

## BRAZIL SEEKING TO ATTRACT ENVIRONMENTAL CONSERVATION-ORIENTED INVESTMENT

### — INITIATIVES IN THE AGRICULTURAL SECTOR ARE A START TO ACHIEVE CARBON NEUTRALITY BY 2050 —

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#### SUMMARY

- The current Brazilian administration has been at odds with the international community over environmental conservation, but it recently shifted its advocacy by adopting a more cooperative attitude. Behind this is the fact that the country cannot make light of environmental protection if it wants to promote further economic development.
- The main factors behind GHG emissions in Brazil are deforestation in the Legal Amazon region aimed at the conversion of forests to farmland and agricultural production activities. For Brazil to achieve the NDCs it has set for itself, it is vital for the country to begin reducing GHG emissions in the agricultural sector.
- The current administration aims to make Brazil an investment destination for the environmental business. Incentives are already being introduced in the agricultural sector to promote low-carbon agriculture and encourage participation in the carbon credit market. Going forward, it is expected that the development of investment conditions aligned with environmental conservation objectives will accelerate as Brazil strives to achieve its NDCs.

Brazil's Bolsonaro administration had inflamed the conflict with the international community by arguing that Western countries' calls for forest protection in the development of the Amazon region were an interference in its domestic affairs. However, at the recent UN Climate Change Conference in Glasgow (COP26), Brazil shifted its advocacy by showing a more cooperative attitude toward environmental conservation. This report looks at the Brazilian government's approach to cutting greenhouse gas (GHG) emissions by offering economic incentives, amid growing global awareness of the need for environmental protection.

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#### BRAZIL'S NDC TARGETS CARBON NEUTRALITY BY 2050 AND ERADICATION OF ILLEGAL LOGGING BY 2028

##### 1-1. Brazil shows cooperative attitude toward international community at COP26

At the COP26 summit, Brazil presented an updated program for its Nationally Determined Contributions (NDCs) that included plans to eradicate illegal logging by 2028 and cut GHG emissions by 43-50% by 2030, from the level in 2005. At the Leaders Summit on Climate held in April 2021, Brazil had set the goal to eradicate illegal logging by 2030, so the target has been moved forward by two years in the latest plan. Brazil, which sent the world's largest delegation to the COP26 climate conference, agreed to a joint declaration to stop deforestation by 2030, restore devastated land, and put an end to the environmental destruction caused by the expansion of

agricultural production, such as for soybeans and cacao beans. In formulating the rulebook, Brazil demonstrated a cooperative attitude, such as by presenting alternative proposals in an attempt to bridge conflicting views between developed and developing countries. This was a complete turnaround from the COP25, when Brazil put the brakes on the argument by inflaming the conflicts with other countries. Behind this change is the current administration's desire to attract foreign investment, centered on environmental conservation-oriented projects, to promote further economic development.

## 1-2. Economic loss caused by prioritizing economic growth

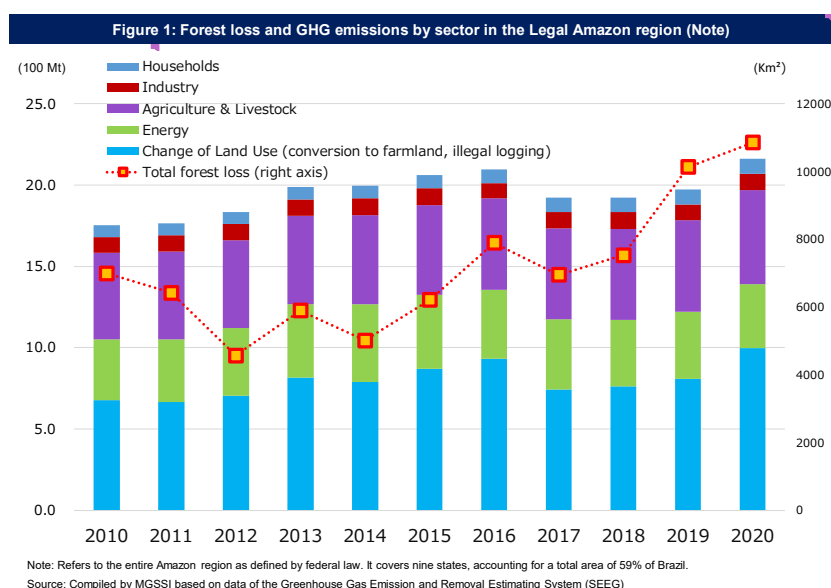
The Bolsonaro administration, which was inaugurated in 2019, had been emphasizing economic growth without giving much attention to environmental policies. Since the administration took office, the budget to crackdown on illegal logging and also on slash-and-burn agriculture, which is a cause of unintentional fires, has not been expanded. The scale of forest loss has been increasing, with the figure expanding by 34.4% in 2019 and by 7.1% in 2020 year-on-year, due to weakened surveillance systems and inadequate facilities for responding to forest fires.

