

# CARBON MARKET IN BRAZIL



## WHAT IS CARBON PRICING?

The concept of pricing is based on the principles of the financial market, as an economic instrument, where those who emit greenhouse gases (GHG) must internalize the cost they are generating for society.

## WHAT ARE CARBON MARKETS?

Carbon markets can be **voluntary** or **mandatory (regulated)**

### VOLUNTARY

It is the voluntary demand to meet an individual, corporate or national target for a certain period of time, through carbon credit compensations



Voluntary supply of credits generated through projects or initiatives that reduce or remove GHG emissions

### MANDATORY (REGULATED)

A government or regulatory authority sets GHG emission reduction targets for a particular sector, region or country

Agents who manage to reduce their GHG emissions below the targets can sell their surplus credits



Those who are unable to comply buy these credits to offset their GHG emissions

## THE REGULATED MARKETS' MAIN MECHANISMS



The **cap-and-trade** system defines the maximum amount of aggregate GHG emissions that regulated agents can emit (cap) and emission rights (allowances) are generated in an equivalent amount. Regulated agents evaluate trading opportunities according to the market price (trade).



The **taxation** system sets a rate to be paid per ton of CO<sub>2</sub> equivalent emitted. Economic agents are free to define how much they will emit and must bear its costs. In this case, the government also sets a cap on emissions.



Through the **performance certificate trading systems** agents have a legal obligation to achieve a certain level of efficiency, i.e., it involves performance certificates rather than permits.

## CARBON CREDITS?



Stakeholders develop projects to mitigate or cut out GHG emissions and can issue credits that are verified by a third party.



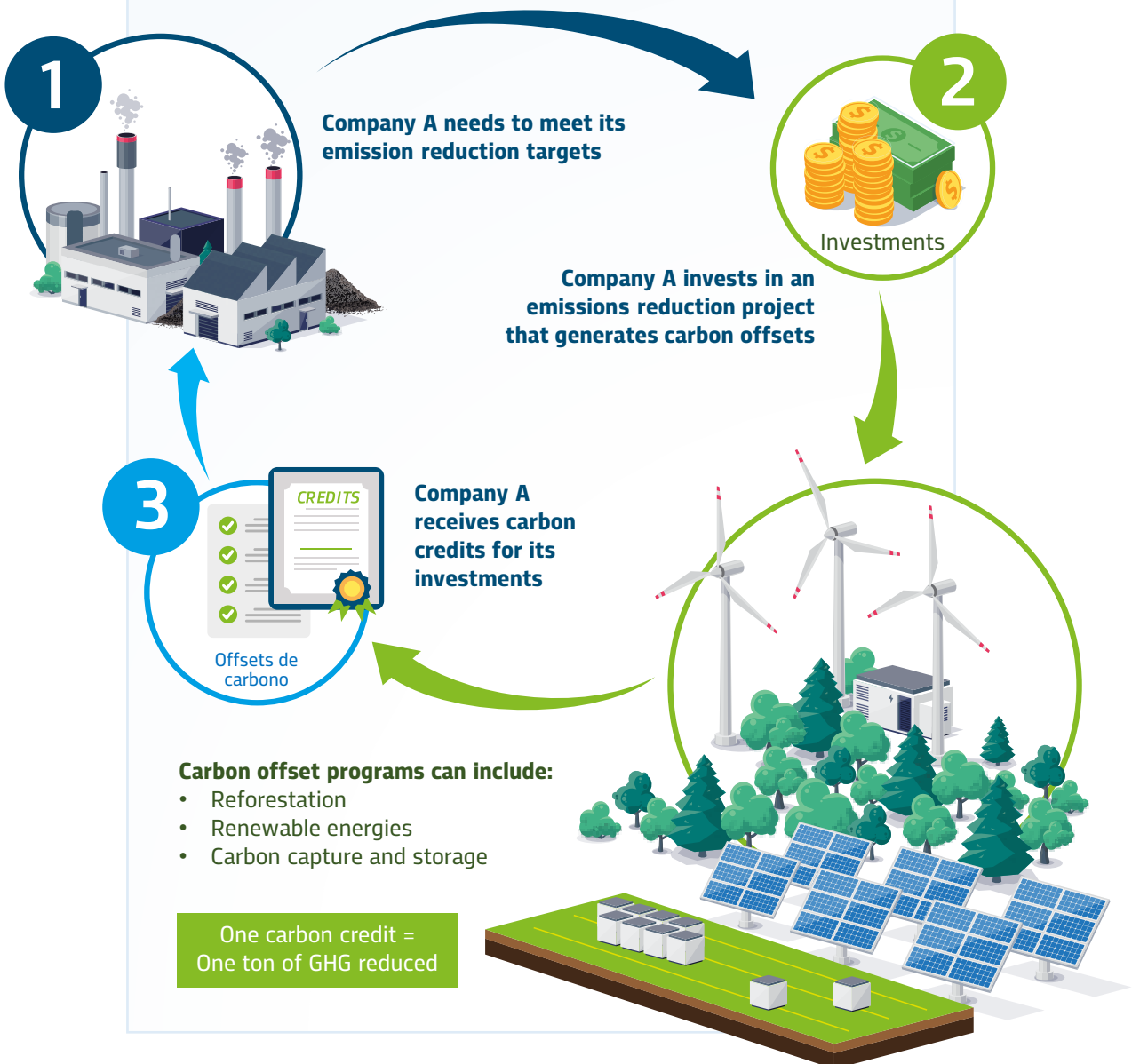
Credits are sold to offset their emissions, either by a voluntary target or in a system with regulatory obligations.



