

Biofuels and the Green Energy Push: Brazil-U.S. Cooperation in Implementing Carbon Emissions Reduction Policies

EXECUTIVE SUMMARY

Late last year, the Brazilian government introduced a new biofuels policy program to meet its commitment under the Paris Climate Agreement's section on "Nationally Determined Contributions" to reduce carbon emissions. *RenovaBio*, as the program is known, was approved in record time by the Brazilian Congress and signed into law by President Michael Temer in December 2017. Based in part on the State of California's Low Carbon Fuel Standard (LCFS) and the U.S. Renewable Fuel Standard (RFS), the new Brazilian program has opened space for renewed cooperation between the world's two largest producers of biofuels.

Towards this end, on June 11, 2018 a delegation from the Brazilian Ministry of Mines and Energy, charged with the new program's implementation, and Brazil's National Agency of Petroleum, Natural Gas and Biofuels (ANP) came to the Wilson Center for a public conversation on *RenovaBio*. Federal Deputy Evandro Gussi of the Green Party and Pietro Mendes, advisor to the Director-General of ANP spoke about Brazil's push for a more sustainable future. Gussi reflected on the process of drafting and debating the *RenovaBio* legislation, and highlighted the careful consideration given to implementation within the political framework. He stressed that *RenovaBio* represents a market solution to the commitment that Brazil made in Paris. Mendes presented several of the Brazilian government's projections for how *RenovaBio* will increase market share and pricing for ethanol, biodiesel, biomethane, and other fuels in the coming years. Mendes also emphasized that the program seeks to reduce Brazil's carbon emissions, and argued it will also reduce the country's consumption of and external dependence on fossil fuels. He noted the importance of examples established around the world, and pointed to California's Low Carbon Fuel Standard as one of the key models for Brazil's own policy. Both speakers closed by noting the important contributions made by all of those who contributed to the drafting, passing and implementation of this piece of legislature; ongoing reflections and feedback will continue to make this program competitive and relevant.

Biofuels and the Green Energy Push: Brazil-U.S. Cooperation in Implementing Carbon Emissions Reduction Policies

Monday, June 11, 2018, 4:00 pm – 5:30 pm

6th Floor, Woodrow Wilson Center

REFLECTIONS BY FEDERAL DEPUTY EVANDRO GUSSI AND PIETRO MENDES

Evandro Gussi, a member Brazil’s Federal Chamber of Deputies, called RenovaBio an open window of opportunity for Brazil and for the world. He expressed a mixture of gratitude and amazement that the legislation, which he spearheaded, passed through both houses of the Brazilian legislature in only 28 days. Gussi attributed the bill’s success in Congress to the academics and scholars who constructed the technical aspects of the bill, as well as to the widespread support of the biofuel industry.

According to Gussi, RenovaBio’s objective is to help Brazil fulfill its obligations under the Paris Climate Agreement in the transportation sector. Gussi stressed that RenovaBio, rather than being a subsidy, is a free market solution. The program creates a regulatory framework that incentivizes the use of biofuels over fossil fuels, instead of imposing caps or other limits, thereby reduce carbon emissions through free market dynamics. To support this idea, Gussi referred to the ideas of Nobel-Prize winning economist Douglass North, stating that an institutional framework is more important for economic development than technology. A good political and legal structure must be put in place so that technology can accomplish its purposes.

To close his remarks, Gussi once again expressed gratitude to those who helped him in passing RenovaBio through Congress. As he spoke, Gussi referred to many of those present in the delegation and with whom he worked as a “band of brothers,” waging the good war of low carbon emissions in the transportation sector.

Pietro Mendes, advisor to the Director-General of Brazil’s National Agency of Petroleum, Gas and Biofuels (ANP), began by noting the diverse organizations represented on the delegation. According to Mendes, the delegation’s purpose was to facilitate discussion of the RenovaBio project and to obtain feedback for possible improvements. Given the spirit of dialogue and transparency—two of the core values of this project—he argued that the delegation’s efforts also constituted a revival of U.S.-Brazil cooperation in the area of ethanol production.

Mendes’ presentation focused on the implementation and regulation of RenovaBio, both of which fall under the umbrella of the National Agency of Petroleum, Gas, and Biofuels. Mendes highlighted the international relevance of RenovaBio and pointed out Brazil’s status as the third largest consumer of transportation fuels globally. Furthermore, he stated that the crucial role of RenovaBio plays in ensuring Brazil’s compliance with the Paris Climate Agreement necessitates the involvement of many different stakeholders, including suppliers, distributors, dealers, and costumers.

