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Green hydrogen – bringing Europe and Latin America closer together?

The EU can support LAC countries in developing a renewable hydrogen industry – but it must do so in a fair and economically sustainable way

Since the publication of the EU Hydrogen Strategy in July 2020, hydrogen has featured prominently in European discussions on decarbonisation, infrastructure development, industrial policy and energy security. The EU aims to position itself as a world leader in hydrogen regulation and technology development, as well as a producer and importer of hydrogen. With the Russian invasion of Ukraine and the publication of the REPowerEU updating renewable hydrogen targets, its development has been identified as a centrepiece of the Net Zero Industry Act. The external dimension of this strategy – imports, technological positioning and investments – has generated an entire European hydrogen diplomacy focused on developing a triple function: advancing global decarbonisation, increasing the economic competitiveness of European industry and reinforcing the continent's energy security in times of crisis.

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Latin America's hydrogen development, on the other hand, has been slower and more heterogeneous. Countries in the region continue to focus on the initial deployment of solar and wind energy, as well as affordable energy access in a complex economic situation. With the publication of its ambitious national strategy in 2020, Chile has positioned itself at the forefront of developing this energy vector, followed by the Southern Cone and Colombia. Just as on the other side of the Atlantic, the expectations generated have been enormous, enjoying great political and business attention in the last two years. To date, the renewable hydrogen sector has not been able to consolidate large projects though, due to a lack of local

offtakers.

In both Europe and Latin America, renewable hydrogen is at a very early stage of development, although there are positive synergies between the potential and needs of both regions. The EU can support LAC countries in their development of a renewable hydrogen industry as an investor in its production and local consumption, in the design of public policies, regulation and, finally, as a potential consumer of products derived from renewable hydrogen. However, there is a need to articulate a narrative around renewable hydrogen that avoids replicating dependency relationships and fosters genuine economic and social development in Latin America. To this end, in LAC countries, the EU should prioritise industrial development associated with hydrogen – such as fertilisers, steel, refining and petrochemicals – in place of promoting exports to cover the renewable energy deficit of certain EU Member States.

New instruments for EU-LAC hydrogen cooperation

The institutional cooperation space between the EU and Latin American countries in the development of hydrogen has shown good health, interest and dynamism in the last two years, involving multilateral organisations, cooperation agencies and the private sector. The EU has deployed its action in the region through mainly two brand-new channels: the Global Gateway and the LAC-Global Green Bonds Initiative. While the potential of these instruments is enormous, they need to be refined and improved in order to deliver on their ambitious objectives.

To provide a strategic vision for European investment and coordinate it with cooperation and development efforts, the European Commission presented the Global Gateway Investment Agenda for Latin America and the Caribbean during the EU-CELAC Summit in July. This agenda is seen as the vehicle with which to develop investments valued at €45 bn until 2027, including connectivity (5G networks), energy transition (renewables, electromobility, hydrogen and raw materials) and environmental cooperation (prevention of deforestation and sustainable agriculture). The Global Gateway is therefore expected to be the central instrument coordinating EU-LAC hydrogen cooperation.

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However, since its official kick-off in 2021, the development of the Global Gateway has been disappointing, requiring a new approach that improves its governance mechanisms,

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demonstrates its impact on the development of recipient countries, reduces the ownership deficit on the part of local stakeholders, and substantially enhances its communication and credibility. It is essential to avoid presenting narratives that could be perceived as neo-colonial in order to achieve a cooperative approach that demonstrates the benefits of linking Latin American with European initiatives. The Global Gateway must avoid funding LAC export-driven hydrogen production projects that may prevent the access, deployment or lead to the cannibalisation of decarbonised energy – including power grids – for local use.

The Global Green Bonds initiative in Latin America and the Caribbean is another fundamental tool to mobilise capital to finance an incipient hydrogen economy in the region and facilitate the arrival of European investment. The generous subsidy and aid programmes deployed by the US with the Inflation Reduction Act (IRA) or the European Next Generation EU Funds, as well as the generalised rise in interest rates, make it necessary to provide Latin America with a favourable financial framework to attract investment in the energy transition. The issuance of these bonds, with an interest rate conditional on the effective reduction of emissions or other socio-economic parameters, could allow the region to minimise the climate funding gap in the Global South. The EU's main contribution to the development of this innovative capital market is to provide experience in the definition of comparable parameters and effective monitoring mechanisms, providing transparency for investors. Furthermore, Brussels can form alliances with multilateral organisations, such as the Inter-American Development Bank, to provide greater institutional capacity for the development of a capital market oriented towards energy transition in the region, including opportunities for the development of renewable hydrogen and its entire value chain.

A level playing field

It is paramount that funded hydrogen projects are realistic and export-oriented mega-projects are avoided. Previous experiences such as the failure of Desertec should serve as a guide for the design of hydrogen strategies in Latin America, prioritising local decarbonisation, even if this has less political appeal for national and global political audiences. In particular, the EU's credibility as a global actor in the fight against climate change would be called into question if the failure of hydrogen

mega-projects leads to new debt-trap situations in the Global South. Instead, the EU should focus on projects that reduce emissions from industrial activities subject to the CBAM, the EU's new carbon tariff to be phased in from 2026. Latin America is one of the candidates to benefit from the reconfiguration of trade flows resulting from decarbonisation and the processes of de-globalisation and friend-shoring. Beyond renewable hydrogen production capacities, it requires strategies that involve the development of new low-carbon industrial value chains in LAC countries and the integration of the downstream products through commerce with the EU.

For Latin America, cooperation paths that prioritise industrial domestic consumption appear more socially, economically and environmentally sustainable than those oriented primarily towards exporting the hydrogen molecule. The EU should pursue an industrial development narrative associated with hydrogen that avoids replicating unidirectional fossil energy flows and the region's tendency towards the re-primarisation of its economy.

It is important to manage expectations in a reasonable way, presenting renewable hydrogen as an energy vector with its opportunities and limitations. The European Union and Latin America have complementary hydrogen profiles that could favour a new strategic rapprochement between the two regions. However, this cooperation should be framed within the much broader scope of action of the European Green Deal, the energy transition and the sustainable development of Latin America. The EU's hydrogen diplomacy must incorporate and listen to the demands of Latin American actors to make it truly environmentally and socially sustainable.



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