Brazil Brief

The New Carbon Economy: How Brazil is Building its Regulated Market

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Vieira Rezende

The Brazilian Carbon Market: A New Frontier for Investment

The enactment of Law No. 15.042 in December 2024 marked Brazil's formal entry into the group of countries that have chosen to use market-based mechanisms to reduce greenhouse gas emissions. By establishing the Brazilian Emissions Trading System (SBCE), the country took the first step toward creating a regulated carbon market, bringing its regulatory framework closer to models already adopted in jurisdictions such as the European Union and California in the United States. More than an environmental initiative, this represents the creation of a new economic framework that can influence investment decisions, corporate strategies, and capital allocation across multiple sectors of the economy.

Beginning in 2026, this transformation enters a decisive phase. As the regulatory framework continues to evolve, companies and investors are gaining greater clarity regarding the rules that will govern the system, the sectors that will fall within its scope, and the monitoring and compliance mechanisms that will underpin the market. Although the SBCE is not expected to become fully operational until the end of the decade, the current period marks the transition from institutional design to implementation. In other words, the carbon market is moving beyond a regulatory concept and beginning to take concrete shape for market participants.

The implications extend well beyond companies directly subject to emissions caps. The creation of a regulated market is expected to increase the economic value of environmental assets, stimulate investment in low-carbon technologies, and strengthen financing mechanisms that support the transition to a less carbon-intensive economy. At the same time, the development of this market will depend on continued progress in governance, legal certainty, and the integrity of carbon assets, all critical elements for attracting investment and ensuring the system's long-term credibility.

In this edition of Brazil Brief, the Vieira Rezende team examines how Brazil's regulated carbon market is being structured, how the new regulatory framework can transform environmental assets into investment opportunities, and the challenges that still need to be addressed to establish a market capable of attracting both domestic and international capital.

Brazil Enters the Regulated Carbon Market

Lúcia Aragão
Partner | Energy & Natural Resources

The creation of a regulated carbon market represents a significant shift in how investors view Brazil. Until now, the country has already possessed many of the attributes commonly associated with a competitive low-carbon economy: a predominantly renewable energy matrix, the capacity to generate high-quality environmental assets, and sectors with significant potential to reduce emissions at scale.

> *Brazil was already a major producer of carbon credits. What was missing was a regulated market.*
>
> **Lúcia Aragão**

By establishing permanent rules for carbon trading, the Brazilian Emissions Trading System (SBCE) transforms this potential into a structured market that can expand investment opportunities.

The ongoing regulatory process is central to this transformation. More than a technical exercise, it is the mechanism that will provide investors with greater clarity regarding the sectors covered by the system, the activities eligible to participate, and the opportunities likely to emerge as the market matures.

Among the sectors included in the initial phase of emissions monitoring, reporting, and verification (MRV) are pulp and paper, iron and steel, cement, primary aluminum, oil and gas exploration and production, refining, and aviation. These industries are expected to play a significant role both in reducing emissions and in generating demand for carbon credits.

The current regulatory phase also creates a particularly attractive window for investors to follow the market's development. Unlike investments focused on short-term returns, projects involving carbon credit generation, reforestation, the energy transition, and decarbonization are typically structured over long investment horizons. The gradual definition of the regulatory framework provides an opportunity to evaluate assets, partners, and business models before the system becomes fully operational. The coming years are expected to combine greater visibility regarding market rules, sectoral coverage, and emissions targets with an adaptation period preceding the full implementation of the compliance obligations and enforcement mechanisms established under the regulated market. Rather than representing the end of the process, the current regulatory phase is laying the foundations of the market itself and, for that reason, offers a valuable opportunity for investors seeking exposure from the earliest stages of its development.

> *Because emissions cannot be eliminated across all activities, mandatory compliance with emissions targets will create a market for the generation and trading of carbon credits.*
>
> **Lúcia Aragão**

As the regulated market matures, interest in Brazilian carbon projects is expected to grow. At the same time, however, the level of sophistication required from investors will also increase. According to Aragão, evaluating these assets involves challenges that extend well beyond environmental metrics or estimates of emissions reductions.

> *Due diligence for carbon projects may require even more comprehensive land tenure, regulatory, reputational, and compliance reviews than traditional transactions.*
>
> **Lúcia Aragão**

As the market expands, the ability to navigate this complexity is likely to become as important a competitive advantage as the quality of the environmental assets themselves.

