



OCCASIONAL PAPER NO 163

Economic Diplomacy Programme

November 2013

# **The Green Economy in the G-20, Post-Mexico: Implications for Brazil**

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**South African Institute of International Affairs**

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SAIIA gratefully acknowledges the Swedish International Development Cooperation Agency, the Danish International Development Agency, the UK Department for International Development and the Swiss Development Corporation, which generously support the EDIP Programme.

This occasional paper is produced by the Global Economic Governance Africa (GEGAfrica) project, which is managed by SAIIA and the University of Pretoria, and supported by the UK Department for International Development (DFID) and the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).



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## ABSTRACT

The preparations for the 2012 G-20 Leaders' Summit in Los Cabos, Mexico, coincided with negotiations around the UN Conference on Sustainable Development in Rio de Janeiro (Rio+20), co-ordinated by Brazil. This coincidence led to a conflict between different conceptual views: the green growth agenda being promoted by Mexico versus the maintenance of the sustainable development concept advocated by Brazil. The compromise resolution led to the adoption of the motto 'Promoting long-term prosperity through inclusive growth' at the 2012 G-20 summit .

In the period preceding Rio+20, the notions of a green economy and green growth were intensively debated in Brazil. In general, these ideas were questioned, and perceived as normative devices generated by developed countries and presented to developing economies as having universal validity. At the level of domestic public policies, the broader trade-off, as understood in Brazil, involves, on the one hand, economic and social goals, and, on the other, environmental and climatic objectives.

At the beginning of the 21<sup>st</sup> century, Brazil seemed well positioned to face the challenge of mitigating greenhouse gas (GHG) emissions. With limited domestic availability of fossil energy sources, the country was able to explore its huge hydroelectric potential and developed policies to diversify energy sources – with the emphasis on production technologies and the use of ethanol as a transportation fuel. The Brazilian energy matrix used to be presented as an example of a 'clean matrix', and one main feature of the energy sector was the marginal share of consumption of fossil fuels. This advantage has been eroded in recent years by the discovery of huge oilfields at the pre-salt level, and the priorities of domestic industrial and energy policies.

The paper assess the impact of the green growth agenda on Brazil's domestic policies and its participation in the G-20, and its co-ordination with the other BRICS (Brazil, South Africa, India and China) members.

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## ABBREVIATIONS AND ACRONYMS

BASIC	Brazil, South Africa, India and China
BRICS	Brazil, Russia, India, China and South Africa
BNDES	National Economic and Social Development Bank (Banco Nacional de Desenvolvimento Econômico e Social)
COP-15	Copenhagen Climate Change Conference
FDI	foreign direct investment
GHG	greenhouse gas
IBSA	India, Brazil and South Africa
LULUCF	land use, land use change and forestry
NGO	non-governmental organisation
NPCC	National Policy on Climate Change
UNFCCC	UN Framework Convention on Climate Change

## INTRODUCTION

During its G-20 presidency in 2012, the Mexican government sought to promote an upgrade of the green economy concept within the group's agenda. The preparations for the G-20 Leaders' Summit in Los Cabos coincided with the negotiations around the UN Conference on Sustainable Development held in Rio de Janeiro (Rio+20), co-ordinated by Brazil. This coincidence led to a conflict between different conceptual views: the green growth agenda being promoted by Mexico versus the maintenance of the sustainable development concept advocated by Brazil. The compromise resolution was the adoption of the motto 'Promoting long-term prosperity through inclusive growth'.

According to some authors, the concept of sustainable development is based on the idea that environmental protection and climate change mitigation are compatible with economic growth and social inclusion. The green growth agenda takes a step forward to affirm that environmental protection and climate change mitigation can be the engine of economic growth and contribute to fighting poverty as well.<sup>1</sup> However, some developing countries believe that, in reality, the green growth agenda will hamper opportunities for economic growth and social inclusion in developing countries by imposing new technologies and investment costs that will only benefit the interests of developed countries. This is the dominant view among Brazilian policymakers.

The G-20 Los Cabos Summit Leaders' Declaration states that:

[i]nclusive green growth in the context of sustainable development and poverty eradication can help achieve our development and economic goals, while protecting our environment, and improving social well-being on which our future depends. Inclusive green growth should not be used to introduce protectionist measures.