Giving priority to economic interests has resulted in losses for Brazil in many ways. One is with respect to trade. The German and French governments have indicated that they will not ratify the FTA between Mercosur and the EU, which reached a general agreement in 2019 after 20 years of negotiations, unless the Brazilian government presents clear environmental policies. The Brazilian National Confederation of Industry (CNI) also revealed that domestic companies are under pressure from international financial markets and investors, and if government measures are not taken adequately, the consumption of Brazilian products in Europe will decrease due to consumer boycott. The resulting export loss is estimated to reach US\$46.2 billion, which is 22% of the value of the country's annual exports.

Another loss is evinced by the stagnancy in Brazil's application to become a member of the OECD. Brazil applied for OECD membership under the previous administration, led by former President Michel Temer, and began structural reform to attract foreign investment steadily. While the OECD has to a certain extent recognized Brazil's efforts toward obtaining membership, such as the current administration's promotion of tax reforms, it is pointed out that the government's goals pertaining to the environment are below the level required of member countries. Brazil has created a vicious cycle of suffering economic losses as a result of prioritizing economic development. The business community is urging the government to take immediate action.

## 1-3. Review of deforestation controls and agricultural production activities that are key to comply with the Paris Agreement

In order for Brazil to achieve its NDCs, it needs to undertake a review of forest loss conditions and agricultural production activities, which together account for 70% of GHG emissions (Figure 1). Currently, although Amazon forests absorb more CO<sub>2</sub> than they emit, experts say CO<sub>2</sub> accumulated inside trees is emitted due to illegal logging and drought, and the decaying process of fallen trees also generates GHG emissions. Therefore, they are concerned that the forests will soon enter a "turning point" where CO<sub>2</sub> emissions will exceed absorption volume. An analysis by the Institute of Man and Environment of the Amazon (Imazon), an NPO that promotes forest conservation activities, states that approximately 60% of forest loss occurs on



privately owned land. Behind this is the conversion of forests to farmland by soybean and livestock farmers. In particular, slash-and-burn agriculture (called “queimada”), which has been traditionally practiced for land reclamation and farming efficiency, has become a major problem. Queimada does not only emit GHG emissions, but also dries the surrounding forests, increasing the risk of flying sparks igniting wildfires. The government has banned queimada during the dry season (July–September) since 2019, but even though troops have been dispatched to enforce the control, it has not led to an effective solution. To reduce GHG emissions, it is important to take approaches that will change the behaviors of individuals rather than strengthening penalties.

## 2. NEED TO ACHIEVE BOTH ECONOMIC GROWTH AND ENVIRONMENTAL CONSERVATION

### 2-1. Announcement of “Green Growth Program” as a basic environmental guideline

On October 25, 2021, just ahead of taking part in COP26, Brazil announced the Green Growth Program, a basic environmental guideline for reducing GHG emissions. The program involves 10 related ministries and agencies, and includes initiatives for (1) rational use of natural resources, (2) reduction of GHG emissions, (3) forest conservation, and (4) biodiversity conservation. Under this guidelines, the incentives for activities that contribute to environmental conservation in the manufacturing, energy, agriculture, and tourism sectors will be implied. The specific measures are scheduled to be announced by each ministry and agency by September 30, 2022. Green growth, green economy, and green jobs will be the keys to the future economy, said Minister of the Economy Paulo Guedes. With the development of the Green Growth Program, the rest of the world will begin to see Brazil as an attractive investment destination for the environmental business, he said, showing a positive attitude toward promoting business aligned with environmental conservation objectives. However, voices at home and abroad are questioning the feasibility of the program as concrete measures have yet to be made clear and the presidential election, scheduled for October 2022, is not far off. It will be necessary to pay close attention to the extent to which the program will be developed. However, as described in the next section, the fact that individual measures based on this guideline have been taken deserves to be acknowledged at this time.

