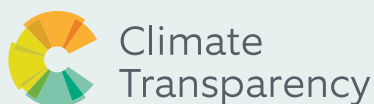


CLIMATE POLICY IMPLEMENTATION CHECK

BRAZIL'S ROADMAP FOR A
HIGH-INTEGRITY EMISSIONS-TRADING
SYSTEM:

AN IMPLEMENTATION ASSESSMENT





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EXECUTIVE SUMMARY

Brazil is poised to convert its newly enacted carbon-market statute into a fully functioning national emissions-trading system. Law 15.042/2024 establishes the Brazilian Emissions Trading System (Sistema Brasileiro de Comércio de Emissões - SBCE); an early, more ambitious second NDC and Brazil's forthcoming COP30 presidency underscore political momentum. Applying Climate Transparency's Policy Implementation Check, this paper evaluates four implementation pillars—legal status, oversight, institutions and governance, and resourcing—and sets out a path to full market launch.

Legally, the SBCE now has nationwide force and aligns with constitutional and Paris-Agreement principles, yet key quantitative details—emissions cap, allocation method, and penalty schedule—still depend on secondary regulations. Oversight structures are largely envisaged but it still needs requirements for next-day trade reporting and a graded enforcement ladder to match frontrunner systems. Governance rests on a tripartite design: the Inter-ministerial Committee on Climate Change for strategy, a soon-to-be-created autonomous SBCE Authority for rule-making and enforcement, and an advisory committee for stakeholder input. That authority, however, requires new legislation and interim financing. On resources, start-up funds are earmarked in the 2025 budget, but staffing and cyber-security capacity fall short of peer ETSSs; a bridging credit line and rapid hiring are essential until auction revenues begin to flow.

Brazil's carbon-market law has moved the country from debate to action, but full credibility will depend on swift, well-resourced implementation. Five priorities now stand out.

Provide Legal Certainty. All secondary regulations—cap trajectory, free-allocation rules, and penalties—must be enacted by 2026, accompanied by the first National Allocation Plan. A separate statute should establish an autonomous SBCE Authority with a clear mandate and multi-year funding, ensuring that market rules remain stable across election cycles.

Guarantee Robust Oversight. Environmental integrity and investor confidence hinge on transparent data and effective enforcement. Daily trade reporting, public release of verified emissions, and a graduated penalty ladder will align the SBCE with international best practice. The national

registry must be stress-tested and protected by strong cyber-security protocols before mandatory reporting begins.

Clarify Governance. Until the new Authority is seated, a presidential decree should allocate interim decision rights among the Finance Ministry, the Ministry of Industry Commerce and Services, the Environment Ministry and the Inter-ministerial Committee on Climate Change.

Secure Resources and Skills. The law ultimately earmarks up to 15 percent of auction proceeds for administration, ensuring medium- to long-term funding once trading begins. In the near term, however, no auction revenue exists, and the regulation phase demands immediate spending on registry development, staffing and cyber-security. A dedicated bridge-finance facility must therefore be created and tied to clear milestones. Accelerated training programmes, drawing on universities and existing regulators, will supply the MRV, market-surveillance and IT expertise required for effective supervision during this critical start-up period.

Integrate Policy and Foster Inclusion. Carbon-price signals must align with industrial and agricultural transition plans and with BNDES financing. Transparent recycling of auction proceeds into a climate dividend and just-transition projects will broaden public support. At the same time, Brazil should publish a linkage roadmap and align SBCE design with evolving international norms—Article 6 guidance, border-adjustment rules and other leading ETS standards—so that foreign CBAM regimes credit Brazil's pricing effort and the market does not operate in isolation.

Delivering on these priorities before COP30 will convert legislative intent into an operational market that guides private capital, protects vulnerable groups and reduces emissions in line with Brazil's enhanced NDC. Success will bolster Brazil's diplomatic leverage and provide a practical model for other emerging economies; delay risks eroding credibility and locking in higher-carbon investment.

Timely execution of these steps will translate legislative promise into institutional performance. Benefits include cleaner industry, resilient rural economies, strengthened energy security, and a credible example for other emerging economies ahead of COP30. By acting swiftly, Brazil can align growth with deep decarbonisation and help keep the Paris temperature goal within reach.

