

*The Global Gateway
initiative within
the context of Brazil-EU
relations*

May 2024

 **FGV EUROPE**

Report

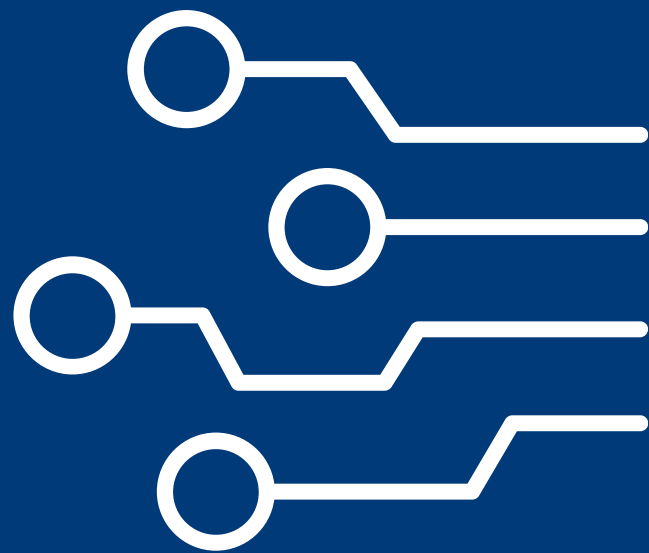
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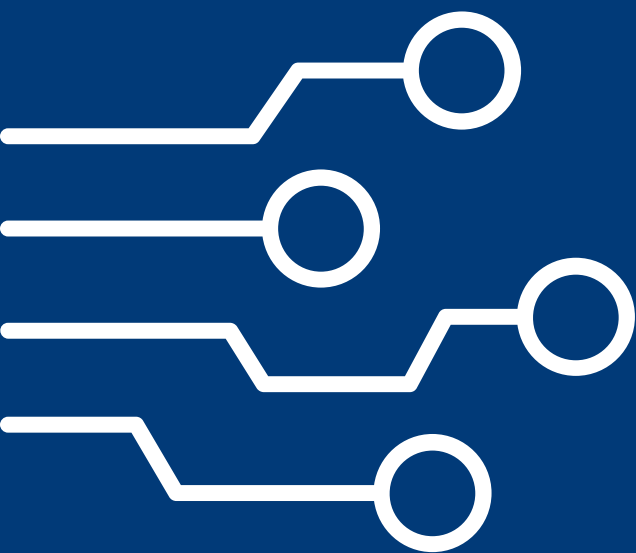
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The Global Gateway initiative within
the context of Brazil-EU relations

An overview of Brazil-EU institutional and economic relations

01

01

AN OVERVIEW OF BRAZIL-EU INSTITUTIONAL AND ECONOMIC RELATIONS

To better contextualize the EU Global Gateway (GG) initiative and the opportunity it represents for Brazil, we must, first, briefly characterize the most important elements in the evolution of EU-Brazil institutional and economic relations. In a nutshell, they have been articulated over time at two levels: regional (with Mercosur, Celac, Lac) and bilateral (Brazil-EU), and they have been shaped by the cumulative outcome of a **number of agreements** at both levels, with some tensions and mutual claims of privileging the bilateral partnership over the commitment to inter-regional cooperation materializing from time to time. Among these agreements are: the EEC-Brazil Framework Cooperation Agreement (1992), the EU-Mercosur Framework Cooperation Agreement (1995), the European Community-Brazil Science and Technology Cooperation Agreement (2004), the EU-Brazil Strategic Partnership (2007). Depicting such a summarized chronology of the EU-Brazil relationship, one cannot overlook that Brazil became the first South American country to recognize the European Economic Community (EEC) and to **exchange permanent representation missions in 1960**. With the consolidation of Brazil's democracy throughout the 1980s, the relations were strengthened politically and in terms of cooperation, and various agreements were signed, up until the **1992 EEC-Brazil Framework Cooperation Agreement**, encompassing a variety of areas and setting-up a dedicated structure to support political dialogue and development assistance, and to increase trade volumes between the parties.

