

# Brazil

## Final Market Readiness Proposal



August 28, 2014

Ministry of  
**Finance**

BRAZILIAN GOVERNMENT

## MRP Objectives and Focus

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To deepen the discussion of carbon pricing instruments in Brazil, (i) creating the necessary **tools** to enable specific **assessments** of potential policy options, while (ii) empowering and engaging **stakeholders**, in order to prepare subsidies for decision making on carbon pricing instruments

## MRP Objectives and Focus

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- The **key questions** to be explored during the Brazilian Implementation Phase of the PMR are:
  - i. after 2020, would it be feasible and convenient for the country **to add a carbon pricing instrument** to the National Climate Change Policy (PNMC) toolbox?
  - ii. if the answer is positive, **what is the best instrument** for introducing a carbon price signal in Brazil: to **regulate prices** (through a carbon tax), **to regulate quantities** (through an ETS) or a **combination** of both instruments (tackling different sectors)?

## MRP Objectives and Focus

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- MRP provides a workplan to improve knowledge and capacity building on carbon pricing instruments, based on:
  - ✓ **Integrating the modeling work** conducted by the Ministry of Finance (MF) and the Ministry of Science, Technology and Innovation (MCTI)
  - ✓ **Involving Brazilian researchers** in the analysis of market-based instruments (MBI)
  - ✓ **Raising awareness and getting support** from relevant stakeholders

## MRP Objectives and Focus

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- As a result of the implementation of the MRP activities, the Ministry of Finance will elaborate a **White Paper on Carbon Pricing Instruments** to be submitted for approval of the Executive Group of the Inter-Ministerial Climate Change Committee (GEx/CIM)
- The White Paper will present **recommendations related to carbon pricing instrument(s) and its design, describing a clear understanding of the regulatory proposal and of the underlying problems it is trying to resolve.**

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## Comments/Suggestions received

*\*The Draft MRP was improved considering the comments and suggestions provided during PA9, as well as written comments provided afterwards.*

