Latin America should prepare to demonstrate commitments to green production and tackling overcapacity. Biden and Von der Leyen made clear that these

“**Though complicated, the deal has generally been welcomed as a reset in U.S.-E.U. relations.**”

— Nasim Fussell

will be prerequisites to discussions with the United States and European Union, either on adjustments to the current 232 arrangements with the United States or membership in a future green steel club. The risk of non-action is losing a seat at the table where the rules for global steel and aluminum trade will be written.”

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

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# What's Keeping You Up at Night?

## LATIN AMERICA ADVISOR

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