Due to its features, the Agreement was classified as a “third-generation agreement” and indeed consistently promoted European investments in Brazil, which increased tenfold between 1995 and 2000. However, during the 1990s, the EU maintained its relations with Brazil mainly through the **interregional framework developed with Mercosur**, encouraging the development of regionalism and concentrating on an interregional relations approach. An inter-institutional structure was set up actively encouraged by the EU, which allowed the parties to develop a dialogue at all levels. This resulted in the signing of the **EU-MERCOSUR Interregional Cooperation Agreement (ICA) in 1992 and the Interregional Framework Cooperation Agreement (IFCA) in 1995** (entered into force on July 1st, 1999), with the aim to strengthen existing relations between the parties and to prepare the conditions enabling a full interregional Association Agreement (AA). This process is still in the making and the AA is now due to be finalized by the end of 2023. The EU-Mercosur interregional negotiations were mainly motivated by a broader EU-US geoeconomic rivalry, arisen within the promising geopolitical conditions brought about by the dissolution of the Soviet Union and the end of the Cold War. In fact, the EU initiative was a strategic reaction to the Free Trade Area of the Americas (FTAA), a US-led initiative conducted between 1990 and 2005, which threatened to limit or close altogether the Latin American markets to extra-regional powers (Malamud, 2020)¹. And Mercosur’s position was not purely passive though, as its members leveraged the mounting competition between the US and the EU to their benefit (Meissner, 2018)². Such opportunistic trigger is most probably at play again in the current geopolitical context of increasing rivalry between US and China and is therefore directly affecting both the final stages of the long EU-Mercosur’s negotiation for an AA and the implementation of the GG in the region.

1 Andrés Malamud, “Mercosur and the European Union: Comparative Regionalism and Interregionalism”, in Oxford Research Encyclopedia of Politics. Oxford University Press, 2020.

2 Katharina Meissner, “Resorting to bilateralism: The EU, MERCOSUR, and the Strategic Partnership with Brazil”, *Journal of European Integration*, 40(1), 2018

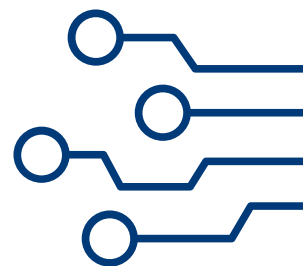
After ICA and IFCA, the EU-Brazil relations have continued to strengthen, also reflecting on one side Brazil's increasing global economic-political weight and a more assertive role in international affairs and, on the other side, the EU's assessment of Brazil as a potential partner in multilateral forums as well as the EU's resolve to overcome the stagnating negotiations in the EU-Mercosur relations. This evolution culminated in **2007** with the **establishment of the Strategic Partnership between the EU and Brazil** and with the relationship shifting from an inter-regional focus to the bilateral one. However, the Partnership institutionalized a political dialogue on global, regional and bilateral issues of common strategic interest and the quest for joint actions in several fields, formally including also a reinforcement of multilateralism. This new strategic relationship was translated into a working agenda by **Joint Action Plans (JAPs)**, implying more intense dialogue and systematic consultations taking place through a series of structured meetings at different levels. Given the diversity of topics encompassed by the partnership, **33 bilateral sectoral dialogues** have been activated between institutional representatives, senior officials, specialists and technicians on both sides, some of which oriented towards bilateral cooperation and others towards building joint positions in multilateral forums. A bilateral Joint Committee plays the role of coordinating the broad bilateral thematic agenda³. The Partnership also includes a **regular dialogue between Brazil's National Congress and the European Parliament**. Despite the very promising beginning and the important boost to Brazil-EU relations with a deeper, more diversified and streamlined political and economic ties and cooperation initiatives the Partnership's results were very limited. The contrasting evolution of Brazil's and the EU's international positions created more difficulties for their bilateral relations and scope for engagement in an increasingly uncertain and fragmented political and

³ The bilateral agenda includes, among other topics, political relations, international peace and security, public sector governance, human rights, trade, economic and financial issues, Mercosur integration process, energy, cyber, research

economic international system where the two parties didn't necessarily share such a wide range of common interests anymore. From **2014**, year of the last political Brazil-EU Summit, which committed the two sides to a **Plan of Action on Investment and Competitiveness**, including concrete priorities for different sectors, **the bilateral relation entered a phase of suspension and the cooperation stalled until very recently**, testifying a turbulent course of the most recent EU-Brazil relations. After a 9-year period of limbo, **the 8th Brazil-EU Summit took place on 30 May 2023** and both parties reaffirmed their commitment to redynamizing and broadening the Strategic Partnership established in 2007 and decided to resume the annual Brazil-EU summits to this end. This seems to have opened a new positive phase in the bilateral and regional relationship, as confirmed by the visit of the EU Commission's President Ursula von der Leyen to Brasilia on 12 June 2023, reiterating the EU's firm support to the GG implementation in the region and the EU-Mercosur AA finalization. Also the Summit between the EU and the Community of Latin American and Caribbean States (CELAC) last July 2023, the first since 2015, offers a unique opportunity to reinvigorate the EU-Brazil partnership.