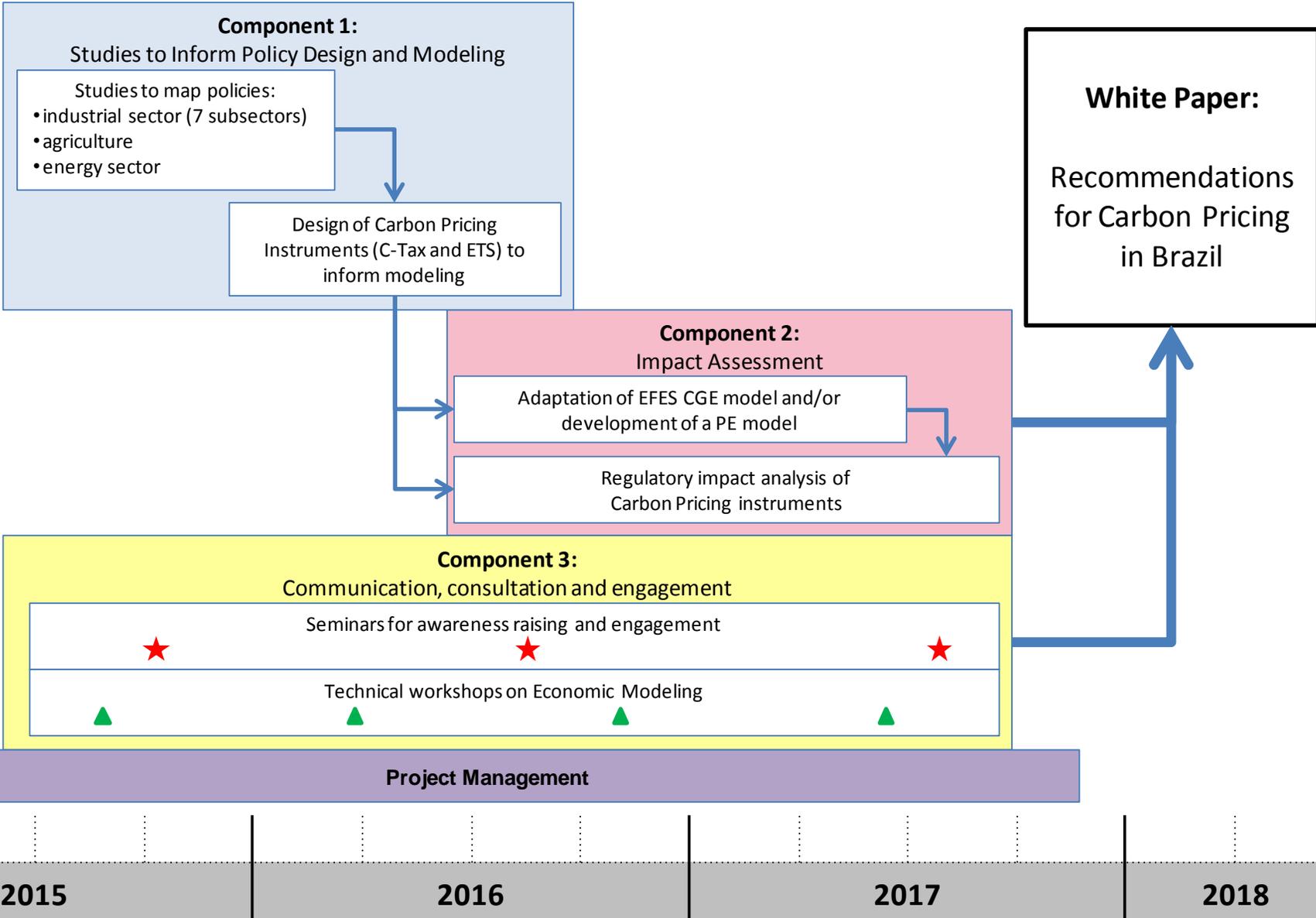
## Comments/Suggestions received

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Comment	Answer
<p>Provide more details on the decision making process, timeline and milestones.</p>	<p><b>Included a new section</b> on this issue - <b>Section 4.3 - “Timeline and Milestone (Decision Making Process)”</b>.</p> <p>As a result of the implementation of the MRP activities, the <b>Ministry of Finance will elaborate a White Paper</b> to be submitted for the approval of the Executive Group of the Interministerial Committee on Climate Change, with <b>recommendations related to carbon pricing instrument(s) and its design, describing a clear understanding of the regulatory proposal and of the underlying problems it is trying to resolve.</b></p> <p>In case of approval, GEx/CIM shall decide whether to submit the Green Paper to a public consultation process or to decision-making at the Ministerial level.</p>

# Comments/Suggestions received

## Timeline and Milestones



## Comments/Suggestions received

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Comment	Answer
<p>Provide more clarity on how or when tasks related to MRV will be considered.</p> <p>Relevance of integrating the results of the BMUB/IKI Project (focused on GHG reporting system) with the work under the MRP.</p>	<p>Included in Section 3.2.2 – “Component 2 of the MRP: Impact Assessment”. The results of the analysis on the impacts of an Emissions Registry, under BMUB/IKI Project, will inform the Regulatory Impact Analysis included in Component 2 of the Final MRP. Therefore, <b>the issue of MRV will be an integral part of the White Paper that will be produced for consideration of decision makers.</b></p> <p>The activities related to the GHG reporting system will be led by the same team at the Ministry of Finance that is involved with the work under the MRP, ensuring that efforts under each initiative will be complementary and feed into each other. In addition, the MF intends to make use of the PMR technical program on MRV to provide subsidies for the activities on this issue, as well as learning and networking opportunities.</p>

