

Carbon Pricing in Brazil

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Carbon Pricing Scheme



- ❑ **Carbon pricing was selected as the main instrument** for an in-depth analysis in this report due to its advanced state of discussion in Brazilian society.
- ❑ In the last decade, **several studies simulated the introduction of a carbon pricing scheme in the Brazilian** economy and tested different configurations.
- ❑ Some of these studies had an active **participation of a large stakeholder's groups** from across Brazilian society.
- ❑ Thus, the **process of discussing the introduction of carbon pricing** in Brazil is at an **advanced stage**.
- ❑ Although the **other financial instruments identified are also very important** for the decarbonization of the Brazilian economy, **many of its barriers are structural**, and thus, are **outside the scope of this project**.

Carbon Pricing Scheme



- ❑ Previous experiences in Brazil:
 - ❑ **PMR Brazil Project** was an initiative of the World Bank to prepare developing countries for the future implementation of a carbon pricing policy. In Brazil, the project was coordinated by the Ministry of Economy, and involved around 100 stakeholders. CentroClima simulated 8 scenarios and analyzed the macroeconomic and social impacts of adopting 7 different carbon pricing schemes to achieve the NDC goals.
 - ❑ **The Emissions Trading Simulation (FGV)** is a carbon pricing exercise that offers its participants the opportunity to operate in a fictitious cap-and-trade carbon market. It aims to create and disseminate knowledge about the functioning of an emission trading system (ETS). More than 400 professionals from the private sector have participated in the simulation since 2013.
 - ❑ **CEBDS (The Brazilian Business Council for Sustainable Development)** organized a letter in which 135 Brazilian companies supported a more ambitious NDC and the implementation of a carbon market in Brazil to meet Paris Agreement targets.
 - ❑ **Bill 528/2021 authored by deputy Marcelo Ramos, institutes the Brazilian Market for Emission Reduction (MBRE). The text is being processed in the Chamber of Deputies.**

Carbon Pricing Scheme



- ❑ **CentroClima conducted several studies and stakeholders' consultations** regarding the implementation of a **Carbon Pricing policy in Brazil**, including the PMR Brazil project.
- ❑ Main results and conclusions of those studies include:
 - ❑ The **Carbon Pricing policy should be applied to all GHG emissions from fossil fuel use and industrial processes** (GHG emissions from AFOLU and Waste sectors would be out of its scope).
 - ❑ To meet Paris agreement targets (**carbon neutrality in 2050**) the carbon price could start at 9.5/tCO₂e in 2025; grow linearly to **19 USD/tCO₂e in 2030**; to 34 USD/tCO₂e in 2040 and **49 USD/t in 2050**.

Carbon Pricing Scheme



- According to previous studies conducted by CentroClima (including results from the PMR Brazil project) a **Carbon Pricing policy should:**
 - **Be a strong long-term signal** to reduce uncertainties for the private regarding low-carbon investments;
 - **Start at a small level and increase slowly and consistently.** A stable and predictable evolution of the carbon price is desirable;
 - **Limit the exemption** of “politically sensible” sectors, with the largest possible scope;
 - **Protect exposed sectors of the economy** – a border adjustment proved to be more appropriate for Brazil as it can be precisely calculated according to the emissions intensity of each sector;
 - **Allow the use of offsets** to reduce equilibrium price on the short to medium-term but limit its use so it doesn’t hinder private investment in low-carbon technologies;
 - **Be social friendly:** Carbon pricing should be fiscal neutral, using its revenues to reduce labour taxes creating employment and increasing transfers to the poorest households to promote a just transition and reduce social inequalities;
 - **Be a hybrid carbon pricing scheme,** with a Cap-and-Trade system for industrial sectors and a Carbon Tax for the transport sectors.

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