CHAPTER 1: INTRODUCTION AND OVERVIEW

Brazil plays a pivotal role in global efforts to mitigate climate change. As the largest country in Latin America and a major global economy, Brazil's climate policies significantly impact regional and international efforts to address greenhouse gas (GHG) emissions. Under the Paris Agreement, Brazil initially committed to reducing emissions by 37% by 2025 and 43% by 2030 compared to 2005 levels, targeting absolute emission limits of approximately 1.32 GtCO₂e by 2025 and 1.20 GtCO₂e by 2030.

In its second Nationally Determined Contribution (NDC) submitted in November 2024, Brazil reaffirmed its 2025 and 2030 targets but made important adjustments by adding a new goal for 2035. Brazil committed to limit its net emissions to a maximum of 1.05 GtCO₂e by 2035, with a more ambitious indicative target of reaching 0.85 GtCO₂e, conditional on receiving adequate international support in the form of finance, technology transfer, and capacity building. This updated NDC reinforces Brazil's commitment to a structured and ambitious decarbonization pathway aligned with achieving climate neutrality by 2050. The strengthened targets enhance Brazil's long-term credibility and position it as a key player in advancing the global climate agenda.

The timing of these new commitments is particularly symbolic, as Brazil is preparing to host the 30th United Nations Climate Change Conference (COP30) in 2025. The event will take place in Belém, a city located in the heart of the Amazon region, showcasing Brazil's critical role in protecting one of the world's most vital ecosystems. Brazil decided to anticipate the submission of its second NDC precisely to strengthen its leadership role during its COP30 presidency. By presenting an ambitious and credible emissions reduction pathway, Brazil aims to inspire greater ambition among other developing countries and demonstrate that even more significant reductions are possible with increased international financial support. Hosting COP30 places Brazil under the international spotlight, increasing both expectations and responsibilities to demonstrate leadership in advancing global climate action.

The approval of the Brazilian Emissions Trading System (SBCE), through Federal Law No. 15.042 on December 11, 2024, is a critical milestone in Brazil's climate policy development. This system provides the country's principal legislative framework for pricing carbon emissions, creating

tangible economic incentives for industries and energy sectors to adopt cleaner technologies and practices.

The legislative journey of the SBCE began nearly a decade ago, reflecting the complexity of carbon market mechanisms and the diverse interests involved in climate legislation. The initial proposal was first introduced to Congress in 2015, resulting in prolonged negotiations and multiple revisions driven by political debates, economic concerns, and technical consultations. This lengthy legislative process underscores the challenges of integrating environmental objectives with economic and political realities.

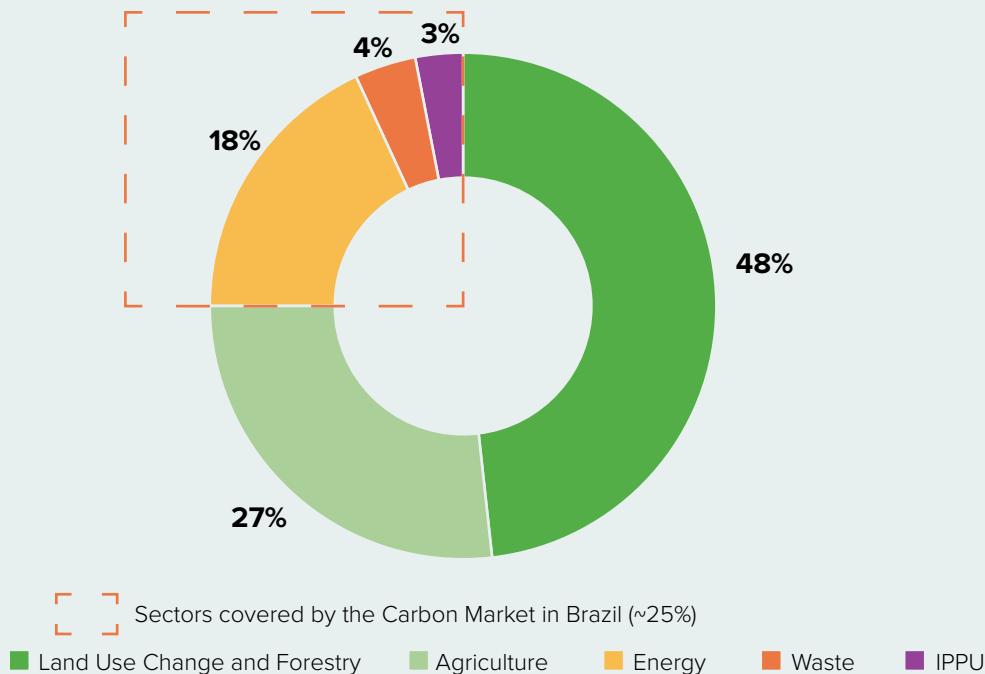
The SBCE will operate as a cap-and-trade system, setting a maximum limit on total emissions from covered sectors and allowing regulated entities to trade emission allowances. The law mandates reporting requirements for entities emitting over 10,000 tonnes of CO₂ equivalent per year and imposes compliance obligations on entities surpassing 25,000 tonnes annually. This approach balances economic considerations with the environmental imperative of substantial emissions reductions.