### 2-2. Promotion of low-carbon agriculture by offering favorable financing terms for the adoption of new technology

As an initiative in the agriculture sector, which is a major source of GHG emissions, the Brazilian government announced on October 19, 2021, the Plan ABC+ policy to promote low-carbon agricultural practices. This is an

updated version of Plan ABC introduced in 2010 (Figure 2). Favorable financing terms will be offered to farmers who adopt technologies designed to promote the recovery of degraded pasture lands, afforestation, proper treatment of animal waste, and other conservation activities. The earlier Plan ABC was evaluated to have achieved a reduction in CO<sub>2</sub> emissions to a certain extent, although there were some operational issues such as lack of awareness of the program among farmers, who are the users, and lack of knowledge about the introduction of low-carbon technologies. There is already a growing trend among private companies, led by Bayer AG (Germany), to purchase agricultural products

Figure 2: Activities and goals of Plan ABC and Plan ABC+

	Target technology	Plan ABC (2010–2020)				Plan ABC + (2020–2030)	
		Goal		Achievement		Goal	
		Scale	CO <sub>2</sub> reduction (tCO <sub>2</sub> eq)	Scale (achievement rate %)	CO <sub>2</sub> reduction (achievement rate %)	Scale	CO <sub>2</sub> reduction (tCO <sub>2</sub> eq)
1	Recovery of degraded pasture land	15 mn ha	83–104 mn	4.46 mn ha (30%)	16.9 mn (18%)	30 mn ha	113.7 mn
2	Construction of integrated crop-livestock-forestry systems	4 mn ha	18–22 mn	58.3 mn ha (146%)	22.11 mn (111%)	10.010 mn ha	72.01 mn
3	No-tillage farming	8 mn ha	16–20 mn	99.7 mn ha (125%)	18.25 (101%)	12.58 mn ha	12.99 mn
4	Use of biological nitrogen fixation	5.5 mn ha	10 mn	99.7 mn ha (181%)	18.25 (182%)	13 mn ha	23.40 mn
5	Planted forests	3 mn ha	8–10 mn	1.1 mn ha (37%)	2 mn (25%)	4 mn ha	510 mn
6	Treatment of animal waste	4.4 mn m3	6.9 mn	170 m3 (39%)	2.67 mn (39%)	208.4 mn m3	277.8 mn
7	Improvement of breeding methods					5 mn head	16.24 mn
8	Development of irrigation systems					3 mn ha	50 mn
CO <sub>2</sub> reduction goal			170 mn		80.18 mn (47%)		1,076.14 mn

Source: Compiled by MGSSI based on Brazilian government announcements and Climate Scorecard data

produced with low-carbon agricultural practices at premium prices. It is expected that the trend to discover added value in low-carbon agriculture will gain momentum in the future.

### 2-3. Introduction of incentives for pursuing environmental conservation through agricultural activities

The Brazilian government has begun to develop a carbon credit market, in a bid to realize environmental conservation through agricultural activities. It aims to encourage voluntary efforts by farmers to reduce GHG emissions by providing credits for activities that contribute to environmental conservation.