The New Economic Architecture of the Carbon Market

Paloma Amorim da C. Rosa
Partner | Tax & Customs

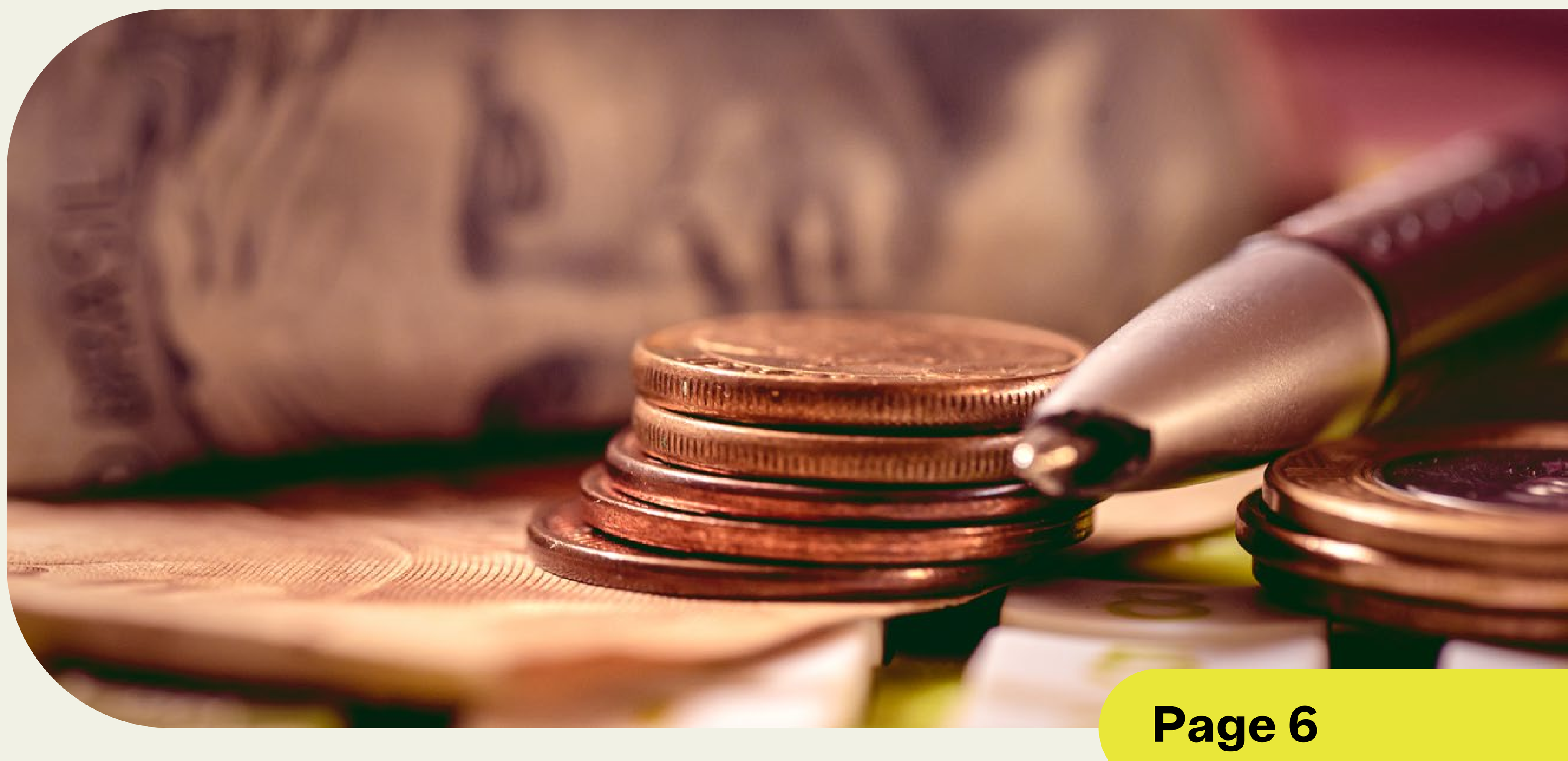
The creation of the Brazilian Emissions Trading System (SBCE) represents more than a regulatory milestone for the carbon market. It also addresses an issue that has long been at the center of legal debate: the legal characterization of carbon credits. Although the voluntary carbon market has long supported transactions in Brazil and abroad, the absence of a clear legal framework created uncertainty regarding the treatment of these assets and limited the development of a broader regulatory structure.

According to Paloma Rosa, partner in the Tax practice at Vieira Rezende, one of the most significant advances introduced by Law No. 15,042/2024 was precisely the resolution of this issue. By classifying carbon credits traded in the regulated market as financial assets when negotiated in financial and capital markets, the legislation provides a stronger foundation for the sector's development.

> *To encourage an activity, you first need to define the legal nature of the asset being traded.*
>
> **Paloma Rosa**

This definition is significant not only from a legal perspective but also from an economic one, as it directly influences how these assets will be structured, taxed, and traded.