*Official logo of COP30 in Brazil.
Published by 'Portal da COP30'.*

Initially, the SBCE will cover key industrial and energy sectors, representing roughly 25% of Brazil's total emissions (Figure 1). The agricultural sector is notably excluded due to its unique emissions characteristics and the potential efficacy of alternative policy instruments, such as targeted financial incentives or direct regulatory measures. Similarly, the forest sector is excluded, primarily because the vast majority of deforestation activities in Brazil are illegal and perpetrated by criminal organizations. Consequently, traditional market mechanisms are insufficient to address these activities, necessitating stronger enforcement and command-and-control strategies.

Figure 1 – GHG Emissions in Brazil, 2022 (%)



Source: SEEG, 2023.

One distinctive feature of the SBCE is its phased implementation approach. According to the roadmap designed by the Ministry of Finance, the system will undergo five distinct phases, involving initial regulatory setups, development of monitoring, reporting, and verification (MRV) infrastructure, and gradual operational rollout. While this phased introduction aims to reduce systemic risk and ensure market readiness, it also delays full market functionality until approximately 2030. This timeline has raised concerns among stakeholders about the alignment of the SBCE with Brazil's near-term emission reduction commitments.

Financially, the SBCE sets clear mechanisms for recycling carbon market revenues, specifying that up to 15% of revenues will support market operations, 5% will go towards sustainable tourism initiatives, and at least 75% will be allocated to a fund managed by the Brazilian Development Bank (BNDES) for decarbonization research and investments. Nevertheless, stakeholders, including the Brazilian Forum on Climate Change (FBMC), have suggested greater flexibility in these allocations to address socioeconomic impacts, support vulnerable populations, and facilitate a just transition.

As Brazil approaches the final years of President Lula's current mandate, significant governance and regulatory concerns emerge regarding the SBCE's implementation. A major unresolved issue is the need for an independent regulatory agency to manage the SBCE effectively. Such an agency would require congressional approval, which appears increasingly difficult due to the current polarized political environment exacerbated by the informal launch of the upcoming presidential campaign. Consequently, governance structures for SBCE remain uncertain, highlighting the urgent need for political consensus and robust institutional frameworks to ensure the system's credibility and operational effectiveness.

In summary, the SBCE represents a vital step forward for Brazil in aligning economic growth with climate sustainability. While its legislative foundation is now firmly in place, significant challenges remain regarding timely implementation, effective governance, and flexible revenue management. Addressing these issues will be essential to Brazil's success in meeting its ambitious NDC targets and positioning itself as a leading voice in global climate action.

CHAPTER 2: CLIMATE POLICY IMPLEMENTATION CHECK

The Policy Implementation Check methodology (Figure 2) is a structured, systematic approach developed to assess the progress, effectiveness, and resilience of climate policies. Rooted in international best practices and informed by extensive empirical evidence, this rigorous assessment tool is designed to ensure a comprehensive understanding of policy performance, covering essential dimensions including legal foundations, governance and institutional frameworks, resourcing adequacy, and oversight effectiveness.

