

Submission by Panama on behalf of the Independent Association of Latin America and the Caribbean (AILAC), in response to the call for views on opportunities, best practices, actionable solutions, challenges and barriers relevant to the eighth global dialogue under the MWP, pursuant to decision 4/CMA.4, paragraphs 8, 11 and 13.

Introduction

Panama has the honour of presenting its views on behalf of the Independent Association of Latin America and the Caribbean, AILAC, consistent with the mandate of the Sharm el-Sheikh mitigation ambition and implementation work programme (MWP).

AILAC welcomes the fact that the eighth global dialogue will continue to focus on enabling mitigation ambition and implementation in industries (part 2), together with other cross-cutting issues.

Against the backdrop of a persistent global emissions gap and the urgent need to align global emissions trajectories with pathways consistent with limiting warming to 1.5°C, the seventh global dialogue already showed that the cost of financing, the difficulty of adapting technology to local conditions, and infrastructure constraints remain persistent barriers for developing countries to contribute fully to global mitigation efforts while advancing sustainable development objectives. Building on those discussions, AILAC proposes that the eighth dialogue be organized around two topics: (1) competitive, low-emission industries, and (2) a responsible energy transition, taking into account different national circumstances, development priorities and capabilities.

Cutting emissions from industry brings several benefits, including staying competitive in a global market that is changing quickly. However, AILAC stresses that this potential can only be realized at scale if developing countries receive adequate, tailored support. This is particularly relevant for AILAC countries, which combine strong renewable energy potential with industrial sectors that are still small or growing and difficult to decarbonize with current technology. In several cases, these countries also depend significantly on revenue from exporting hydrocarbons or minerals.

Part 1. Competitive, Low-Emission Industries

While the seventh global dialogue highlighted the important role of circular economy approaches, material efficiency and resource productivity in reducing industrial emissions, further discussions are needed on the structural barriers that continue to limit the deployment of low-emission industrial solutions in developing countries. In particular, greater attention should be given to the high cost of capital, limited access to affordable and concessional financing, concentration of advanced technologies and intellectual property, lack of resilient grid infrastructure to support electrification and energy storage solutions for resilient low emission operation and challenges associated with adapting technologies to national and local circumstances. Addressing these barriers is essential to enable developing countries to accelerate industrial decarbonization, strengthen domestic value creation and participate more effectively in the transition towards competitive, low-emission industries. These

barriers directly affect the pace and scale at which low-emission technologies can be deployed and industrial emissions reduced.

1.1 Cost of capital, country risk and low-interest financing

Global estimates indicate that annual investment in very low-emission technologies for steel and cement alone must reach around USD 540 billion between 2026 and 2035, with over two-thirds of it needed in emerging and developing economies. Yet historically less than 1% of public funding for climate action has reached these sectors, and 80% of that came as loans at normal market interest rates rather than favourable, low-cost terms [1].

Economic instability in several countries makes it harder for companies to commit to long-term industrial projects, since they cannot be confident about costs and returns many years into the future. At the same time, factories across the region continue to use significantly more energy per unit produced than similar factories in industrialized countries. Low-carbon investment remains too expensive to finance in practice, even when the technology to reduce emissions already exists [2]. In many developing countries, barriers related to access to finance, technology and enabling infrastructure continue to constrain improvements in industrial energy efficiency and the deployment of low-emission technologies.

The transition towards low-emission industries must also be socially inclusive. Reskilling workers, strengthening local supply chains, creating quality employment and ensuring that affected communities benefit from industrial transformation are essential elements of sustainable and durable mitigation pathways.

It is also key to recognize that, in many developing countries, technology solutions that address multiple development goals may be more desirable in the medium term than solutions that address mitigation objectives alone, such as technologies that combine waste management with emissions reduction through co-processing.

Opportunities and practical solutions: Support for industrial decarbonization in developing countries should be anchored in direct public finance that is new and additional, consistent with Article 9.1 of the Paris Agreement. Risk-sharing tools between public and private investors, such as guarantees or funds that absorb a project's first losses so that a public or low-cost lender takes on the initial risk, can play a useful complementary role specifically where the scale of available concessional public finance falls short of what is needed, but they should not replace direct public provision. These tools work best when they are designed around the actual risk of each project, instead of a country's general credit rating. Long-term, low-interest loans for the first full-scale plants that use a new technology are also needed, since these plants are seen as especially risky simply because they have no track record yet. Long-term purchase agreements between producers and buyers, which guarantee stable income and make it easier to secure financing, are already used in the region to support early-stage, low-carbon industrial plants [3]. Finally, countries in the region could share technical expertise and jointly prepare projects, so that it is cheaper and simpler for each country to present strong projects to investors, as recommended by the OECD/Climate Club toolkit.

Barriers: The extra cost investors charge for currency and country risk is often not properly reflected in existing low-interest financing programmes. Few projects are fully ready for investment. Governments also face competing spending priorities, which limits how much they can co-finance these projects.

1.2 Sharing technology and capturing more value locally

Latin America and the Caribbean countries continue to export raw materials rather than capture the extra value created by processing them into finished products. On average, only around one-fifth of key energy transition minerals extracted in the region are processed domestically [4]. Exporting raw minerals typically earns only a third to a half of the price that processed, ready-to-use materials can fetch [5]. The same pattern applies elsewhere: raw iron ore sells for far less than processed green iron, and raw ammonia sells for far less than finished fertilizer.