For hard-to-abate industries, carbon credits are an alternative for compensation or neutralization.

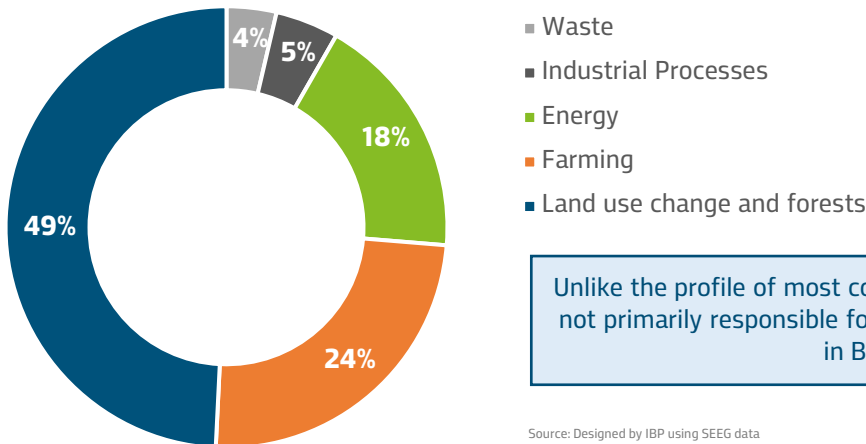
## WHAT ARE OFFSETS?

Offsets in carbon markets refer to emission reduction units that are generated by projects that contribute to the reduction or removal of GHGs from the atmosphere.



## TOTAL EMISSIONS OF GREENHOUSE GASES IN BRAZIL

2021, CO2e(t) GWP-AR6

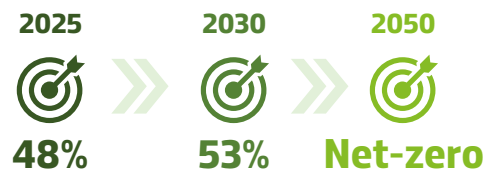


Unlike the profile of most countries, the energy sector is not primarily responsible for greenhouse gas emissions in Brazil.