The methodology systematically evaluates whether clear, enforceable, and sufficiently detailed legal frameworks underpin climate policies, thus providing the necessary stability and predictability for their implementation. Effective institutional arrangements and governance structures are critical to ensuring that roles, responsibilities, and decision-making processes are transparent, clearly defined, and capable of facilitating coordinated action across multiple governmental and societal sectors. Additionally, the methodology scrutinizes the allocation and adequacy of resources—financial, human, and technological—necessary for sustained and efficient policy operation.

ABOUT THE CLIMATE POLICY IMPLEMENTATION CHECK

To meet the challenges of climate change, policies need to be both ambitious and implemented in a way that realises ambition as a matter of urgency. To assess the status and quality of implementation, Climate Transparency has developed the Climate Policy Implementation Check. It assesses the implementation of policy instruments along several basic questions:

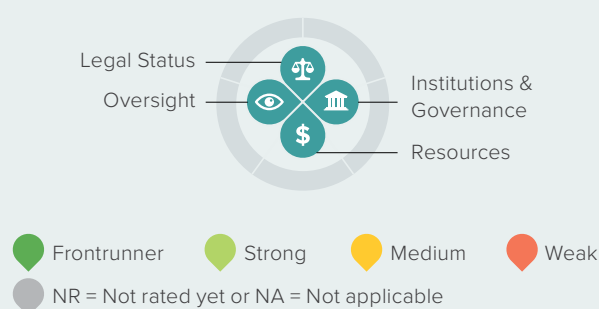
-  Does the instrument have a basis in law?
-  Has a suitable organisation been given the responsibility to implement the instrument?
-  Has the institution been given the resources to implement the instrument?
-  Is implementation being appropriately monitored to ensure success?

Accordingly, the assessment is grouped into four categories: Legal Status, Institutions and Governance, Resources, and Oversight. The framework can be applied to any policy in any country. This early check is important as policy outcomes and impacts on greenhouse gas (GHG) emissions are typically only measurable several years after implementation, leaving little time for course correction if implementation of the policy is weak.

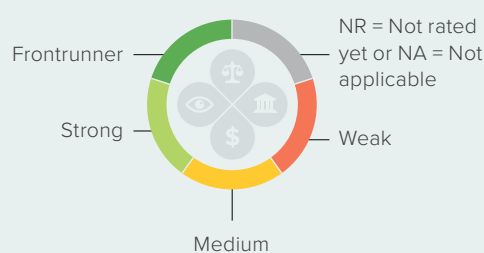
For each of these categories, the framework includes specific questions that are designed so that the results are comparable across different countries. Depending on answers to the specific questions, the implementation of the relevant policy instrument in each category is rated as Weak, Medium, Strong or Frontrunner. These ratings are combined to produce an overall rating for the policy implementation. For more information, please visit our website:

www.climate-transparency.org/implementation-check.

The four categories



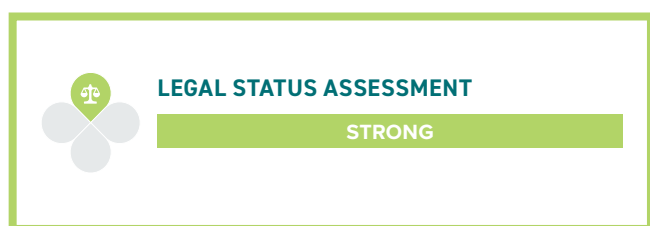
Policy assessment rating (overall)



Moreover, robust oversight mechanisms constitute a fundamental component of this assessment, emphasizing the importance of transparent monitoring, reporting, and verification (MRV) systems. These systems must ensure compliance, maintain accountability, and build trust among stakeholders and the broader public. Evaluating oversight mechanisms helps identify gaps or weaknesses in the compliance regime, enabling timely adjustments and improvements.

Applying the Policy Implementation Check methodology to Brazil's SBCE is particularly pertinent given the policy's current transitional phase from legislative establishment to operational execution. The complexity of the SBCE, involving a diverse array of stakeholders, sectors, and emissions sources, underscores the critical importance of a thorough and methodical assessment process. Implementing this methodology will help identify specific strengths and vulnerabilities within the SBCE framework, providing policymakers and stakeholders with precise insights into areas needing immediate attention and enhancement.

