

During the Obama Administration, an effort to create a carbon trading system passed the House but petered out in the Senate. Obama tried to do something similar with the Clean Power Plan, which the Supreme Court rejected. Now Brazil has gone ahead where the U.S. federal government has failed. The country has now started to implement an important law passed in December.

Brazil has also filed a new commitment under the Paris Agreement to reduce greenhouse gas emissions, strengthening its prior commitment and pledging to reduce emissions two-thirds below 2005 levels by 2035. Later this year, Brazil will host the next U.N. negotiating session on climate change, and it is hoping to set an example before the meeting. But part of the motivation for the emissions trading system may be a little more self-interested. Brazil exports steel and aluminum to the EU, which is threatening to impose a “border adjustment” (a/k/a tariff) based on carbon emissions.

The new trading system will go through a six-year implementation period. The first step is a requirement that companies submit monitoring plans and reports on greenhouse gas emissions by the late 2026. By late 2028, the initial allocation of allowances (tradable permits) will be made. The initial application will be free, but the system will transition to an auctioning mechanism. Revenue from the auctions will fund national climate programs. Participants will also be able to obtain offsets (known as CRVEs) for other carbon reduction activities.

It will be important to get the trading system in place while the political climate in Brazil remains favorable. It will also be important to expand the system, or find other means of emission reduction, to Brazil’s logging and agricultural sectors, which are its most important sources of carbon emissions.

Hopefully, Brazil’s actions will encourage other countries, particularly in South America, to take similar actions. The EU and California have been leaders in this arena, but carbon trading systems are now beginning to get traction outside of the developed world in China and now Brazil. That’s an encouraging sign.