## Comments/Suggestions received

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Comment	Answer
The document could make even clearer that much of the difference in the results between ETS scenario and carbon tax scenario is based on the specific design of the instruments	Agreed. Further clarification on this issue is included in Section 2.3.1 – “Macroeconomic and sector effects of carbon pricing instruments”.
Uncertainty if a CGE model can give more information related to the choice between an ETS and a carbon tax	<p>Agreed. <b>A new activity was included</b> in Component 2 of the Final MRP, related to the development of a <b>Regulatory Impact Analysis (RIA) aiming to quantify the direct and indirect costs and benefits involved in the adoption of the proposed instrument(s)</b> as designed in the Component 1 – see Section 3.2.2 – “Component 2 of the MRP: Impact Assessment”.</p> <p>As a comparative process between an ETS and a carbon tax, the RIA shall inform decision-makers about the effectiveness and efficiency of different options, enabling the most effective and efficient alternatives to be chosen.</p>

## Comments/Suggestions received

Comment	Answer
<p>Specific value-added of MRP.</p> <p>Evolution of the MRP from the Organization Framework (OF) to the Market Readiness Proposal.</p>	<p><b>Additional information included</b> in Executive Summary, Section 2.3 and Chapter 3, <b>covering the advances and limits of the work under the OF.</b> Additional information on the next steps under MRP, which is designed as an impact assessment process to prepare evidence for political decision-making and to provide transparency on the benefits and costs of the adoption of carbon pricing instruments in the country.</p> <p>The work undertaken under the OF provided relevant inputs, but represented a preparatory phase with clear limitations. For instance, the work has mainly focused on internal discussions, with limited interfaces with other stakeholders outside the MF, even because the conclusions of the studies point to the need for improvements in the analysis.</p> <p><b>A more detailed modeling work will be necessary in order to obtain more robust results,</b> based on policy options suitable to the Brazilian context. Besides, there is also the need for other more specific analysis (e.g., the interrelation between pricing carbon instruments and other sector policies and instruments), which are indispensable for building a concrete policy option for consideration of decision makers.</p>

## Comments/Suggestions received

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Comment/Suggestion	Answer
<p>Concerns about possible overlaps between the MRP-proposed activities and those envisioned under the upstream policy work.</p>	<p>The activities planned in the context of Brazil’s MRP represent a separate work stream that should not be confused with activities that may be developed under the “upstream analytical policy support” initiative recently approved by the PA.</p> <p><b>Brazil’s proposal for activities of upstream analytical policy support is currently being revised.</b> In light of the amount of resources that were made available for this initiative (there was a steep reduction as compared to initial expectations of support), the scope and products initially considered have to be scaled down, incurring in changes in priorities.</p> <p>In view of the fact that there is no definition on the activities that may be executed under the upstream policy window, it would be more adequate to <b>consider this issue in the context of the appreciation and discussion of that particular initiative</b>, without compromising the efforts related to the MRP – which are far advanced and ready for implementation.</p> <p>The government of Brazil is very open to discuss the activities under the upstream policy window with all interested parties, as soon as there is a clear view on its objectives and components.</p>

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# Summary of MRP Components

## Component 1 - Studies to inform policy design and modeling

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### Studies to inform policy design and modeling

- Designed to raise an overview of specific policies already in place in relevant sectors and their potential interaction with carbon pricing instruments, aiming to support recommendations of specific designs of an ETS and a carbon tax in accordance to each sector's reality
- The component is closely related to the activities that will be undertaken with the support of the BMUB/GIZ (German Cooperation) on the issue of data collection and MRV systems at installation level

## Component 1 - Studies to inform policy design and modeling

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### Activities:

- (i) studies to map policy framework already in place in nine key sectors (seven subsectors of industry, as well as energy and agriculture sectors), with a focus on the **interactions between the carbon pricing mechanisms and the existing policy framework in each sector** (regulations, taxation and incentives); and
- (ii) studies with **recommendations of feasible designs of carbon pricing instruments** (an ETS and a carbon tax) that will feed into the activities under Component 2.