In sum, the Policy Implementation Check methodology represents an essential tool for Brazil at this juncture, supporting effective and transparent SBCE implementation, strengthening governance structures, enhancing accountability, and ensuring the policy's alignment with national and international climate commitments.



Brazil's SBCE is underpinned by **Law No. 15.042/2024**, which amends the National Climate Policy Act (Law No. 12.187/2009) and other sectoral statutes to create a binding legal framework for a cap-and-trade system. In formal hierarchy the SBCE sits at the level of a federal ordinary law, making it immediately enforceable across the Union and requiring only infra-legal regulation (decrees, ordinances and normative instructions) for day-to-day operation. This confers two major strengths:

- **Constitutional footing.** Article 225 of Brazil's Constitution establishes the right to an ecologically balanced environment while allowing economic instruments to internalise environmental costs. By

embedding the SBCE in ordinary law, Congress has provided the necessary statutory vehicle to operationalise that constitutional mandate.

- **Horizontal coherence.** The law incorporates definitions already used in the National Registry for GHG Emissions (SIRENE) and in sector-specific programmes such as RenovaBio, reducing the risk of conflicting terminology and facilitating integration with existing MRV rules.

While these attributes earned the SBCE a **strong** rating for legal status in our scorecard, three key **points of attention** remain before it can be considered a **Frontrunner**.

1. Deferred core elements. The law sets out the architecture of the market but delegates key quantitative parameters—including the national emissions cap trajectories, allocation method, auction design, eligibility of offsets and banking provisions—to secondary regulation. Although such delegation is common in ETS design, Brazil's timetable (Phase I of up to 24 months for regulation) creates legal uncertainty for investors during the preparatory period. International experience (EU ETS phase I) shows that prolonged regulatory gestation can dampen price discovery and impede early abatement.

2. Penalty ceiling mis-alignment. The law caps monetary fines at 3 % of gross revenue or BRL 20 million, whichever is lower. Stakeholders highlight that, for capital-intensive sectors (iron-and-steel, cement, oil & gas), the opportunity cost of non-compliance, in some cases, could exceed 3 %. Comparative legislation—Brazil's anticorruption and antitrust laws—authorises penalties up to 20 % of turnover and recovery of financial gains. Aligning SBCE sanctions with these precedents would provide stronger deterrence and legal coherence.

3. Institutional locus still undefined. The Act stipulates creation of a Market Management Authority but leaves its legal nature—autonomous agency, regulatory authority attached to the Finance Ministry, or inter-ministerial secretariat—to forthcoming legislation. Because independent agencies (e.g. ANP, ANEEL) require congressional approval, political gridlock could delay or dilute the creation of a truly arm's-length regulator. As the 2026 electoral cycle intensifies, the window for approving an autonomous body narrows, injecting additional legal risk.

INTERACTION WITH INTERNATIONAL AND SUB-NATIONAL LAW

The law explicitly recognises Article 6 of the Paris Agreement and allows use of Certificates of Verified Emission Reduction or Removal (CRVEs) generated under UNFCCC mechanisms or recognised voluntary standards, provided they respect corresponding adjustments. This clause future-proofs the SBCE and creates a statutory gateway for linking with other ETSs. Sub-national schemes remain permissible under Brazil's federal structure, but Law 15.042 clarifies that any state programme must adopt MRV methodologies consistent with SIRENE, preventing double counting.

Until these actions are completed, the SBCE enjoys a solid statutory base but remains legally “under construction.” Finalizing the secondary regulations and institutional architecture within the current presidential term is critical to convert **legal promise** into **regulatory reality** before the market's Phase IV launch.