Greater clarity regarding the nature of carbon credits becomes even more important as Brazil implements its consumption tax reform. While the carbon market law has already established certain tax parameters, the interaction between the new carbon market framework and the taxes introduced by the reform will continue to evolve through future regulation and interpretation. Despite these remaining uncertainties, Rosa notes that the reform's underlying logic points toward a tax framework compatible with Brazil's decarbonization objectives. For the first time, environmental protection has been expressly incorporated into the guiding principles of the national tax system, reinforcing the expectation that taxation will serve as a policy instrument to encourage the development of the carbon market.



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The tax system should not be an obstacle. On the contrary, it should function as an incentive for this activity.

Paloma Rosa

Beyond providing greater legal certainty for existing transactions, this framework is expected to create the conditions necessary to expand the regulated carbon market itself. The combination of a clearer legal framework, specific rules governing the trading of carbon credits, and a constitutional mandate supporting environmental protection helps reduce uncertainty and encourage broader participation by companies and investors. In a market that is still in its formative stages, strengthening these institutional foundations may prove just as important as creating the carbon assets that will ultimately be traded.

The Economics of Decarbonization

Roberto Vianna do R. Barros
Partner | Banking & Finance

The creation of a regulated carbon market introduces an element that has, until now, been largely absent from Brazil: a structured source of demand for decarbonization projects. By establishing mandatory emissions targets for certain sectors, the system creates sustained demand for carbon credits and emissions-reduction initiatives, fundamentally changing the economics of activities that have historically relied primarily on voluntary markets. According to Roberto Vianna, partner in the Banking & Finance practice, this is the defining feature of the new model.

> *The demand created by the system itself is likely to make viable projects that currently lack sufficient economic incentives to move forward.*
>
> **Roberto Vianna do R. Barros**

In Vianna's view, this emerging market is developing in an environment characterized by ample liquidity and investors actively seeking new investment opportunities.

The implications extend well beyond the creation of a new financial asset. The predictability provided by a regulated market strengthens incentives for investments that reduce emissions within productive activities themselves, including industrial modernization, equipment replacement, improvements in energy efficiency, and the adoption of renewable energy sources. Reforestation and land restoration projects will continue to play an important role, but they will increasingly coexist with a much broader range of decarbonization initiatives. According to Vianna, the greatest potential of the regulated market lies precisely in its ability to expand the universe of economically viable projects.

This dynamic also transforms the way decarbonization projects can be financed. Brazil has the conditions to significantly increase the supply of emissions-reduction initiatives while benefiting from a market with abundant liquidity and investors looking for new opportunities. Unlike instruments such as green bonds, Green CPRs, and other sustainable finance structures, the regulated carbon market creates a permanent source of demand for decarbonization projects, reducing reliance on voluntary initiatives alone.

> *Carbon credits traded in the regulated market are fundamentally different from other sustainable finance instruments because demand is driven by a regulatory obligation.*
>
> **Roberto Vianna do R. Barros**

SBCE Timeline: From Regulation to Full Implementation

- **December 2024**
  Establishment of the SBCE
  Enactment of Law No. 15,042/2024, establishing the Brazilian Emissions Trading System (SBCE) and creating the legal framework for the country's regulated carbon market.

- **2025-2026**
  Regulatory Development
  Development of the regulatory framework, establishment of governance structures, issuance of operational regulations, and definition of the sectors to be covered by the regulated market.

- **Beginning in 2026**
  Monitoring and Market Preparation
  Covered entities begin implementing emissions monitoring, reporting, and verification (MRV) processes, enabling a gradual transition to the new framework before mandatory compliance takes effect.

- **2027-2029**
  Transition period
  Progressive consolidation of market rules, gradual establishment of emissions caps, and continued development of carbon credit trading mechanisms.

- **2030**
  Full Market Operation
  The SBCE becomes fully operational, with mandatory emissions-reduction targets, carbon-credit trading, and enforcement of the compliance framework established under the system.

Authors

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Lúcia is the head of the Real Estate practice and a partner in the Energy & Natural Resources team. She is is also engaged in major renewable energy generation and carbon credit projects, being one of the leading lawyers with substantial experience in the Brazilian Amazon and in complex aspects of the real estate sector. She has coordinated a significant number of projects over the past five years, further strengthening her position as a leader in sustainability-focused legal practice.

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Paloma is a partner in the tax and customs law practice at Vieira Rezende and has strong experience in highly complex consulting projects involving the structuring and planning of new business models from a tax perspective, aimed at ensuring greater efficiency in the activities to be carried out in the country.

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Roberto has an extensive practice in corporate, capital markets, project finance and banking, representing a wide variety of investment and commercial banks, as well as Brazilian and international companies of different industry sectors.

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