## Component 1 - Studies to inform policy design and modeling

Activity	Deliverable	Timing	Funding
Mapping sector policies already in place in relevant economic and emissions sectors	Nine sector studies mapping the policy framework already in place (or already planned) for each sector	Q3/ 2015 - Q1/2016	USD 960.000
Design of policy scenarios for carbon tax and ETS, in order to inform the modeling work	Study with recommendations of different policy tax scenarios and alternatives of policy designs of an ETS	Q1/2016- Q3/2016	USD 150.000

## Component 2 – Impact assessment

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### Impact assessment

- Aims to **quantify the direct and indirect costs and benefits involved in the adoption of the proposed instrument(s)** as designed in Component 1.
- A relevant improvement from the Draft MRP is the inclusion of a new activity: develop a **Regulatory Impact Analysis of Carbon Pricing Instruments**

## Component 2 – Impact assessment

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### Adaptation of EFES CGE model and/or development of a PE model

- Modeling work to **assess the economic impacts of different market-based instruments**, through adaptation of the EFES model in order to allow simulation of the carbon tax and ETS policy scenarios – considering the possibility of building a partial equilibrium model, auxiliary to the EFES model, for a more precise representation of the features of a cap-and-trade system
- Proposed work intends to integrate the design and simulation of carbon pricing policy scenarios (either through ETS or a carbon tax) with the project "Mitigation of Greenhouse Gas Emissions Options in Key Sectors in Brazil" (MOP)

## Component 2 – Impact assessment

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### Regulatory Impact Analysis

- Develop an RIA to improve the decision-making process based on determining the underlying regulatory objectives sought and identifying all the policy interventions that are capable of achieving them.
- As a comparative process between an ETS and a carbon tax, **the RIA shall inform decision-makers about the effectiveness and efficiency of different options**
- The results of the analysis on the impacts of an Emissions Registry, under BMUB/IKI Project, will provide inputs for the RIA on carbon pricing

## Component 2 – Impact assessment

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Activity	Deliverable	Timing	Funding
Modeling work to assess the economic impacts of different market-based instruments	Adaptation of EFES CGE model and/or development of a PE model	Q3/ 2016 – Q2/2017	USD 500.000
Development of a Regulatory Impact Analysis (RIA)	Report assessing direct and indirect costs and benefits of an ETS and carbon tax, with conclusions to inform decision makers	Q3/2016- Q3/2017	USD 300.000

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## Component 3 – Communication, consultation and engagement

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### Communication, consultation and engagement

- The engagement of stakeholders, both inside and outside of government, is a key element in the process for defining the role of carbon pricing instruments as part of the Brazilian climate change policy in the post-2020 period.
- Activities aim to:
  - Strengthen the understanding of key stakeholders regarding market instruments
  - Integrate and improve the existing expertise on carbon pricing in Brazilian research institutions
  - Obtain technical inputs for the economic modeling work

