

# Brazilian Greenhouse Gas Emissions Trading System

## General Information

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### ETS Description

Law No. 15,042/2024 establishes the Brazilian Greenhouse Gas Emissions Trading System (*Sistema Brasileiro de Comércio de Emissões de Gases de Efeito Estufa*, SBCE). The SBCE aims to support the implementation of “Law No. 12,187 – Brazilian National Climate Change Policy” and the achievement of the country’s climate targets. The law lays out the governance framework and the legal foundation for obligations by covered entities, with key design elements (such as scope, cap, and allocation) to be determined in the coming years.

The ETS will impose compliance obligations on entities emitting more than 25,000 tCO<sub>2</sub>e per year, with reporting obligations applying to those emitting more than 10,000 tCO<sub>2</sub>e per year. Covered entities will have to surrender allowances for all their covered emissions (see ‘Compliance Period’ below). *A priori*, the ETS applies to all sectors of the economy – with the explicit exemption of agricultural activities, and with forestry activities expected to generate carbon credits. The extent to which some sectors will see entities covered by the SBCE will depend on whether participation thresholds will apply to individual sources or e.g., at company level, which is yet to be determined.

The system will be overseen by the Interministerial Climate Change Committee, and operated by the SBCE management body, which will be supported by a technical consultative body. National Allocation Plans – to be published regularly – will set out the cap and its expected trajectory, allocation methods, the percentage of offset credits allowed for compliance, market stability provisions, as well as provisions to protect against reversals and leakage, among others. The cap is to be set in accordance with Brazilian climate targets. Revenues from the trade of allowances and offset credits will be subject to net gains and capital gains tax. Non-compliance will be punishable by fines and embargoes, among other penalties.

Covered entities will be allowed to surrender domestic offset credits to meet part of their compliance obligation. Eligible activities are those that make use of methodologies accredited by the SBCE management body (to be determined); verified by an independent entity; and registered in the SBCE Central Registry. Once registered in the SBCE registry as Verified Emissions Reduction or Removal Certificates (*Certificado de Redução ou Remoção Verificada de Emissões* - CRVE), the offset credits will become eligible for use under the SBCE. The agriculture, land-use change and forestry sectors – responsible for more than 60% of emissions in Brazil – are expected to play a key role in the generation of CRVE. Provisions for REDD+ credits are included in the law.

The law also explicitly defines the rights of indigenous peoples and traditional communities with regard to carbon crediting. This includes the right to commercialize offset credits generated on lands they traditionally occupy, as well as the compensation for any damages resulting from offset credit projects. Actors involved in offset credit projects would also have to adhere to a benefit-sharing regulation.

The law also stipulates that CRVEs may be eligible for international transfers under Article 6 of the Paris Agreement, subject to authorization by a designated national entity. The SBCE registry will track both national and international transactions.

The implementation of the law will occur in five stages:

- Phase I: government enacts regulations needed to implement the system (one to two years).
- Phase II: regulated entities operationalize emissions monitoring and reporting (one year).
- Phase III: regulated entities face monitoring and reporting obligations (two years).
- Phase IV: implementation of the first national allocation plan, with free allowance allocation.
- Phase V: full operationalization of the SBCE, following the end of the first national allocation plan.

## ETS Status

under development

## Jurisdictions

Brazil

## Sectoral coverage

Maritime

Mining and extractives

Waste

Domestic Aviation

Transport

Industry

Power

## Revenue usage

Climate mitigation

Assistance for individuals, households, and businesses

## Emissions & Targets

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### Overall GHG Emissions excl. LULUCF (MtCO<sub>2</sub>e)

1,234 MtCO<sub>2</sub>e (2022)

### GHG reduction targets

**By 2030:** 1.2 GtCO<sub>2</sub>e (53.1% below 2005) (2030 NDC)

**By 2035:** between 850 MtCO<sub>2</sub>e and 1.05 GtCO<sub>2</sub>e (2035 NDC, upcoming)

**By 2050:** Long-term objective to achieve climate neutrality by 2050 (2030 NDC)

## Size & Phases

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### GHGs covered

CO<sub>2</sub>, CH<sub>4</sub>, N<sub>2</sub>O, HFCs, SF<sub>6</sub>, PFCs

### Sectors and thresholds

**INCLUSION THRESHOLDS:** The SBCE will impose obligations on the operators responsible for installations and sources that emit:

- 10,000 tCO<sub>2</sub>e/year for monitoring and reporting obligations; and
- 25,000 tCO<sub>2</sub>e/year for compliance obligations.