Source: Designed by IBP using SEEG data

## EMISSION REDUCTION TARGETS IN BRAZIL\*

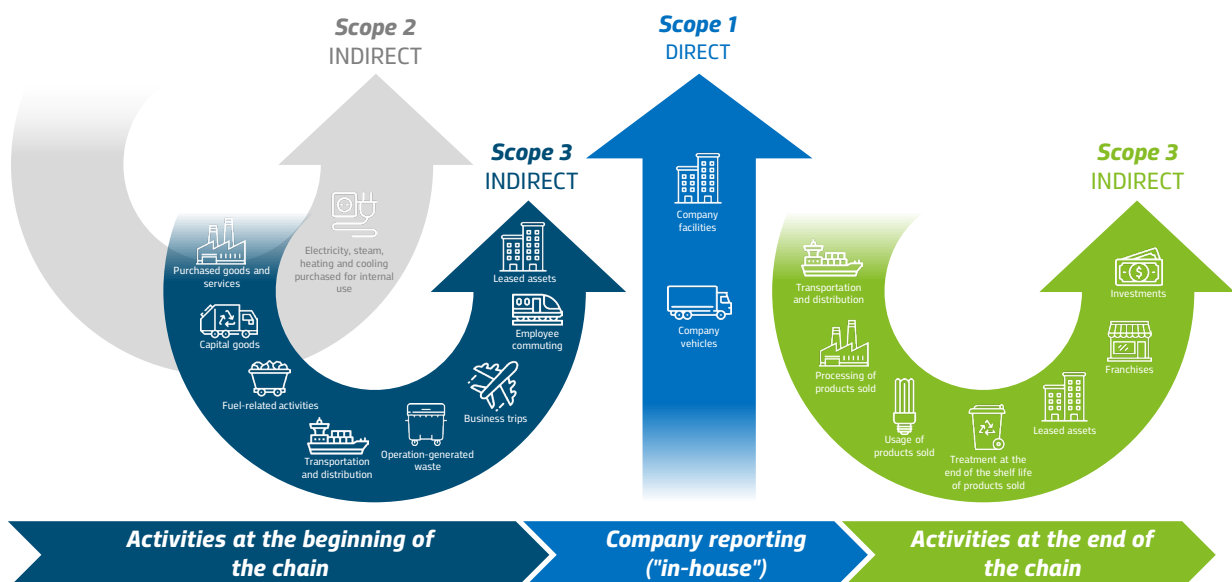
The implementation of a regulated carbon market on a national scale, with clear rules and in line with other GHG pricing initiatives, is an alternative to encourage the increase in investments needed to achieve national emission reduction targets.



\* Data provided by the Ministry of the Environment in September 2023.

## EMISSION SCOPES (GHG PROTOCOL)

- **SCOPE 1:** Direct GHG emissions (under the control of the organization/country/system)
- **SCOPE 2:** Indirect GHG emissions related to electricity/steam consumption
- **SCOPE 3:** Indirect GHG emissions present in the value chain (i.e., suppliers, customers, business trips)



Source: GHG Protocol, 2022.

## IBP SUPPORTS

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Even though the energy sector is not the main GHG emitter in the country, IBP understands the importance of implementing a carbon market in Brazil, which is why IBP supports:

- A broad carbon market policy that operates economy-wide and is aligned with Brazil's Nationally Determined Contribution (NDC).
- The gradual, flexible and non-retroactive implementation of a command-and-control instrument to the extent that it does not compromise the country's economy or the cost-effectiveness of the project to the detriment of other more viable alternatives.
- A robust policy of Monitoring, Reporting and Verification (MRV) of Greenhouse Gas (GHG) emissions to be established prior to the implementation of carbon markets.
- Adoption of a single carbon pricing policy for the sector, considering the existence of Renovabio (regulated market).

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CONNECTING THE INDUSTRY TO GO BEYOND. **THIS IS ENERGY.**

## Expedient:

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