Brazil-EU economic and commercial relations are of great relevance for both sides. The bilateral trade reached a record high value of nearly € 90.5 billion last year. In 2023, the EU is Brazil's second largest trading partner and Brazil is the single most important exporter of agricultural and food products to the EU. Investment ties have also acted as strong bonds, with the EU investing over € 277 billion in Brazil last year and welcoming nearly € 132 billion in Brazilian FDIs, which makes the country the largest LA investor into the EU. Brazil has recently become the fifth largest investor in the EU, which represents the second largest

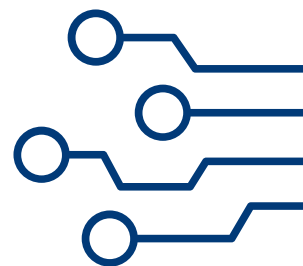
investment location for Brazilian companies. The EU is the leading foreign investor in Brazil, with about 50% of total stock of FDIs in the country. A further boost to bilateral investments could of course come from the Mercosur AA once finalized and from the implementation of the GG. The relationship has sensibly evolved from an asymmetric one, with Brazil on the receiving end of EU investment, to a partnership where both sides seek to expand their economic activities. However, while bilateral trade and investment relations are solid, they are also far below their full potential. In the absence of sustained progress on the inter-regional trade agenda, Brazil turned to India and China in order to diversify its trade relations and towards new investors, such as the Gulf region, to attract investment. The EU, in turn, pursued individual agreements with third countries, moving away from the inter-regional model. Existing and potential prosperous ties are being increasingly exposed to major global challenges such as spikes in energy prices, disruptions in supply chains and geopolitical frictions, which nudge the world to an economically harmful wave of protectionism and fragmentation. These circumstances have exacerbated the **decline of the EU-Brazil commercial relationship's relevance**, in favor of other major competitors and notably **China**, which has been continually investing in infrastructure, transport and technology and has been fighting for a stake in the car industry and in public procurement since 2004. Economic relations with China increasingly resemble a North-South type of trade scheme, raising Brazil's fears of potential risks of industrial decline. While Brazil supplies the Chinese economy with natural resources (oil, coffee, sugar, tobacco, meat and soy beans), China mainly exports manufactured goods, which are more competitive, to Brazil. It is also becoming a key client for raw materials and the leading supplier of the region's manufactured goods. **China's impressive progress has notably resulted in the country becoming one**



of Brazil's leading investors and trading partners. In Brazil, there is certain awareness that private capital from several European countries has contributed extensively to its industrialization for more than 40 years. Closer cooperation with the EU is thus seen as a guaranteed way to sustain and to consolidate European investment in the Brazilian industry and to further pursue the country's technological development. But European business interests in the region have been facing increased competition. Also, the EU's role model position within the world economic order has been threatened by the alternative initiatives spawned by emerging countries, Brazil included, like for instance the creation of a development bank for the BRICS specifically focused on infrastructure⁴. The EU, once Brazil's main trading partner, now ranks second or third as a supplier and accounts for only 16% of the country's global imports. In turn, Brazil has been overtaken by countries like India and South Korea in the EU's ranking of main extra-bloc trading partners. Although the overall trade and investment ties continue to be strong, the EU is losing commercial significance for Brazil since the rise of China, whose continuous expansionism puts EU investments and trade in the area at severe risk of shrinking further. **In the face of these concerning trends the GG and the EU-Mercosur AA become more important than ever as they could help bring the commercial relationship back on a higher gear,** forging one of the largest free trade areas in the world, covering nearly a quarter of the global economy and 31% of the world's exports. The GG and the AA will yield concrete benefits for both sides, including for the green transition and the transformation towards climate neutrality, fostering bilateral trade and investments, diversifying supply chains, supporting well-paid jobs on both sides, while effectively protecting the environment and living up to the highest standards of sustainable development.

⁴ The BRICS's New Development Bank (NDB) was created in mid-2014 by the governments of Brazil, Russia, India, China and South Africa. It has been set up with a fairly large capital contribution of \$50 billion initially and can grow up to \$100 billion with contributions from other countries. It provides funding for investments in infrastructure and sustainable development on a significant scale.

In addition, on both sides seems to prevail the intent to improve economic resilience by reducing excessive dependencies, relying on a concept of autonomy which does not mean isolation but rather requires even more cooperation with reliable economic and political partners. 2023 could mark the revitalization of the cooperation and strategic partnership between Brazil and the EU.



