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Brazil – Experiences of carbon pricing implementation in the Americas

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Carbon pricing in the Brazilian context

- **Brazil-PMR project is the cornerstone for the consideration of the role of CPIs**
 - Ministry of Finance is analyzing the suitability of introducing carbon pricing in the Brazilian context
 - 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 some combination of both instruments (tackling different sectors)?
 - CPIs are not uncorrelated with other policy instruments in place – **analysis of policy interactions is needed**
 - Types of policy interactions: **complementary, overlapping/redundant, countervailing**

- **Complementary policies**

- Other policy instruments may complement the CPI
 - Promoting further emissions reductions that are not spurred by the CPI
 - Widening the scope of abatement measures fostered by the CPI
- Examples of complementary policy instruments mapped in Brazil:
 - Behavioral/training component of the low carbon agriculture plan (*Plano ABC*); technological patterns promoted by *Procel* (mandatory energy efficiency labelling)
 - R&D incentives of the national climate fund; R&D incentives by FINEP (*Inova Sustentabilidade, Inova Energia*)

- **Redundant policies**

- Policy instruments might be redundant to the CPI.
- Overlap implies higher regulatory costs to both the government and the regulated parties.
- Co-existence might be justified by the **existence of other policy objectives involved**
- Examples of redundant policy instruments mapped in Brazil:
 - The *Renovabio* fuel standards
 - Biofuel mandates

- **Countervailing policies**

- Other policy instruments might counteract the carbon price signal
- Examples of countervailing policy instruments mapped in Brazil:
 - Subsidies to national and imported coal for thermoelectric generation
 - Structure of the electricity sector (price controls and centralized dispatch)

- **How to analyze the impacts of a new policy in a changing environment**
 - **Challenge** – design a new instrument while NDC implementation strategy is under development; changing sector policies (biofuels); new budget rules (limits on spending)
 - Inputs from stakeholders led to inclusion of new topic relevant in the national context:
 - **Role of offsets from the forestry sector** – interaction with mechanisms to promote reforestation (measures that can demonstrate additionality in climate change mitigation)
 - Circumstances that motivate rethinking climate policies reinforced – **need to improve effectiveness and efficiency of public policies and spending**; fiscal consolidation
 - Any revision in existing policies should consider the other policy objectives involved – **options to improve design and incentives / transition process**

- **Role of CPIs**

- **Change the relative prices in the economy**, through the carbon price signal, which will inform economic agents that low carbon activities have become relatively more attractive, consequently redirecting investment decisions towards less carbon intensive technologies – long term incentives for the transition
- **Not a silver bullet**: has to be used alongside other policy instruments – study complementarity issues
- One of the instruments that will help the achievement of NDCs, not only through direct mitigation, but also by helping “**mainstream**” **climate issues** in the economic area of the government and private sector
- PMR Brazil Project: compare socioeconomic costs of achieving the Brazilian NDC without the use of CPIs to the costs of achieving it while using CPIs as part of the broader policy package



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Thank You!
¡Gracias!