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# Picking up the threads

## The EU-CELAC Summit opens a window of opportunity for the EU and Latin America to relaunch their partnership on the road to a just energy transition

In the context of a weakening of rules-based multilateralism, the architecture of global governance is transforming into a more fragmented framework for diplomacy, cooperation, defence, investment and trade. The integration of the EU in the multilateral order has never been easy in a world dominated by state actors, posing many obstacles to Brussels's attempt to develop interregional relations. The return of great power politics, the deglobalisation caused by the Covid19 pandemic and the retreat of democracy have worked against the EU's international aspirations within the liberal order. Despite the existence of a strong common cultural, political and economic acquis, one of the victims of this international landscape has been the regional dialogue between the EU and Latin America.

## A window of opportunity

Over the past years, the EU-Latin American relationship has been marked by internal EU problems (the 2008 crisis and Brexit), renewed European geopolitical priorities, Latin America's commitment to other international actors such as China, as well as regional political antagonisms. However, with the 2023 EU-CELAC Summit – held again on 17-18 July after eight years of paralysis – Brussels aims to make Latin America one of the priority axes of its international projection, especially relevant in the new geopolitical context that began to be defined after the Russian invasion of Ukraine.

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The summit opens a window of opportunity, perhaps unique, to relaunch a common agenda which is not only about how much Europe can gain from a renewed relationship with Latin America, but also about how much Latin America can contribute to the solution of various global problems, some of them essential

*ongoing energy crisis.*

for Europe's future. Among these, the challenges of the energy transition within the wider framework of the European Green Deal and energy diversification efforts are two essential elements for a renewed EU-LAC partnership. Such a partnership should evolve – from the traditional flow of European investment in the Latin American extractive export-oriented sector towards a much more complex relation that integrates investment in renewables, green industrial value chains and climate cooperation.

The traditional area of EU-LAC cooperation, Latin American hydrocarbon exports to the EU, has shown a limited growth potential amid the ongoing energy crisis. Latin American coal, natural gas and crude oil have experienced a short-term revalorisation for EU Member States willing to reduce their dependency on Russia. Energy shipments have increased in absolute terms – but without producing the strategic shift in the fossil import matrix undertaken by other actors, such as the US.

In contrast to other traditional oil and gas exporting countries, there has been no noticeable increase in visits from EU leaders to Latin America in the search of new supplies and import arrangements. Following the departure from Venezuela due to its severe socio-economic crisis, along with the decline in production in Ecuador, Colombia and Mexico, where the business climate for foreign investment deteriorated, European upstream investment redirected towards specific activities related to unconventional hydrocarbon exploration and production. This shift focused on Brazil's pre-salt reserves, Guyana's deep-water upstream sector and, to a lesser extent, Argentina's *Vaca Muerta* shale play.

## Growth potential

The prospects for cooperation on decarbonisation are considerably more encouraging, demonstrating a certain degree of maturity in bi-regional energy relations. Despite the existence of notable variations in climate impacts, ambitions, energy sources and socioeconomic circumstances between countries in the EU and Latin America, the strong economic and social connections, coupled with a shared commitment to addressing climate change, establish a conducive setting for mutual learning and cooperation between the two regions. On top of that, for Europe, Latin America is one of the regions with the greatest potential for developing the external dimension of the European Green Deal. This is shown by the emergence of new value chains resulting from the expansion of

renewables and also in the potential development of transition minerals and integration of low-carbon industrial activities.

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In the last decade, foreign direct investment (FDI) in renewable energy projects in Latin America has consistently surpassed investments in hydrocarbons. European companies have been the main drivers of this trend, accounting for 75 per cent of FDI in renewable energies, characterised by stringent labour, social and environmental standards, as well as a notable level of technology transfer. The most successful countries in renewable deployment (Brazil, Chile and until recently Mexico) have been those adopting policy frameworks compatible with the EU, demonstrating potential synergies between regulatory convergence, investment, wealth creation and decarbonisation. However, the heterogeneity of economic prevalent models within Latin America exposes the difficulties for bi-regional renewable cooperation, incentivising country-specific approaches against multilateral frameworks.

Hydrogen is gaining increasing attention in the EU-LAC agenda and business fora. Against the dominant narrative based on presenting hydrogen as a new export commodity, the EU should aim to support an industrial development narrative for hydrogen that seeks to avoid replicating one-way fossil energy flows and the regional trend towards premature deindustrialisation and re-primarisation. Renewable hydrogen could help to cushion the blow of the EU's Carbon Border Adjustment Mechanism (CBAM). The first phase of the CBAM will mainly affect iron and steel, fertilisers, aluminium, cement, electricity and hydrogen products; affecting part of the current bilateral trade. European investment in developing renewable hydrogen could also reduce Latin America's exposure to fertilizer prices (hydrogen is a key component of nitrogen-based fertilizers), hence increasing food security in the largest net food export region in the world.

With regards to strategic minerals, the EU still remains in the shadow of China and needs to find a new narrative that incorporates elements of industrialisation, friend shoring and bi-regional integration of value chains. That is why, while ensuring access to critical raw materials, the EU aims to differentiate itself from other leading investors, offering sustainable models of interdependence that assure the effective

generation and distribution of mining profits. This positions Latin America favourably to assume a leading role in the development of new low-carbon value chains based on mining downstream products.

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The recent update to the Association Agreement between the EU and Chile highlights the significance of copper and lithium. Leveraging its strength, Chile has achieved improved access to the European market for its agricultural products in exchange for safeguards for European investment in mining and access to the domestic market for lithium and associated downstream products at market prices. After the signature of a Memorandum of Understanding establishing a partnership between the EU and Argentina on sustainable raw materials value chains, if the ongoing negotiations of the EU-Mercosur trade agreement are successfully closed, a similar approach to mineral cooperation could be built, expanding the geographic scope of this strategy.

The EU-LAC partnership finds in energy cooperation a space for updating and strengthening relations that transcends the traditional dynamics of the fossil system. The success of European investment in renewables provides grounds for optimism regarding a future of increased bi-regional energy cooperation, which, besides consolidating traditional cooperation on renewables, could be extended to hydrogen, industrial decarbonisation and mining. The 2023 EU-CELAC Summit will bring a new opportunity to relaunch a partnership that offers many spaces for building win-win formulas. Latin America and Europe are two broadly compatible regions that must deepen their relations on the road to a just energy transition in the wider context of the European Green Deal.

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