The Global Gateway initiative within
the context of Brazil-EU relations

Global Gateway (GG)

key features

02

02 GLOBAL GATEWAY (GG) KEY FEATURES

The GG was launched in September 2021 as the **EU Global Connectivity Strategy**, that is the **EU contribution to narrowing the global infrastructures investment gap worldwide**, in line with the June 2021 commitment of the G7 to launch a values-driven, high-standard and transparent infrastructure partnership to meet global infrastructure development needs⁵. In a nutshell, the GG is an **investment framework for building sustainable digital, energy and transport infrastructure around the world**, towards the commitments of the UN 2030 agenda and its SDGs as well as the Paris Agreement. The main rationale behind the initiative is to **boost the EU's standing on the world stage and particularly in the Global South, while competing great powers are implementing similar strategies**⁶, with a view of bolstering trade and investment relations and diminishing the reliance on few countries for key supplies while driving positive and sustained change in the partner countries. Through the GG the EU is **building economic partnerships with a network of like-minded countries around the world** to work together promoting sustainable connectivity investments, with an overall **aim to mobilize € 300 billion in investments by 2027. As a part of the post-pandemic recovery strategy** the GG aims to tackle the most pressing global challenges, from climate change and environment protection, to improving health security and boosting competitiveness and global supply chains. The initiative **focuses on physical infrastructure**, such as fiber optic cables, transport corridors, and clean power transmission lines, in order to strengthen digital, transport and energy networks. It will also **provide an enabling environment** to make sure projects deliver, by

⁵ The infrastructure-financing gap to achieve the goals of climate and environmental protection, universal access to energy, water and sanitation, greater mobility and improved food security, has been estimated by the World Bank in low and middle-income countries at over \$ 2.7 trillion in 2019 and the global infrastructure investment deficit will reach € 13 trillion by 2040 according to G20 estimates. Bridging the gap and achieving the infrastructure-related SDGs in partner countries, while staying on track to limit climate change and environmental degradation will require an estimated investment of € 1.3 trillion per year.

offering attractive investment and business-friendly trading conditions, regulatory convergence, standardization, supply chain integration and financial services.

The key priority areas for investments under the GG are:

- **Digital transition in line with European values and standards.** The EU will work with partner countries to deploy digital networks and infrastructures such as submarine and terrestrial fiber-optic cables, space-based secure communication systems as well as cloud and data infrastructures, which together provide a basis for the exchange of data, cooperation in high performance computing, artificial intelligence and Earth observation. Underserved regions, countries and populations are prioritized, with the aim to tackle the global digital divide and strengthening secure digital connections. The EU will minimize the environmental footprint of digital infrastructure, by promoting green data centers and deploying underwater cables equipped with ocean monitoring sensors
- **Energy connectivity in support of the green transition.** The GG invests in infrastructure and supports regulation to pave the way for the clean energy transition in partner countries, with a view to transform economies, create employment and strengthen energy security. Through the GG, the EU cooperates with partner countries to enable their just energy transition and to diversify its own clean energy supply at the same time. The GG supports regional energy integration, promotes energy efficiency, renewable energy (including smart grids) and a just transition

⁶ China's "Belt and Road Initiative", US's "Build Back Better World" and "Partnership for Global Infrastructure and Investment", UK's "Clean Green Initiative".

The EU works with partner countries that have the potential to develop their renewable hydrogen production and promotes the creation of competitive markets to enable such hydrogen produced outside the EU to be traded internationally without export restrictions or price distortions. The EU also works with partner countries to invest in infrastructure for developing sustainable and resilient raw materials value chains

- **Smart transport networks.** The GG promotes worldwide infrastructure investments that create smart, sustainable, resilient, inclusive and safe transport networks in all modes of transport, including rail, road, ports, airports, as well as logistics and border-crossing points, in a multimodal system. The GG will implement transport infrastructure projects that foster the sustainable development of partner countries and reduce greenhouse gas emissions, as well as enable the diversification of their supply chains. The EU builds on its position as the world's transportation hub

- **Education and research.** The EU will invest in quality education, including digital education and work with partner countries to strengthen cooperation on research and innovation. Through education, training, youth and sport exchange programs, the EU facilitates mobility of students and staff and strengthens higher education institutions and peer learning. The Erasmus+ strengthens societal links and promotes the EU's soft power and the attractiveness of its model of society. Talent Partnerships will facilitate the mobility of partner countries' young professionals and trainees to Europe for employment or training. The EU also seeks to reinforce global cooperation in the field of research and innovation

The Horizon Europe Program includes opportunities for collaborative research and for mobility of researchers at the international, intersectoral and interdisciplinary levels. Horizon Europe also offers the possibility to associate countries located anywhere in the world, which share fundamental values and with a strong science, technology and innovation profile. The EU also continues to invest in cultural cooperation between Europeans and citizens in partner countries

On the governance side, the GG is being delivered through a **Team Europe approach**⁷, to scale up resources from the EU, including the European Investment Bank (EIB), and the European Bank for Reconstruction and Development (EBRD) and its Member States with their financial and development institutions, while also mobilizing civil society and the private sector's finance and expertise in partner countries, in order to leverage investments for a transformational impact. The **EU Delegations around the world**, working with Team Europe on the ground, **play a key role in identifying and coordinating GG projects in partner countries**. Under the overall steer of the Commission's President and the High Representative, the Commissioner for International Partnerships and Neighborhood and Enlargement takes forward the implementation of the GG and promotes coordination among all actors. The Commission also set up a GG's **Business Advisory Group**, as a forum to discuss the implementation of the GG's strategy, ensuring private sector involvement. A dialogue is also envisaged with civil society to ensure a fully inclusive approach.

