



**ELEMENTS FOR BUILDING AN
EMISSIONS TRADING SYSTEM**

VOLUME III

EXECUTIVE SUMMARY

Concerns with the growing levels of greenhouse gas (GHG) concentration in the atmosphere and the impacts of extreme events associated with climate change have led a number of governments to adopt policies to foster mitigation measures, including the support of pricing instruments for GHG emissions. Policy-makers have at their disposal command and control measures and market instruments, such as emissions taxation, and allowance trade for GHG emissions.

Emissions trading systems (cap-and-trade) gained visibility after governmental programs of that nature were implemented in the United States, which limited sulfur dioxide (SO₂) emissions, with the purpose of reducing the occurrence of acid rain in the country. Given the flexibility of those systems for regulated entities to determine the most effective option to reduce their GHG emissions, a growing number of jurisdictions have been adopting them as a component of broader policies to deal with climate change. It is worth highlighting consolidated systems, as the ones adopted in Europe and in California. However, more recently, the pilot projects adopted by the Chinese government have grabbed our attention, as well as the expectation of a national emissions trading system in the Republic of Korea, as of 2015.

Thus, although the collapse in allowance prices in the European emissions trading system - the major international initiative - has led many people to believe the market is an inefficient instrument to refrain GHG emissions and foster lower emission technologies, the expansion of existing and emerging markets makes us believe the cap-and-trade mechanism still has great potential to lead the transition to a low-carbon economy in national and regional policies.

Those initiatives also point to an intention of interconnecting through bilateral agreements, which can start configuring an international emissions trading system. It is also worth noting that the measures adopted by China may influence how climate change policies are conducted in the United States and, therefore, open up a new perspective for an effectively multilateral coordinated action to fight climate change.

In spite of differences in economic, political and social scenarios in those regions, Brazil can benefit from lessons learnt from existing systems and others who are in more advanced implementation stages.

Thus, this work presents basic concepts to understand the key elements to build and operate a cap-and-trade system, its hypotheses and limitations, seeking to emphasize possible devices that shall be considered for the Brazilian scenario. It also presents some lessons learnt from international initiatives and seeks to assess, on a preliminary basis, the suitability of an emissions trading system in Brazil.