To this point, Mendes referenced the global initiatives that inspired the designers of RenovaBio, most notably California’s Low-Carbon Fuel Standard (LCFS). The influence of foreign programs notwithstanding, Mendes affirmed that the specific national context of Brazil had been adequately considered. Domestically, RenovaBio uses transparency and dialogue to work with government agencies and Congress in order to foster production, retail, and distribution of biofuels.



Federal Deputy Evandro Gussi



Left-right: Joel Velasco, Pietro Mendes, Federal Deputy Evandro Gussi, and Anna Prusa

Mendes also provided predictions for the RenovaBio market, based on an economic model with a carbon intensity reduction mandate. He emphasized the role of a credit system, whereby producers are individually evaluated regarding decarbonization targets with the RenovaCalc tool, which provides an energy and environmental efficiency rating. Reiterating the importance of dialogue and transparency, Mendes spoke of how the initial target setting process—completed on June 5—included a public consultation period, with more than 400 public suggestions received.

Following a description of RenovaBio’s functionality, Mendes explained the intended impact of RenovaBio. Overall, RenovaBio aims to achieve a 10.1 percent reduction in carbon emissions by 2028. In conjunction, ANP expects a 8.6 percent increase in the share of biofuels, while fossil fuels are expected to decrease by the same percentage. Projections also indicate that RenovaBio will decrease Brazilian external dependence—which Mendes identified as a key problem—from 11.5 percent to 7 percent. Beyond these impacts, the government expects the injection of more than \$200 billion into the Brazilian economy as the result of investment related to RenovaBio.

To conclude, Mendes summarized the key contributions that RenovaBio makes to Brazil: decreasing the country’s external dependence on transportation derivatives, contributing to Brazil’s obligations under the Paris Climate Agreement,

guaranteeing the national supply of fuels, and expanding the supply of biofuels with regulatory predictability. [Note: Mendes’ full presentation is available on the [event webpage](#).]

Following their comments, Gussi and Mendes answered several questions from the audience.

Question: How are you cooperating with other countries, and are you encouraging others to adopt systems similar to RenovaBio?

Answer: Pietro Mendes pointed to the delegation as an example of international cooperation with the United States. In addition, according to Mendes, Brazil has cooperated with Germany in order to develop biomethane resolutions. The panelists emphasized the fact that RenovaBio is only the beginning of the push towards the expansion of biofuels. They expressed the hope that similar programs can extend to other industries and nations, to the extent that the program shows itself to be financially and environmentally viable.

Q: Are there incentives, with taxes or other factors, to facilitate domestic or international investment?

A: Evandro Gussi stated that, although RenovaBio does not contain any specific provision to incentivize investors, the predictability and transparency inherent within the program are substantial incentives for potential investors.

He also believes that Brazil's potential alone is an incentive. According to Gussi, 65 percent of Brazil's land is unchanged from the 16th century onward; consequently, there is ample space for investment, development, and subsequent profits.

In addition, Pietro Mendes explained that the stable and independent nature of ANP's leadership structure is favorable for investment, as it reduces political influence. ANP's board of directors have four year terms that do not coincide with election years, and therefore potentially span different government administrations. He also noted that in Brazil, new administrations have always respected the contracts made by their predecessors, regardless of party affiliation, so investors can have confidence that the terms of their deal will be upheld.

Q: Was there any difficulty or opposition in garnering support for RenovaBio from the transportation sector?


A: Evandro Gussi explained that, although there is always some degree of political opposition regardless of the initiative, the transportation sector was relatively favorable towards RenovaBio from the beginning. He

described RenovaBio as a good opportunity to put environmentalists, soy producers, biofuel producers, and others at the same table for discussion. Panelists and audience members discussed the contrast between Brazil and the United States in this regard. According to the discussion, distributors in the United States are generally more inclined to oppose the adoption of biofuels, perhaps because they face greater issues of liability. In contrast, those in Brazil are more accustomed to ethanol—cars sold in Brazil are “flex-fuel” capable, for example, with ethanol a common choice at gas stations—and distributors in Brazil are willing to accept some of the negative consequences that accompany ethanol use.

Left-right: Joel Velasco and Pietro Mendes



One Woodrow Wilson Plaza
1300 Pennsylvania Avenue, N.W.
Washington, DC 20004-3027

 www.wilsoncenter.org/program/brazil-institute

 brazil@wilsoncenter.org

 facebook.com/brazilinstitute

 [@brazilinst](https://twitter.com/brazilinst)

 202.691.4147