## Component 3 – Communication, consultation and engagement

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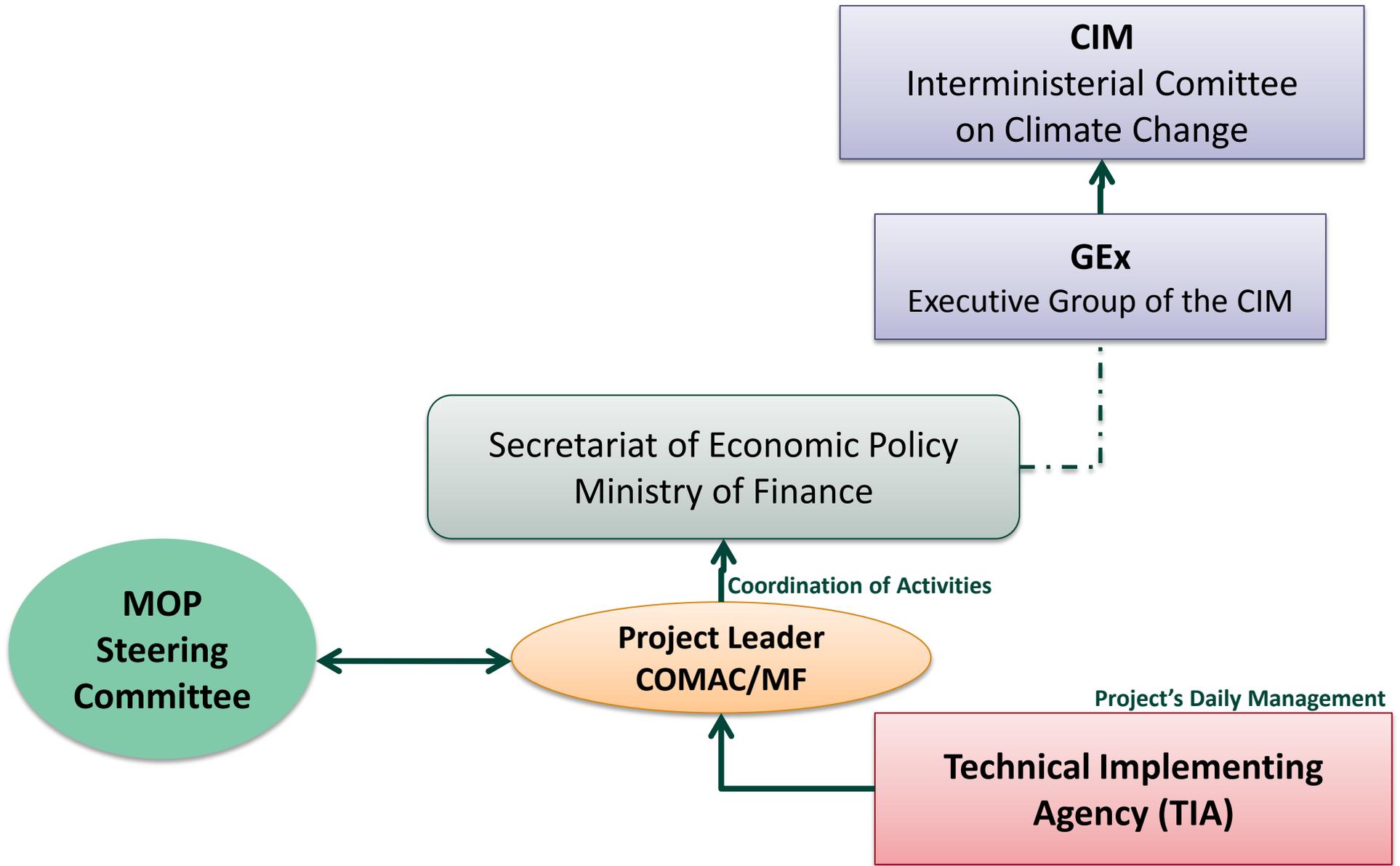
Activity	Deliverable	Timing	Funding
Engagement with representatives from national and subnational governments, private sector, policymakers, experts and civil society	<ul style="list-style-type: none"><li>-Seminars for raising awareness and engagement</li><li>-Reports consolidating the discussions and recommendations</li></ul>	Q3/ 2015 – Q3/2017	USD 330.000
Engagement with Brazilian research institutions and international experts	<ul style="list-style-type: none"><li>-Technical workshops on economic modeling</li><li>-Technical papers covering relevant topics related to the economic modeling of carbon pricing instruments</li></ul>	Q3/ 2015 – Q3/2017	USD 220.000