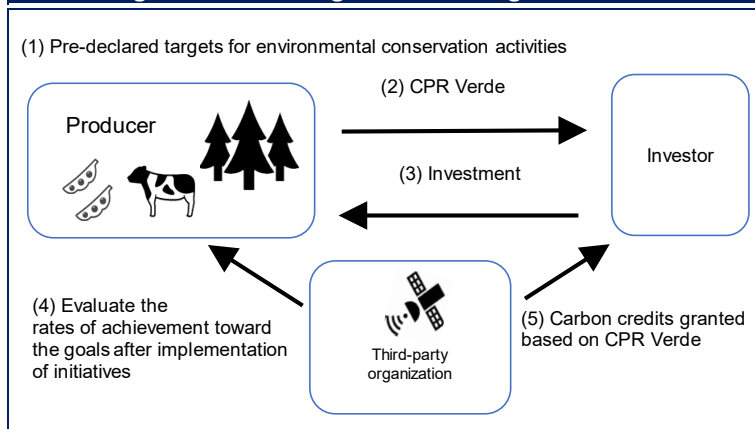
The Green Rural Product Certificate for environmental assets (CPR Verde), which was launched on October 4, 2021, is a financing scheme that encourages farmers to practice environmental conservation. Since the 1990s, Brazil has had a well-established system for the financial instrument known as CPR (rural product certificate) that allows farmers who want to raise working capital to borrow against the agricultural produce expected to be harvested the same year, and repay the loan in cash or produce after the harvest. In the case of CPR Verde, instead of agricultural products, investments will be solicited from companies seeking to offset carbon emissions by using their pre-declared targets for environmental conservation activities as collateral. It covers seven types of conservation activities, including those aimed at reducing GHG emissions, increasing or maintaining forest carbon reserves, and remediating contaminated soil (Figure 3). The rate of achievement toward the targets will be evaluated by a third-party organization, and carbon credits will be granted to domestic and overseas investors (Figure 4). The Brazilian government envisions these investors will be companies seeking to buy carbon offsets to comply with emissions caps, such as those in the airline and distribution industries.

**Figure 3: Conservation activities subject to evaluation under CPR Verde**

Reducing GHG emissions volume
Increasing or maintaining forest carbon stock
Reducing deforestation and protecting native species
Ensuring biodiversity
Securing water resources
Promoting soil remediation
Other activities for conservation of the ecosystem

Source: Compiled by MGSSI based on Brazilian government announcements

**Figure 4: Financing scheme using CPR Verde**



Source: Compiled by MGSSI based on Brazilian government announcements

## FUTURE OUTLOOK AND SUSTAINABILITY PROSPECTS

### 3-1. Technologies for improving production efficiency viewed as promising investments

In addition to the promotion of low-carbon agriculture and development of the carbon credit market, the development of technologies to improve agricultural production efficiency is expected to become an area of focus going forward. Brazil must achieve both expansion of agricultural production and environmental conservation. In order to meet the rapid growth of global food demand, there is a pressing need to introduce new agricultural technologies, or agritech. Sustainable biotechnology that makes it possible to harvest twice or three times a year, agricultural methods that realize carbon-neutral livestock farming, and the use of AI and drones to improve production efficiency are attracting attention as promising investment fields. Since the Brazilian government has mentioned the will to offer economic incentives to producers who adopt these technologies, subsidies and other preferential measures are expected to be applied.

### **3-2. Environmental conservation is a shared interest of both leftist and rightist ideologies**

The current administration aims to make Brazil an investment destination for environmental businesses. The most important factor for this is the continuity of policy after the presidential election. While incumbent President Bolsonaro is keen to see reelection, his approval rating is low at just above 20%. Meanwhile, former President Luiz Inacio Lula da Silva, who held office from 2003 to 2010, is expected to be a rival candidate as he has gained more than 40% of the support in the polls, increasing the possibility of a change of government.

However, if the current administration is able to establish a legal system and an investment environment to support environmental conservation, the market conditions will not change significantly regardless of the outcome of the presidential election. Given that former President Lula has condemned the Bolsonaro administration's weak environmental policies, if environmental conservation-oriented legal and investment frameworks are initiated, he is not expected to change them significantly. Environmental conservation is a shared interest of both leftist and rightist ideologies, and a topic of concern that crosses over political party lines. Brazil's move to promote environmental conservation is expected to further gather momentum in the future, especially in the agricultural sector, as the country works to achieve its planned NDCs through which it has shown a great commitment to the international community.