

Scenarios

# Brazil: The New Government's First Year, Review and Outlook



**Environment &  
Energy Transition**





# Environment & Energy Transition

## CONTEXT

Brazil President Lula da Silva has his sights set on the hallmark of his third term: the energy transition as a driving force for Brazil's economic growth. The administration faces internal challenges, however, due to dilemmas between environmental preservation and economic development. To implement its proposals, the Lula administration must garner support from the predominantly conservative National Congress and also manage negotiations among various groups, such as the agribusiness caucus.

## Ecological Transformation Plan

Launched in the first semester of 2023 and announced alongside the New PAC (Growth Acceleration Program), the plan is led by the Ministry of Finance and represents the government's primary initiative to promote fiscal, social, and environmental sustainability in the country, with the support of the private sector. The plan envisions the implementation of over 100 actions throughout the term, ranging from the regulation of carbon credits and green taxonomy to the inclusion of selective taxes in its tax reform bill, the development of biofertilizers, the production of green hydrogen and green diesel, and the energy transition in the automotive sector. The goal is to gradually implement these actions over the term, some of which are expected to be discussed in the National Congress, as was the carbon credit market proposal.

## Brazilian Carbon Market

Early in the term, the Ministries of Development, Industry, Trade and Services and of Finance coordinated efforts to resume the discussion on the regulation of the carbon market. After months of deliberation, the government presented a new text as a substitute for [Bill 412/2022](#), which was under consideration in the Senate.

The government aimed to have the regulation approved by November for COP28, however, the bill was not approved by the Senate until October, leaving little time for the Chamber of Deputies to review and revise or approve before COP28.

The bill still sits unapproved by both the Senate and the Chamber. While the Senate approved it in the last plenary session of 2023, the Senate-approved bill was rejected in the Chamber so that it could, instead, propose its own bill for Senate approval thereby having the final say on its text. Now, the Chamber-proposed bill awaits discussion in the Senate.

## **Green Hydrogen**

In November, the Chamber of Deputies approved Bill 2308/2023, which establishes the Legal Framework for Green Hydrogen. Proposed by Congressman Gilson Marques (NOVO/SC) and Congresswoman Adriana Ventura (NOVO/SP), the bill establishes voluntary certification and federal tax incentives to produce this type of hydrogen. The proposal defines low-carbon hydrogen as that which, in the life cycle of the production process, results in an initial value less than or equal to 4 kilograms of carbon dioxide equivalent per kilogram of hydrogen produced (4 kgCO<sub>2</sub>eq/kgH<sub>2</sub>). The bill will now be sent to the Senate for analysis.

## **COP28**

At the 28th United Nations Climate Change Conference (COP28), held from November 30 to December 12, 2023, in Dubai, nearly 200 countries reached “the UAE Consensus” and agreed to gradually transition away from fossil fuels in their energy matrices. This measure, deemed crucial to maintain the global warming target of 1.5°C, includes commitments such as a focus on scientific guidance, a pledge to triple renewable energies and double energy efficiency by 2030, along with the establishment of a new architecture for climate financing.

The United Arab Emirates Consensus, as the agreement came to be named, also stipulated that decarbonization should commence in the wealthier nations, with them being the first to pursue the goal of zero emissions. This approach, proposed by Brazil, was accepted during the negotiations.

Brazil's active leadership in the negotiations, led by Minister Marina Silva, signaled a notable resurgence in Brazilian diplomacy. Minister Silva underscored the approval of an agreement that solidifies the commitments made in the Paris Agreement and highlighted the reorientation of ambitions and responsibilities, aligning with the 1.5°C target.

### **Temporal Landmark**

In September 2023, the National Congress approved Bill 2903/2023, which established a temporal landmark for the demarcation of indigenous lands according to the territories that were in Indigenous peoples' possession when the Federal Constitution was adopted on October 5, 1988. The approval was in response to the Supreme Federal Court's (STF) rejection of the "Temporal Landmark thesis," ruling that the date of the Constitution's ratification cannot be used to define traditional land occupation. The bill was then vetoed by President Lula, but that veto was overturned by Congress in a joint session at the end of last year.