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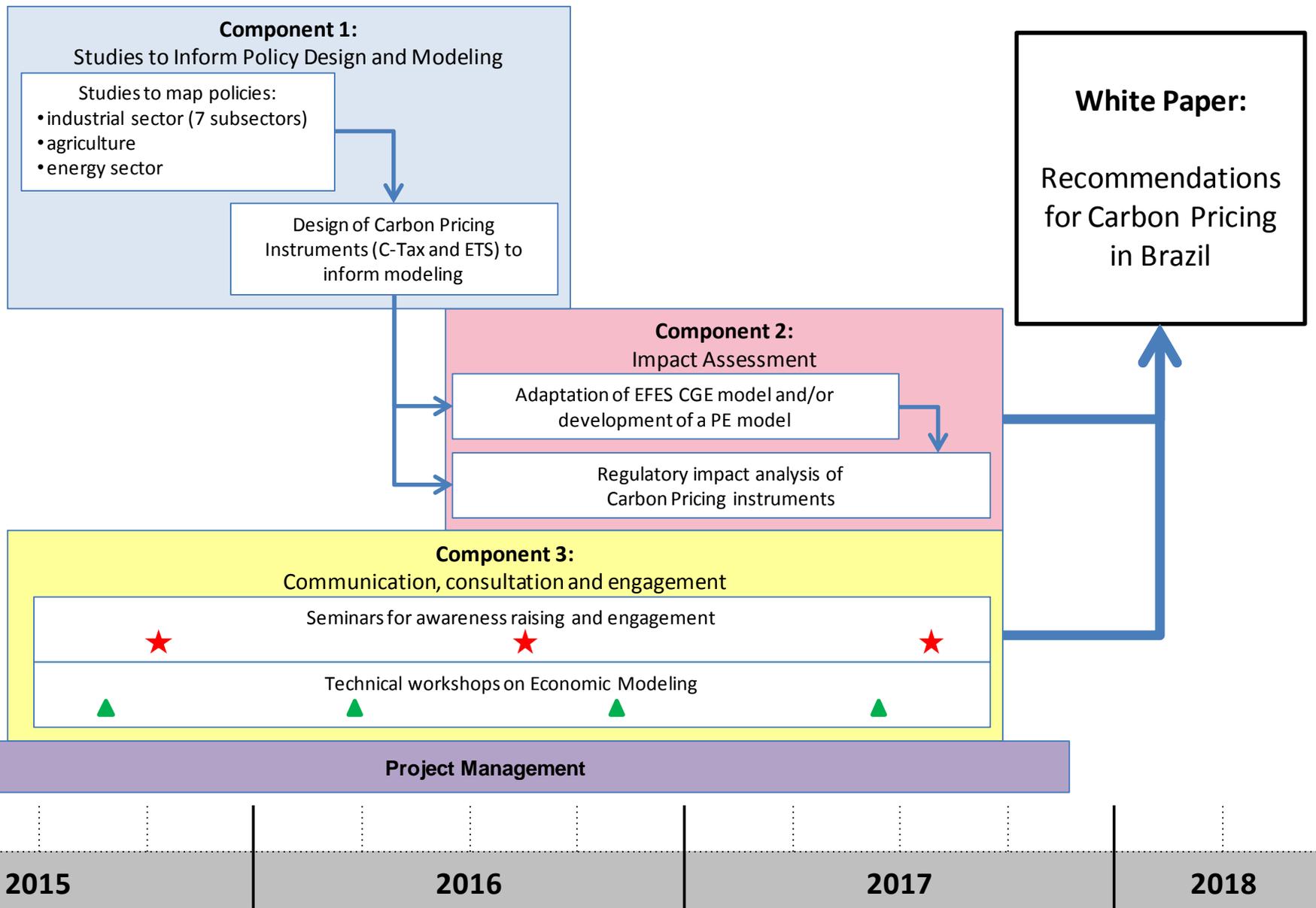
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# Governance, Timeline and Budget