⁷ Launched in 2020 in response to COVID-19, the Team Europe approach tried to build out a more strategic approach to joint programming between the EU and its Member States. It is meant as a way to improve the European collective approach, achieving scale through fostering greater coherence, complementarity and synergy across EU and Member States' foreign, economic and development policies. A major innovation is the development of Team Europe Initiatives: these are flagship initiatives in each partner country or region which respond to local demand and demonstrate the EU's added value in specific areas in line with the EU's own strategic priorities and partner countries' needs.

In terms of funding tools, the GG rests mainly on the **Neighborhood, Development and International Cooperation Instrument (NDICI- Global Europe)**, the new development cooperation instrument, adopted in June 2021 to rationalize the fragmented EU external aids initiatives. NDICI-Global Europe established the new **European Fund for Sustainable Development Plus (EFSD+)** as its financial arm, backed by the **EU's External Action Guarantee (EAG)**⁸. Finally, other **existing programs** such as the Pre-Accession Assistance (IPA) III, Interreg, InvestEU, Connecting Europe Facility (CEF) and Horizon Europe will also be used to mobilize resources under the GG, and the related projects will be screened under the respective program's governing rules.

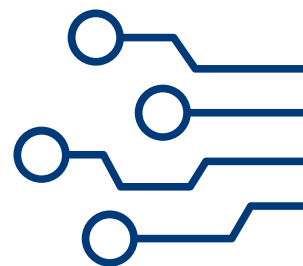
The GG aims to **mobilize public and private-sector infrastructure investments of up to € 300 billion by 2027**. This amount is composed of:

- **up to € 135 billion in investments from the EFSD+**, for which the EU provides **€ 40 billion as loan guarantees. € 26.7 billion will be managed by the EIB**. The remaining **€ 13.3 billion will be provided via an EFSD+ "window"**, guaranteeing loans from Member States' national development finance institutions
- **€ 145 billion in investments from EU countries' development finance institutions, facilitated by the EU-level loan guarantees**
- **€ 18 billion in grants from EU external assistance programs**

⁸ The governance of the NDICI/Global Europe and in particular the Strategic Board and the Operational Board of the EFSD+ are the key policy steers and decision-making mechanisms. They are also formally enshrined in EU law (Regulation (EU) 2021/947).

Whenever projects have a public added value but cannot see the guarantee mechanism activated due to the specific project financial set-up, the EU deploys the **EFSD+ blending facilities**, offering grants to financial institutions to provide loans to EU partner countries for affordable investment projects, while enhancing their sustainability, climate-proofing and development impact. The EU is also exploring the possibility of establishing a **European Export Credit Facility** to complement the existing export credit arrangements at Member State level and increase the EU's overall firepower. Although the implied leverage and the lack of new funds raised a wave of skepticism about the EU guarantees mechanism's ability to crowd-in private investment at the envisaged scale, it has been rightly pointed out⁹ that, in reality, the expected leverage effect of this EU guarantee scheme is 3.375 (40/135), sensibly smaller as compared to recent similar successful schemes like the Juncker Plan (leverage factor of 15) and the NDICI-Global Europe itself (leverage factor of 10).

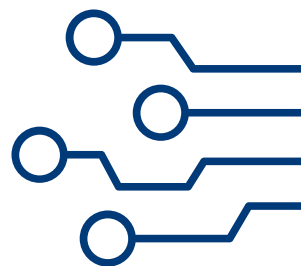
The GG is widely considered as the EU's response to China's Belt and Road Initiative (BRI), the global infrastructure investment strategy adopted in 2013 and committing an estimated € 1 trillion investments in 150 signatory countries. The BRI has advanced infrastructure and energy projects in 20 signatory countries in LA since 2017. Although comprehensive data on BRI investments in LA are difficult to obtain, it is clear that Chinese investment has been welcomed by politicians across the political spectrum in LA like a quite straight forward deal: in return for its investments, China secured a steady access to LA's vast natural resources and commodities and a growing middle class market of LA consumers for its manufactured products. Individual cases display a pervasive and aggressive approach. Worth to flag is the evidence