INSTITUTIONS AND GOVERNANCE ASSESSMENT

MEDIUM

Governance Blueprint in Law 15.042/2024

The SBCE's governance architecture is conceived around three concentric layers:

- 1. Strategic coordination** – the Inter-ministerial Committee on Climate Change (CIM), already chaired by the Chief of Staff, is empowered to set the overall cap trajectory, approve linkage agreements, and integrate the SBCE with Brazil's NDC strategy.
- 2. Regulatory execution** – a new *SBCE Management Authority* (SBCE Authority) tasked with issuing technical regulations, operating the registry, supervising auctions and secondary markets, and imposing penalties.
- 3. Stakeholder interface** – The law authorizes the future SBCE Management Authority to “establish consultative committees and invite representatives from the public and private sectors as well as civil society to assist in technical matters related to allocation, MRV and market supervision.



The Brazilian National Congress.
Photo by Gustavo Leighton on Unsplash.

Strengths

- **Whole-of-government alignment.** Placing the SBCE under CIM embeds carbon-market decisions in Brazil's wider climate and industrial policy, minimizing siloed policymaking.
- **Legal requirement for public consultation.** The law obliges SBCE Authority to publish draft regulations for at least 45 days, increasing transparency and predictability.

The governance design meets international good-practice criteria on paper, yet three implementation risks keep it from a *strong* rating.

RISK	EVIDENCE	POTENTIAL IMPACT
Institutional birth pangs	SBCE Authority requires a separate law to create an autonomous agency or adapt an existing one (e.g., ANEEL/CVM). No bill has been tabled yet.	Delay in rule-making; registry stuck under interim secretariat beyond Phase I.
Over-centralisation in CIM	The CIM, comprising multiple ministries (potentially up to 22), may face challenges in quorum and agenda management, which could affect decision-making efficiency, pending further evidence of operational issues.	Risk of politicised cap-setting and slower response to market shocks.
Funding uncertainty	Law earmarks ≤ 15 % of auction revenue for administration, but revenue only flows once auctions start (Phase IV).	Funding gap for hiring, IT procurement, and enforcement during Phases I-III.

Pathway to “Strong” Governance

- **Fast-track an agency bill.** Model on ANEEL statute: autonomous, multi-sector board, fixed terms, and budgetary autonomy insulated from annual appropriations.
- **Interim governance charter.** Issue a presidential decree clarifying decision rights, timelines, and conflict-resolution procedures among MoF, MDIC, MMA, and CIM until SBCE Authority is operational.
- **Establish a bridging finance facility.** Authorise BNDES or another finance source to front-load administrative costs recoverable from future auction revenue.
- **Digital transparency portal.** Publish board minutes, allocation methodologies, and compliance dashboards in machine-readable format to bolster public trust.

Conclusion

The SBCE's governance design is conceptually sound but still embryonic. Advancing the enabling legislation for SBCE Authority, securing interim financing, and operationalising stakeholder bodies within the current presidential term would elevate Brazil's score from *medium* to *strong*, creating a resilient institutional backbone capable of steering the carbon market through its formative decade.



'Esplanada dos Ministérios', Brasília.
Photo by Agência Brasil EBC, on Gov.br.



RESOURCING ASSESSMENT

MEDIUM

WHY RESOURCING MATTERS:

Launching a carbon market is capital- and labour-intensive well before the first allowance is surrendered. Registries must be built, verifiers accredited, auctions organised, compliance audits undertaken and market data analysed. These tasks require stable multi-year finance, specialised staff and secure digital infrastructure; underspending has delayed or weakened several international ETS roll-outs. Assessing the SBCE therefore means testing three pillars: **finance, people and infrastructure.**

Statutory provisions

Article 28 of Law 15.042 limits administrative spending to 15 % of auction proceeds—a sound long-term model once trading is under way. During Phases I-III, however, no auctions occur, so start-up costs must be met from the federal budget or external partners. The 2025 draft Budget Law does not yet contain a dedicated SBCE line item, leaving the early phase financially exposed.

Short-term gaps

- **Bridge funding** – Without an interim appropriation or credit facility, essential spending—registry coding, verifier accreditation, staff recruitment—could slip, slowing the market's launch timetable.
- **Risk buffers** – Items such as cyber-security insurance, litigation reserves and disaster-recovery hosting do not yet appear in public plans, creating contingent liabilities for the new SBCE Authority.