The issue continues to be prosecuted in other cases in the STF, and the Parliamentary Front for Agriculture (FPA) has been pushing for the approval of PEC 48/2023, which seeks to establish the temporal landmark in the Federal Constitution. According to members of the caucus representing agribusiness in Congress, the approval of a Constitutional Amendment would provide legal certainty to rural producers. Currently, the proposal is under consideration in the Senate's Constitution and Justice Committee, where Senator Esperidião Amin (PP/SC) serves as the rapporteur. The senator has not yet presented a report, but he has indicated being favorable to the temporal landmark.

### **Circular Economy**

In 2023, the federal government focused its circular economy efforts on structuring the draft decree for the reverse logistics of plastic packaging and making the full text available for future contributions from various sectors of society. The decree is expected to be published early this year. One of President Lula's personal commitments was to create space for listening and the development of public policies for recyclable collectors.

At Expocatadores, an event held at the end of the year to advance the interests of recyclable collectors, the president reiterated his commitment to prioritize the agenda of recyclable collectors and the circular economy. The emphasis is on establishing regulations and structuring the reverse logistics system, ensuring decent working conditions for recyclable collectors.

### **Petrobras x Ibama**

The dispute between Brazil's state-owned oil and gas company Petrobras and the Brazilian Institute of the Environment and Renewable Natural Resources (Ibama) regarding the authorization for oil exploration in the mouth of the Amazon River had significant political repercussions in 2023, including the departure of Senator Randolfe Rodrigues, government leader in the House, from the Rede Sustentabilidade party and a strong reaction in the National Congress. The confrontation continues, as Petrobras has submitted a new environmental license request awaiting analysis by Ibama. In November, Ibama President Rodrigo Agostinho stated that the agency is expected to respond to Petrobras' request for oil exploration in the region in early 2024.

## **What to expect for 2024? >>>**

The environmental agenda is expected to gain even more prominence in 2024, with a focus on balancing the country's economic development with actions that ensure nature preservation and the commitment of societal sectors. In the legislative sphere, the proposal for the regulation of the **carbon market** returns to the Senate, and the President of the Senate, Senator Rodrigo Pacheco (PSD/MG), emphasized that the project is among his priorities for the first semester. After approval by Congress, attention will shift back to the Executive for the regulation of various aspects of the matter.

Regarding the government's commitment to **energy transition**, it is likely that there will be progress this year concerning the proposals for regulating the production of **green hydrogen** and the offering and concession of areas for **offshore wind power** exploration ([Bill 11247/2018](#)).

Establishment of the Accelerated Energy Transition Program (PATEN) ([Bill 5174/2023](#))—part of the so-called "green package" of the President of the Chamber of Deputies, Arthur Lira (PP/AL)—is also expected to be a focus in 2024. Its objective is to promote sustainable development, infrastructure, and technological innovation projects. The PATEN will use the Green Fund, a private asset managed by the Brazilian Development Bank (BNDES), as its instrument. The project faced obstacles in discussions with the Ministry of Finance regarding budgetary issues.

### **Circular Economy**

The Brazilian government plans to kickstart the development of a national reverse logistics system, beginning with the launch of the National Circular Economy Policy, which specifically targets the industrial sector. Additionally, the government aims to publish a decree addressing the reverse logistics of plastic packaging. This initiative will progress further with subsequent decrees covering the reverse logistics of paper and cardboard, along with evaluators for the outcomes of these systems, expected to be issued by mid-2024. Another plan is to release a decree with a focus on supporting recyclable collectors and cooperatives.

### **Regulation of Payments for Environmental Services**

The regulation of the National Policy on Payments for Environmental Services ([Law No. 14,119/2021](#)) is divided into two types: urban and rural. Under the leadership of the Ministry of Environment and Climate Change, there are plans to issue a decree that will regulate payments for environmental services in urban areas for cooperatives and recyclable collectors later this year. In the rural context, the regulation is still under discussion by the working group, with no significant developments.

### **Bioeconomy**

The bioeconomy will be a key focus of Brazil's international agenda during its presidency of the G20 in 2024. Brazil aims to collaborate with member countries to boost research and innovation projects focused on the Amazon region. With the launch of a bioeconomy initiative structured around three pillars—science, technology, and innovation; sustainable use of biodiversity; and the role of bioeconomy in promoting sustainable development—the expectation is to build a common understanding and define principles during this year.



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