

New chapter on commercial relations between Brazil and Germany

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After 6 years of a loud silence, Germany has re-established its relationship with Brazil. Chancellor Olaf Scholz paid an official visit to Brazil on 30 January 2023 with a bag of 200 million euros in investments on environmental / sustainability initiatives in Brazil, and a clear interest on fostering sustainable agriculture, the production of green hydrogen and to advance trade agreement between the Southern Common Market (Mercosur) and EU.

The new government of Luis Inácio Lula da Silva is perceived with much optimism due to his promise to recover the ties with the EU grounded on cooperation and commitment with sustainability goals. Despite his best intentions, it is important to recognise that the political scenario in Brazil remains rather polarised. Bolsonaro, the former president, still wields considerable power in Congress, so Lula will face resistance to approving regulations that set higher standards for environmental protection, such as deforestation. Nevertheless, the international perception has changed dramatically, which is a good starting point for Brazil to attract foreign investment.

But speaking concretely, what could be expected to unfold in the German / EU business relationship with Brazil within the framework of the new government?

Sustainable development at the core of international cooperation

Sustainable development is expected to be the foundation of Brazil's foreign affairs agenda, as already announced by the President in many international meetings since he was elected. Brazil is a major commodity exporter, has a huge potential for renewable energy and holds about one third of the world's remaining tropical forests. Therefore, the country's renewed commitment with the protection of the environment is indispensable to effectively tackle the global climate crisis. The outcome of such combined efforts should be increased cooperation and investments in projects that promote the transition to a green economy, sustainable crops, forest conservation, R&D.

In this context, Olaf Scholz emphasized that the future of Europe's energy supply will be the central theme of the cooperation between Germany and Brazil, with Brazil as an important player due to its experience in renewable energies and its potential in the production of green hydrogen.

Green Hydrogen

As mentioned in our [latest briefing](#), Germany is moving forward with its tender structure under the pioneer scheme called H2Global for purchasing Green Hydrogen (GH2) sub-products from countries outside the EU and EFTA. Hydrogen Intermediary Company (HINT.Co), will be responsible for concluding long-term (10-year) purchase contracts on the supply side of GH2 and short-term sales contracts on the demand side, by conducting regular tender procedures.

Sustainable agriculture and livestock

As a symbol of Germany's commitment to advancing this agenda, the German Minister for Economic Cooperation and Development announced during her official visit the release 200 million euros for environmental measures in Brazil. The funds will be allocated to the Amazon Fund, to projects in the Amazon states for the protection and sustainable use of forests, an energy efficiency guarantee fund for small and medium businesses, and to a consultancy project for the promotion of renewable energies in the industry, especially in the transportation sector.

The initiative of cooperation programmes for sustainable agricultural and livestock production could help to promote a more open discussion with the European Commission in the context of the yet to be adopted regulation on products free of deforestation. The regulation has been agreed between the European Parliament, the European Council and the European Commission and is due for a formal vote in the European Parliament later this semester. Once ratified, the European Commission will launch a formal process to discuss the risk assessment of each producing country, which will have a direct impact on the intensity of inspections as well as the complexity of the due diligence system to be structured. This will be followed by discussions on cooperation programmes to help reduce deforestation and enforce the regulation.

Mercosur/EU Trade Agreement

The progress of the Mercosur-EU Agreement is another priority agenda. The agreement contemplates the liberalisation of trade (goods and services), as well as mutual access to the public procurement market. It is one of the biggest trade agreements in history, comprising 780 million people and covering more than 40 billion euros of trade.

After 20 years of negotiations, the agreement was finally signed in 2019, but it still needs to be approved by the parliaments of both parties before it can enter into force. During the administration of Lula's predecessor, Jair Bolsonaro, the process was stalled in the EU due to friction over Brazil's environmental policies. Now that the situation has changed, and in light of geopolitical tensions stemming from the war in Ukraine and conflicts between China and Taiwan, the EU appears more eager to move the deal forward.

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The EU's High Representative for Foreign Policy, Josepp Borrell, has emphasised that the EU's economic relations with Brazil have not reached their full potential and stressed the importance of Mercosur and the EU sealing this strategic alliance. Olaf Scholz used his visit to Brazil, Argentina and Chile to reiterate the importance of the agreement for both blocs and to urge his colleagues to reach a swift conclusion.

Lula also spoke of the importance of the agreement and guaranteed that he would concentrate his efforts to ensure that the deal could still be concluded in the first half of 2023. On the other hand, Lula expressed the view that some parts of the agreement negotiated in 2019 should be reviewed to avoid possible distortions that could harm the Brazilian industrial sector. Lula was cautious about opening up the public procurement market, which he considers an important mechanism for promoting domestic small and medium-sized enterprises, a strategic axis for national development.

Key takeaways

Brazil and Germany are at a unique moment of convergence, favourable for deepening political and economic relations. There are undoubtedly differences and obstacles to overcome, but the signal from both sides seems to indicate that there is a strong political will to find solutions to the impasses and to advance the agenda of strengthening bilateral relations, which will create enormous business opportunities for both countries companies, especially in the green hydrogen and agricultural markets.

BLOMSTEIN will continue to monitor developments of business opportunities between Brazil, the EU and Germany in particular. If you have any questions on the topic, [Roland Stein](#), [Bruno Galvão](#) and [Carolina Vidal](#) will be happy to advise you.