Indicative staffing needs

No official head-count has been released, yet benchmarking against markets of similar scope suggests that about 60 full-time specialists would be sufficient for a market covering about 2 500 installations on Phase III—covering policy, IT, market surveillance, MRV science and legal enforcement. This number should be confirmed in the SBCE Authority's first staffing plan and funded from an explicit budget line.

Overall view: The SBCE's long-term financing model is sound—auction revenue should comfortably meet steady-state needs—but the short-term resource picture is weak and demands urgent attention during the regulatory phase. Securing an interim budget allocation or a revolving credit line, finalising a detailed staffing plan and establishing earmarked cyber-security and contingency funds are immediate priorities to avoid jeopardising the market's start-up schedule and integrity.



OVERSIGHT ASSESSMENT

STRONG

Scope and Rationale

Oversight in an emissions-trading system spans the full cycle of monitoring, reporting and verification (MRV), compliance enforcement and market supervision. The framework set out in Law 15.042/2024 is, on paper, a strong design: it addresses environmental integrity, market integrity and policy feedback. Yet its effectiveness will depend on the future SBCE Authority and its regulators turning statutory provisions into day-to-day practice. Robust oversight is essential to:

1. ensure that each allowance reflects a verified tonne of emissions reduced;
2. maintain market credibility by preventing fraud, manipulation and insider trading; and
3. deliver reliable data for policy adjustment and eventual linkage with other carbon markets.

Current Architecture

(Law 15.042/2024 and Ministry of Finance Roadmap)

The law establishes a two-tier oversight model:

- **Technical tier – MRV system.** Facility operators must prepare monitoring plans, submit annual emissions reports, secure third-party verification and file data electronically in the SBCE central registry.
- **Regulatory tier – compliance and market surveillance.** A forthcoming SBCE Authority will oversee allowance surrender, apply penalties, publish compliance tables and supervise trading venues.

This architecture can provide high integrity, but only if the Authority is swiftly created, adequately staffed and supported by clear secondary regulations and modern IT infrastructure.

Priority Actions to Achieve “Frontrunner” Oversight

1. Mandate T + 1 trade reporting to the registry and empower CVM to flag abnormal volumes or price spikes.

2. Introduce a graded enforcement ladder: warning→civil penalty→suspension of free allocation→director disqualification.

3. Publish anonymised verifier statements and uncertainty analyses to foster peer review.

4. Conclude a MoU with the Central Bank to monitor financial-stability risks arising from carbon asset collateralisation.

If these measures are enacted within the next 24 months, the SBCE could mature from its current strong oversight status to a frontrunner regime—comparable to EU and UK standards—well before the first true-up in Phase IV. This is critical for international linkage discussions and for maintaining market confidence during the initial cap-setting period.



SUMMARY OF THE BRAZILIAN CARBON MARKET SYSTEM ASSESSMENT

MEDIUM

LEGAL STATUS ASSESSMENT

STRONG

OVERSIGHT ASSESSMENT

STRONG

INSTITUTION AND GOVERNANCE ASSESSMENT

MEDIUM

RESOURCING ASSESSMENT

MEDIUM

Brazil's Sistema Brasileiro de Comércio de Emissões (SBCE) is well designed on paper: Law 15.042/2024 provides a solid legal foundation, the proposed governance structure is clear, and the oversight model mirrors best international practice. Nevertheless, significant implementation challenges keep the system in the medium range at this stage.

The system's current rating remains medium because the short-term phase is exposed. The autonomous SBCE Authority has yet to be created, secondary regulations are pending, and no dedicated start-up allocation appears in the federal budget. The law establishes a financing rule that earmarks up to 15 percent of auction proceeds for administration—securing the long-term budget once trading begins - but it will not begin probably before 2030.

Without an interim funding source and swift institutional set-up, registry development, staffing and oversight could stall, undermining market credibility. Until these elements are in place, execution timetables and market credibility remain vulnerable.

These issues are fully addressable—and should be the federal government's top priority—through swift enactment of secondary regulations, establishment and funding of the new Authority and guaranteed bridge finance for IT infrastructure and staffing. Resolving them will allow the SBCE to move promptly from a medium to a strong rating and to deliver the credible decarbonisation outcomes envisaged by the law.