gathered on the loans provided in the framework of the BRI, pointing to their contribution to economic instability in partner countries due to the peculiar lending practices adopted¹⁰ and the excessive leverage increasing indebtedness and financial stress with the recipients. The World Bank estimated that nearly a third of the initiative's partner nations were at high risk of debt distress, with BRI doubtlessly representing an important factor behind the debt pressure. While the BRI exclusively focuses on loans, the **EU funding model is a mix of grants, soft loans and guarantees aimed at crowding-in private sector investments.** Moreover, the EU has a **strong focus on expertise alongside financial assistance**, offering not only solid financial conditions for partners through grants, favorable loans and budgetary guarantees to de-risk investments and improve debt sustainability, but also **providing technical assistance to enhance partner capacity to prepare credible projects** ensuring value for money in infrastructure and high ESG standards. This is important, because creating an enabling environment to attract investment in partner countries with support for reform of regulatory frameworks, or technical support for the development of infrastructure projects, is important to **ensure the scale and long-term durability of development actions, beyond individual infrastructure projects.** The GG is a **positive and values-based investment offer, respecting high international standards**, proposing a choice for a shared economic, social and regulatory path **based on a human-centric approach and the principles of sustainability, openness, inclusiveness, accountability and respect for fundamental rights.** This contrasts with China's lending practices, where contracts often include stabilization clauses challenging human rights and sustainable development policies. The **EU therefore provides a radical alternative model, where investment in infrastructure is coupled with sustainable development, both in terms**

¹⁰ Cancellation, acceleration and stabilization clauses in Chinese contracts potentially allow the lenders to influence debtors' domestic and foreign policies.

of the environment and of economic independence. The GG takes an ethical, value-based and transparent approach to create links and not dependencies in the target countries, so that infrastructure projects do not create unsustainable debt or other dependencies, investing in projects that can be delivered with high standards and good governance, while ensuring financial sustainability.



The Global Gateway initiative within
the context of Brazil-EU relations

***Recommendations:
exploiting the
opportunities at hand***

03

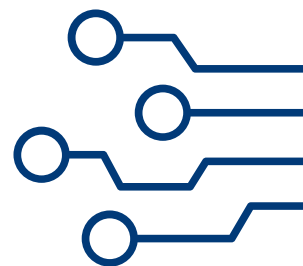
RECOMMENDATIONS: EXPLOITING THE OPPORTUNITIES AT HAND

The GG represents a key opportunity to reinvigorate the EU-Brazil Strategic Partnership and expand economic ties, stepping-up EU investments in Brazil in the green, digital and inclusive transitions. By combining the Programa de Aceleração do Crescimento (PAC) with the GG initiative, the EU and Brazil could decisively deepen a mutual value-adding relationship, with huge potential to develop economies at scale by contributing to the emerging green and digital economies on both sides of the Atlantic. After years of limited progress, the EU-Brazil Strategic Partnership may be heading towards a fresh new level of fruitful cooperation, through the GG and the EU-Mercosur AA. Both could decisively support Brazil on the road to further develop its own productive capacity, adding value to natural resources through innovation and technology, while adhering to high social and environmental standards. Hopefully, leaders on both sides will seize the window of opportunity that was opened throughout the 2023 high level meetings in order to deliver meaningful progress, paving the way for the AA swift ratification during the current Spain Presidency of the Council of the EU and Brazil's pro-tempore Presidency of Mercosur. The outlook for future investment in Brazil, as measured by announcements of new investment projects¹¹, shows momentum in sectors key to sustainable development, like renewable energies, cars and auto parts, telecommunications, technology-intensive industries. For some years now, Brazil and the LAC region at large have been an attractive market for the implementation of transnational projects geared towards the green transition, especially in renewable energies, consistent with the pursuit of SDG on affordable and

¹¹ See "Brazil - European Union Bilateral Investment Map", Apex Brazil, 2023.