Inclusion thresholds may be amended upwards by the SBCE management body. Obligations will apply only to activities for which consolidated MRV regulations are available.

### Point of regulation

Point source

### Type of entities

Operators responsible for installations and sources that surpass the thresholds (see 'Sectors and Thresholds' section).

## Allowance Allocation & Revenue

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## Allowance allocation

To be determined through the National Allocation Plan. Allowance allocation may be free of charge or auctioned. Auctions are not permitted during the first commitment period.

## Use of Revenues

ETS revenues – such as from allowance auctions and non-compliance fees – are to be disbursed as follows:

- at least 15% for the operationalization and maintenance of the SBCE;
- at least 75% for the National Climate Change Fund, to support the financing of mitigation activities; and

at least 5% for indigenous peoples and traditional communities to compensate them for forest preservation and ecosystem services.

## Flexibility & Linking

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### Offset credits

**QUALITATIVE LIMITS:** Eligible activities are those that make use of methodologies accredited by the SBCE management body (to be determined); are measured and reported by those responsible for developing or implementing the project or program and verified by an independent entity, in accordance with the methodology accredited by the SBCE; and registered in the SBCE Central Registry. Once registered in the SBCE registry as Verified Emissions Reduction or Removal Certificates (*Certificado de Redução ou Remoção Verificada de Emissões - CRVE*), the CVRE credits will become eligible for use under the SBCE.

**QUANTITATIVE LIMITS:** Quantitative limits for the use of CRVEs against compliance obligations will be determined as part of each National Allocation Plan.

## Compliance

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### Compliance mechanism

Covered entities will have to surrender one allowance per tCO<sub>2</sub>e emitted for all their covered emissions.

### Compliance Period

To be determined by implementing regulation. As per the law, compliance must occur at the end of each compliance period or at shorter frequency as defined by the SBCE management body.

### Monitoring, Reporting, Verification (MRV)

**MONITORING:** Covered entities will have to submit a monitoring plan to the SBCE management body for approval. Rules for the establishment of monitoring plans will be developed in the 12 to 24 months following the approval of the bill introducing the ETS.

**REPORTING:** Operators will have to submit an annual report on GHG emissions and removals, adhering to the approved monitoring plan and specific guidelines set by the SBCE management body.

**VERIFICATION:** The report must undergo a conformity assessment by an accredited inspection body to ensure accuracy and compliance.

### Penalties and enforcement

Non-compliance will be punishable by fines and activity embargoes, among other penalties. Fines will be limited to 3% of the gross revenue for legal entities (up to 4% in case of repeat offense). For other individuals, as well as for legal entities without revenue, the fine will range from BRL 50,000 (USD 9,278) to BRL 20 million (USD 3.71 million).

## Market Regulation

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### Market Design

**LEGAL STATUS OF ALLOWANCES:** Allowances and CRVEs, when traded on financial and capital markets, are securities (*valores mobiliários*) subject to relevant laws and to the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários – CVM*).

## Other Information

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### Institutions involved

**Interministerial Climate Change Committee:** Responsible for general guidance and regulatory framework.

**SBCE management body:** Implementing authority, responsible for setting the cap, receiving emissions report, run the registry among other responsibilities.

**Permanent Consulting Technical Committee:** Advisory body responsible for presenting inputs and recommendations for improving the SBCE. The Permanent Consulting Technical Committee will have a Regulatory Affairs Chamber, composed of entities representing the regulated sectors.

### Regulatory Framework

[Law 15042/2024 establishing the SBCE](#)

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