CHAPTER 3: POLICY RECOMMENDATIONS AND CONCLUSIONS

Brazil now possesses the core legal foundation for a national carbon market; the critical task is to translate statute into credible, early action. Doing so will confirm Brazil's enhanced Nationally Determined Contribution (NDC), sustain confidence ahead of COP30 in Belém, and position the country as a leader among emerging economies. Five imperatives must guide the next phase:

Legal Certainty and Timely Secondary Rules

The SBCE's primary law is in force, but the market's integrity will hinge on prompt secondary regulation—particularly the first National Allocation Plan, the penalty framework, and the methodology for free allocation. Publishing these rules no later than 2026 will provide investors and regulated entities with a transparent carbon-price signal that can be factored into long-term planning. Just as the EU and UK carbon markets lock in multi-year caps ahead of each compliance phase, Brazil should use early certainty to reduce financing costs and accelerate low-carbon investment.

Robust Oversight and Data Transparency

Environmental credibility depends on accurate monitoring, reporting and verification (MRV), backed by effective enforcement. Brazil's existing national emissions registry offers a head start, but SBCE implementation requires daily trade disclosure, public release of verified facility-level data, and a tiered enforcement ladder that escalates from warnings to meaningful financial and reputational penalties. Publishing anonymised compliance results will align Brazil with international good practice and foster market confidence.

Cohesive Governance Architecture

A successful carbon market demands clear institutional roles. While the Finance Ministry leads economic design, an autonomous SBCE Authority—modeled on Brazil's established sectoral regulators—should be instituted to administer auctions, supervise trading, and enforce compliance. Until the new body is operational, an interim presidential charter can streamline decision-making, preventing delays arising from overlapping mandates among ministries and the Inter-ministerial Committee on Climate Change.

Predictable Resourcing and Capacity Building – Bridging the Gap

While Law 15.042 guarantees a stable funding stream once auctions begin, the regulatory phase will unfold years before those revenues materialise. To prevent delays in registry development, staffing, and oversight, the federal government should authorise a dedicated bridge-finance facility. Stable multi-year budgets are essential for hiring specialised staff, completing registry infrastructure, and maintaining cyber-security. Early start-up costs should be covered by the federal budget, that could be reimbursed from future auction revenue once trading begins. In parallel, Brazil's universities, professional associations, and existing regulators can run accelerated training programmes in carbon accounting, market surveillance, and data science, ensuring the SBCE has the human capital required to fulfil its mandate.

Policy Integration and Social Inclusion

The SBCE must complement—and not conflict with—Brazil's wider industrial, energy, and social agendas. Carbon-price signals should inform BNDES credit lines, industrial-transition roadmaps, and agricultural mitigation programmes. At least half of early auction proceeds could be channelled through a transparent, multi-stakeholder steering committee to support just-transition measures, innovation grants for hard-to-abate sectors, and assistance for low-income households facing higher energy costs. Integrating fiscal and social objectives will broaden public support and reinforce the system's long-term durability. International alignment with evolving carbon-market rules—especially Article 6 guidance, border-adjustment regulations, and emerging ETS standards—will also be essential to avoid an isolated domestic market and to ensure that mechanisms such as foreign CBAMs recognise Brazil's carbon-pricing effort on equal terms.

STRATEGIC OUTLOOK:

Executing these five priorities will convert legislative intent into operational reality. A functioning SBCE will direct capital toward clean power, green industry, and resilient rural economies while demonstrating that an emerging economy can decouple growth from emissions. Early market performance will also enhance Brazil's leverage in Article 6 negotiations and strengthen calls for increased international climate finance.

Conversely, postponing secondary rules or underfunding the new authority could undermine investor confidence, delay mitigation outcomes, and weaken Brazil's diplomatic standing. The window before COP30 is therefore decisive. By finalising regulations, staffing the regulator, and launching core infrastructure by 2026, Brazil can present tangible progress when it welcomes the world to Belém. Delivering on this timetable will show that orderly, inclusive decarbonisation is feasible at scale—and provide a practical blueprint for peers across the Global South intent on meeting the objectives of the Paris Agreement.



NETZero.

Photo by tayhifi5 on Freep!k.

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