Opportunities and practical solutions: Partnerships between countries that hold the raw materials and companies that hold the technology, aimed at building processing capacity locally, instead of simply exporting raw ore or concentrate. Some parts of the region are already beginning to move in this direction. Governments could also develop policy and regulatory frameworks that encourage or facilitate local processing and value addition of those minerals, sustainable development, involvement of local communities and the strengthening of national industrial capabilities. More broadly, technology-transfer and local-processing commitments should be built directly into supply and investment contracts.

Technology transfer needs also extend to equipment and know-how for reducing emissions of fluorinated gases, such as low-global-warming-potential refrigerants used in cooling and refrigeration, as well as leak-detection, recovery systems and specialized technical training, all of which face similar cost and access barriers as other low-carbon industrial technologies.

Barriers: Advanced technology, and the patents behind it, remain concentrated in a small number of companies and countries. Many governments also lack the specialized capacity to negotiate favourable terms. There is also a risk that "security of supply" partnerships with importing countries end up focused only on extracting raw materials, without matching commitments to support sustainable industrial development in the exporting country.

Beyond technology transfer, greater efforts are needed to promote technology cooperation, collaborative research, co-development and local innovation ecosystems that enable developing countries to build domestic technical capabilities and capture a larger share of the value generated along low-emission industrial supply chains.

Part 2. Responsible Energy Transition

Recalling the outcome of the first global stocktake, including its call on energy transition, and taking into account different national circumstances in line with the principle of common but differentiated responsibilities and respective capabilities, AILAC considers that this dialogue should give attention to a responsible transition toward low- and zero-emission technologies that simultaneously advances mitigation objectives, energy security, clean energy, system reliability, resilience, affordability, sustainable development and national development needs. For economies that depend on hydrocarbons and minerals, this also means addressing government budget stability and reliable access to the raw materials industries need, issues that have not yet received enough attention in the MWP's dialogues on industry. Ensuring fiscal stability should be understood as part of a broader strategy to accelerate economic diversification and support a just, orderly and equitable transition towards low-emission development pathways.

2.1 Government budget stability in economies that are highly dependent on income from fossil fuels.

For economies significantly dependent on hydrocarbon revenues, the energy transition may generate important fiscal and macroeconomic challenges. Building the capacity to raise revenue from other sources is essential to keep government debt at manageable levels [6]. Estimates suggest that more than two-thirds of the region's possible hydrocarbon reserves could potentially become stranded, meaning they may never be extracted or sold, by 2035 [7].

How exposed each country is to this risk varies widely across the region. Some newer oil and gas producers are seeing strong revenue growth in the near term, while others, especially those with small financial reserves, limited ability to borrow, or less flexibility in monetary policy, are highly exposed to the risk of falling hydrocarbon revenue [6][7]. More broadly, government revenue from oil and gas across the region tends to swing significantly from year to year, following changes in global prices and production levels [8].

In addition, unmanaged transition risks may affect existing industrial assets and infrastructure, underscoring the need for forward-looking economic diversification strategies, long-term transition planning, value addition, innovation and the development of new low-emission energy industries as integral components of a just, orderly and equitable transition.

Opportunities and practical solutions: Strategies to diversify government revenue, developed together with stronger public financial management. National savings and revenue-stabilization funds. Transparency mechanisms to ensure remaining hydrocarbon revenue is managed accountably. Continued international support, including technology development and transfer and capacity-building for industrial and energy transitions, together with predictable, grant-based and highly concessional finance dedicated specifically to economic and fiscal diversification away from dependence on single energy sources and towards renewables, remains critical to enable developing countries to undertake ambitious

transitions, recognizing that countries differ widely in their financial capacity to absorb the costs of this process.

Barriers: Limited financial reserves and limited access to borrowing in some countries. A mismatch between how quickly global demand for hydrocarbons is falling and how quickly domestic economies can diversify.

2.2 Mineral supply chains and reliable access to raw materials

The region holds a large share of the world's lithium, copper, silver and graphite, making it central to global supply for the energy transition. However, this has not translated into a fair share of the value these minerals generate once processed [4]. Building resilient and diversified supply chains is increasingly important in light of growing international markets, concentration of processing capacity and potential disruptions affecting access to critical minerals required for the global energy transition.

Opportunities and practical solutions: Countries in the region working together to build shared processing infrastructure and lower costs. Ensuring that supply agreements with other countries clearly include financing, technology transfer and commitments to local processing, not only terms for extracting raw materials.

Barriers: High financing costs and unclear regulations for processing investments. Gaps in infrastructure and skilled workers. Demand from international markets can push producer countries' own development goals aside in favour of strategies designed mainly to benefit importing countries.

2.3 Resilient Energy Systems

Investment in resilient energy infrastructure, at both the utility and distributed scale, is essential for a responsible energy transition. Regulatory frameworks should take advantage of the low marginal cost of renewable generation, which in many cases also has low capital cost and modularity, as well as the falling cost of energy storage, and should enable a wider sharing of benefits by allowing for distributed prosumers and vehicle-to-grid arrangements. Such regulation can have the highest mitigation impact by addressing emissions from power generation, while also enabling an energy market that reduces the cost of electrification and provides security against fluctuations in international energy prices.

Opportunities and practical solutions: International energy prices at the moment create a significant opportunity for regulation change that can achieve lower energy prices for end users.

Barriers: Barriers: Creating national arrangements for supporting resilient, low-emission, distributed energy markets may be hampered by fragmented competencies at the national level, limited access to adequate means of implementation—including finance, technology and capacity-building—and incumbents perceiving changes as a threat and taking action to

impede them, making important that changes are inclusive, supported by adequate means of implementation, and create opportunities for both incumbents and new providers.

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