clean energy and they remain well positioned to become a global hub for renewable energy, with emphasis on the potential for developing technologies such as green hydrogen. Although the EU's formal announcement of investment projects has been sensibly delayed as compared to the BRI, the GG is poised to become a strong competitor in the infrastructure investment game in Brazil and LAC region. A preliminary list shows dozens of prospective projects, aimed at areas such as improving electric transmission lines, developing raw materials extraction capabilities, converting urban bus fleets to electric power, kick starting regional dialogue on green hydrogen. Through the GG, the EU can leverage quality investments to help address Brazil's infrastructure needs, support the development of human capital and strengthen the enabling business and regulatory environment, with the aim at creating local added value, growth and quality jobs. The GG will boost and leverage private sector investments with concrete projects. Brazil has a strong baseline for GG cooperation as there are already substantial EU investments and both regions have policy agendas based on shared values. Brazil is key to achieving global climate and environmental objectives and represents a substantial potential for collaboration for the EU in creating climate-neutral, clean and nature-positive economies. It should therefore strengthen the partnership with the EU on the green transition, including through GG investments, increased dialogue and cooperation on policies and regulatory frameworks and through the implementation of the Mercosur AA. In the **energy sector**, for instance, Brazil's overall electricity generation mix has among the largest share of renewables in the world. Several avenues of joint work can be pursued to further reduce reliance on fossil fuels, by ramping up the deployment of renewable energy sources and improving energy efficiency, including energy savings. The GG investments can decisively contribute to ensuring the secure supply

of affordable and clean energy. Also, Brazil has played an impressive leadership role in renewable energies, notably in **bioethanol fuel for cars**. There are many opportunities to work more closely together in this area. There is also scope for **increased use of renewables as feedstock in the EUs industry**. Other opportunities lie in areas like health and education, research and innovation, human rights and security, including the fight against illegal mining and the protection of indigenous peoples. In all these areas, there is still a huge untapped potential for cooperation at all levels. There is also potential for joint investments in **smart mobility**, increasing safe and sustainable air connectivity, and upgrading public transport systems and infrastructure, making them cleaner, more energy efficient and innovative. The underwater fiber optic cable connecting Europe and LA (BELLA - Building the Europe Link to Latin America consortium) aims to provide reliable high capacity connectivity to boost business, scientific and cultural exchanges between the two continents. Currently, BELLA already connects Portugal to Brazil, Argentina, Chile, Peru, Ecuador and Colombia. After installing the submarine BELLA's cable to connect the two continents, the time has come to **launch a full digital alliance between the EU and LAC**. An **EU- LAC Digital Alliance** has been indeed inaugurated in March 2023 as an informal framework based on shared values and principles to develop biregional dialogue and cooperation across the **full spectrum of digital issues**. Digital transformation and connectivity are major challenges for the region. The EU and Brazil share the same understanding of the importance of a human-centric digital transformation and its enormous potential to foster development, create jobs and advance social inclusion. Through the GG, the Alliance will promote investment in the rollout of secure and resilient digital infrastructure and will support partners in addressing digital divides, including through the provision of public services such as



education and healthcare. An enhanced engagement from EU financial institutions, in particular the EIB, on digital connectivity will be sought to achieve this goal. Both regions will engage regionally and bilaterally across areas of joint interest, including secure 5G rollout, digital markets and services regulation, AI for the public good, high performance computing, data governance and cybersecurity.

The European Commission coordinates the development and implementation of the EU-LAC **Global Gateway Investment Agenda (GGIA)**, which is a political commitment to work together, identifying fair green and digital investment opportunities in LAC. The GG investment agenda identifies fair green and digital investment opportunities in Brazil, which will benefit from the open and non-discriminatory environment generated by existing and coming trade and investment agreements. Through the EU-LAC GGIA the EU is committed to work together with Brazil to promote fair green and digital investment and help achieve the SDGs, supporting infrastructure and improving global and regional connectivity in the digital, climate, transport, health, energy and education sectors.

Concrete infrastructure investments already foresaw by The EU-LAC GGIA specifically for Brazil include:

- **Team Europe-Brazil Tropical Forests Initiative** to prevent deforestation and to promote a sustainable bioeconomy and the traceability of supply chains. Implementation of the Amazonia+ program for a sustainable use of forest goods and services
- **Green low-carbon technologies for SMEs and companies**

- **Team Europe Initiative financing projects on renewable energy and energy efficiency and the promotion of green hydrogen.** Co-financing solar and wind-power infrastructure
- **Construction and operation of port infrastructures**
- **Modernization of the water and sewage services** of the public water utility provider
- **Team Europe Initiative to promote strategic partnership with Brazil on the digital transition agenda** including cybersecurity, e-governance and regulatory framework

The **EIB**, which is a key GG implementing player, in its role as a global climate bank is investing almost 80% of its total financing in LA in climate action and environmental sustainability linked projects. Brazil is the largest beneficiary of EIB financing in LA and represents more than 40% of its portfolio in the region. Since the EU bank started working in the country back in 1997, it has provided over € 5.4 billion to finance investments on favorable maturity and interest terms. Since 2022 the EIB is operating through **EIB Global**, its specialized arm dedicated to increasing the impact of international partnerships and financing development . EIB Global is designed to foster strong, focused partnerships within Team Europe, alongside fellow development finance institutions, and civil society.