# Project governance



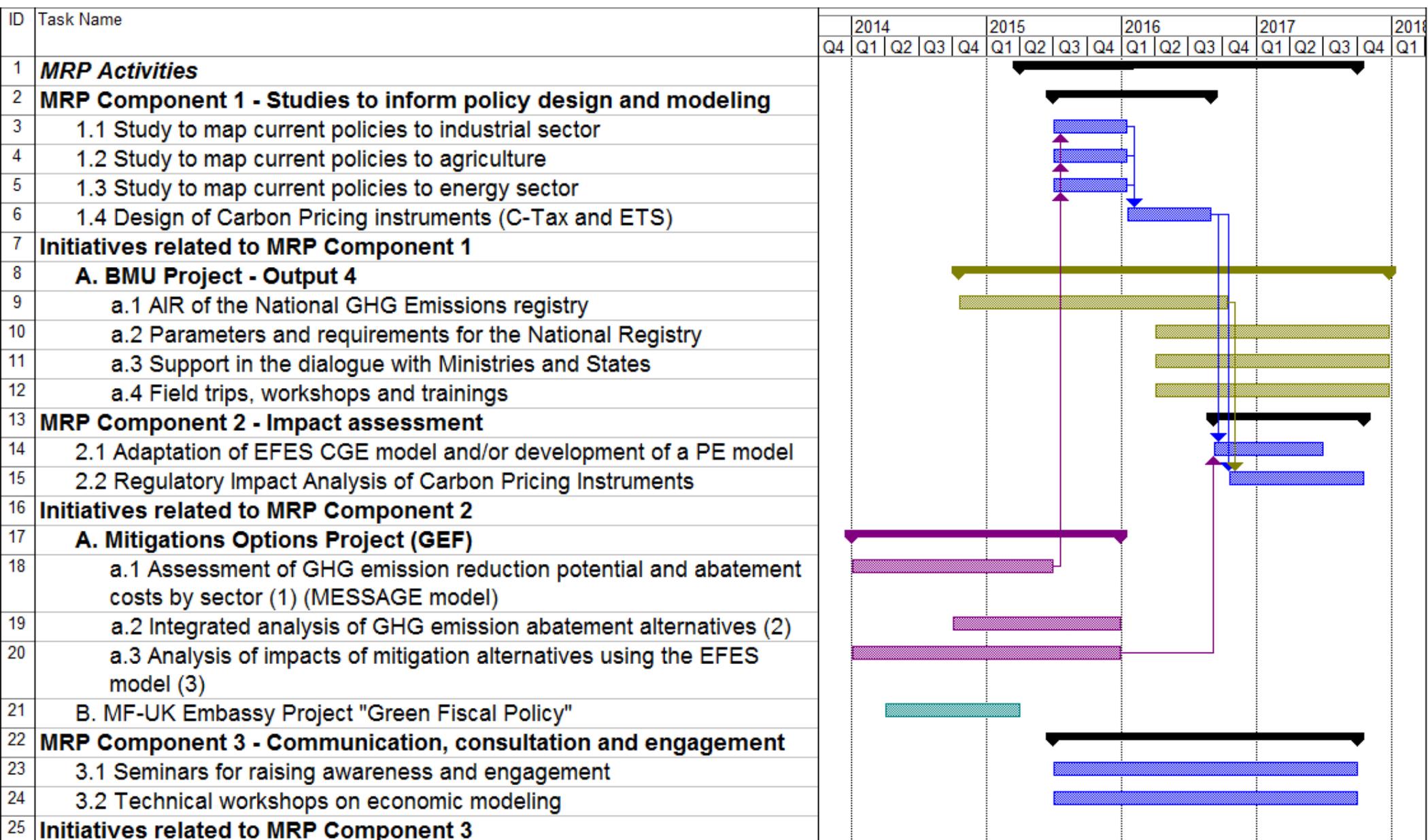
# Summary of activities for PMR support



## Summary of Total PMR Funding Request for Implementation Phase

Components and Activities	US\$ total
<b>MRP Component 1 - Studies to inform policy design and modeling</b>	<b>1.110.000</b>
1.1 Study to map current policies to industrial sector (7 subsectors)	630.000
1.2 Study to map current policies to agriculture	150.000
1.3 Study to map current policies to energy sector	180.000
1.4 Design of Carbon Pricing instruments (C-Tax and ETS)	150.000
<b>MRP Component 2 - Impact assessment</b>	<b>800.000</b>
2.1 Adaptation of EFES CGE model and/or development of a PE model; production of results; delivery of the model	500.000
2.2 Regulatory Impact Analysis of Carbon Pricing Instruments	300.000
<b>MRP Component 3 - Communication, consultation and engagement</b>	<b>550.000</b>
3.1 Seminars for raising awareness and engagement	330.000
3.2 Technical workshops on economic modeling	220.000
<b>MRP Project Management</b>	<b>540.000</b>
Staff	270.000
Maintenance and activities	45.000
Administration	225.000
<b>TOTAL</b>	<b>3.000.000</b>

# Overview and Timeline



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**Thank you!**