¹² To enhance its support for sustainable investment in the region, the EIB works together with other international financial institutions, in particular the Caribbean Development Bank, the Central American Bank for Economic Integration, the Development Bank of Latin America, the Inter-American Development Bank and the World Bank

EIB Global brings the EIB Group closer to local people, companies and institutions through its offices across the world. EIB Global facilitates long-term investment with favorable conditions and provides the technical support needed to ensure that projects deliver positive social, economic and environmental results. The EU has supported EIB's actions in Brazil including through the EU guarantees scheme with the EIB and the Latin America Investment Facility (LAIF). The Bank promotes EU priorities in LAC countries by supporting public and private sector investment projects in the region via lending, blending and advisory services¹². EIB's financial interventions already activated include:

- The **EIB and the Brazilian State Development Bank (BNDES)** are building on the existing € 500 million loan agreement to step up **support within the GG for projects in the renewable energy sector and climate change mitigation**. The existing loan has been provided under the EIB ESF, the Energy Sustainability and Security of Supply Facility and was the first operation structured under the ESF in Brazil and the first EIB operation with BNDES
- The **EIB and Banco de Desenvolvimento de Minas Gerais (BDMG)** are building on an existing partnership to support within the GG **a series of climate action projects** in Brazil, **including solar PV, small-scale hydropower and other renewable sources**

- The **EIB and Neoenergia** (one of the largest energy distributors in Brazil) signed a € **200 million loan agreement** in March 2022 to finance renewable energy projects in Brazil. The loan agreement will **support a series of onshore wind farms, grouped into two clusters**, located in the Brazilian states of Paraíba, Piauí and Bahia, **as well as a solar PV plant** to be built in Paraíba approximately 10 km away from the wind cluster. The power generation capacity of the project is 715.5 MW, comprising 566.5 MW of wind power and 149 MW of solar photovoltaic energy. The loan has been the first significant example of joint EU GG efforts under the Team Europe approach and highlights the GG's priorities in Latin America: contributing to sustainable and inclusive growth and promoting climate action

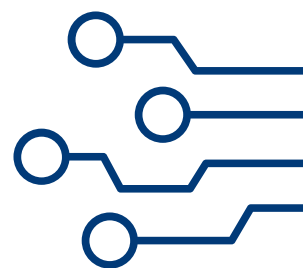
- The **EIB and Banco Cooperativo Scredi** signed a € **200 million loan agreement** in June 2023 to finance the installation of photo voltaic panels in homes, small and medium-sized businesses, and rural properties, promoting the use of renewable energy in the country. Furthermore, by supporting this low-size market segment, the operation will reduce electrical losses and optimize grid usage

- The **EIB and Banco Santander Brazil** have signed last July 2023 during the EU-CELAC Summit and the EU-LAC Business Forum a €300 million loan agreement, to foster the use of renewable energy in Brazil. The loan will **support the installation of a series of small-scale self-consumption solar photovoltaic plants** in Brazil, pre-dominantly on rooftops, for a total combined capacity of around 600 MWp. The plants will be installed in homes and on the premises of SMEs

The project will, of course, contribute to climate action to mitigate the effects of climate change. And will also help Brazil reach its targets for increasing the share of renewable energy sources in its annual electricity generation and to achieve its ten-year national energy expansion plan. As a low-carbon power generation project, it will reduce carbon emissions and air pollution. It will also build new generation capacity as part of a self-consumption system that will reduce electrical losses and foster energy efficiency

Following the meeting between President Von der Leyen and President Lula last June, the EU has promised investments of € **2 billion in green hydrogen in Brazil, as a GG's flagship project to support Brazil's production of green hydrogen and to promote energy efficiency in Brazilian industry.** Far from a relationship based on the extraction of resources, Brazil has the potential to become the EU's key partner in the fight against climate change and the EU could act hand in hand with the most biodiverse region in the world. Even more ambition can therefore be shown in the number, scale and significance of GG projects in Brazil. These projects likely need to focus on the energy transition by developing new renewable energy installations and repurposing old platforms. Investment must be carried out equitably, so as to replace the numerous jobs still provided by the fossil fuel industry, while facilitating the shift of countries' subsidies to clean energy. Finally, supporting the development of the key industries of the future, by allowing the commercialization of rare earths and green hydrogen potential, would create a mutually beneficial and economically sustainable model. China is looking to the future, sunseting the BRI for its new Global Development Initiative, which seeks to correct previous mistakes.

Experts expect its economic engagement with Brazil and LA to intensify in 2023, in the attempt to rebalance public image concerns and to improve its financing schemes and general. This time, the EU cannot afford to be missing in action and should clearly show it is offering a very compelling alternative.



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