This formulation reflects very closely the compromise reached: while accepting the incorporation of a reference to the concept of green growth, Brazilian authorities succeeded in including the phrases 'inclusive growth' and 'poverty eradication'. These are areas in which Brazil has attained remarkable achievements. Furthermore, Brazil was able to incorporate explicitly in the text its concerns related to the protectionist use of the green growth policy agenda.<sup>2</sup>

In the Declaration, the main issues related to the green growth agenda are:

- development of innovative ways to mobilise resources taking into account the objectives, provisions and principles of the UN Framework Convention on Climate Change (UNFCCC);
- commitment of voluntarily self-reporting current actions taken to integrate green growth and sustainable development into structural reform agendas; and
- renewed commitment to rationalise and phase out inefficient fossil fuel subsidies.

Co-ordination among the BRICS countries concerning the green economy agenda within the G-20 is almost nonexistent. Nevertheless, Brazilian authorities seek to maintain some co-ordination with the other BRICS members, even if the main purpose is to avoid the adoption of those commitments and mandates that can potentially cause discomfort to some of them.

The paper discusses the impact of the green growth agenda on the Brazilian economy, domestic policies, the strategies related to the country's participation in the G-20 and Brazil's articulations with the other BRICS members. The paper describes the evolution of the debate on sustainable development and the green economy in Brazil, and the main policy trade-offs as perceived by the policymakers and stakeholders. It includes a brief presentation of the main features of domestic policies related to the green growth agenda, with an emphasis on industrial and energy policies. The paper concludes with a discussion of the external face of Brazilian approaches to the green growth agenda and the formulation of the country's positions in terms of its relations with the BRICS countries and the issues incorporated by the G-20.

### THE GREEN ECONOMY AGENDA IN BRAZIL: CHALLENGES AND TRADE-OFFS

In the period preceding Rio+20, the notions of green economy and green growth were intensively debated in Brazil among policymakers, business associations and other civil society organisations. In general, these notions were questioned and perceived as normative mechanisms generated by developed countries and presented to developing economies as having universal validity; in other words, the emergence and diffusion of the notions of a green economy and green growth were interpreted in Brazil mostly according to the 'North-South divide' grid,<sup>3</sup> which is the main source of inspiration for both Brazil's official foreign policy and the broad 'Brasilia Consensus'<sup>4</sup> supported by a vast array of interests and actors.<sup>5</sup>

Therefore, it was not surprising that Brazilian policymakers were, from the beginning, extremely sensitive to the hypothesis that the green economy (or green growth) model could be the source of (i) relevant trade-offs between domestic policy goals; and (ii) new and wider international asymmetries between developed and developing countries.

At the level of domestic public policies, the broader trade-off, as perceived in Brazil, involves, on the one hand economic and social goals, and, on the other, environmental and climatic objectives. This trade-off unfolds into more specific ones, for instance, between economic investments in general and green investments in particular.

The 'industrialist' paradigm that has dominated Brazil's public policies for the past 50 years had given, until the 1990s, exclusive attention to the economic dimension of development. From the 1990s onwards, successive democratic governments have been able to integrate the social dimension of development into public policy design and implementation through a variety of social programmes, such as the cash transfers known as *Bolsa Família*.<sup>6</sup>

The first decade of the 21<sup>st</sup> century has been identified as the period when a virtuous cycle articulating economic growth and social inclusion was put in place. Although the recent evolution of the Brazilian economy raises serious doubts about the sustainability of the consumption-led model of growth, there is a wide consensus in Brazil in favour of social programmes and (beyond specific policies) of the priority given in recent years to the reduction of social inequalities and poverty.

Social policies and goals have been consolidated as priorities in the hegemonic matrix of public policy. However, the situation is not the same regarding environmental and

climate concerns, despite the fact that these concerns have been present in the Brazilian domestic agenda for the past 30 years since the democratisation process in the second half of the 1980s.

Especially since the 1990s, different domestic factors have played a role in favouring the internalisation of environmental objectives in the strategies of public and private actors, namely government regulations, pressure from local communities and non-governmental organisations (NGOs), the image of companies in the media and to their stakeholders, and the increasing relevance of Brazilian multinationals' investment abroad.

However, the growing density of environmental issues on the civil society agenda and even in sectors of different levels of government has failed to translate into a set of comprehensive and coherent policies and strategies that attract the same level of priority accorded to economic and social policies and goals.

The Brasilia Consensus assumes that taking into account environmental and climate concerns will imply restricting opportunities for rapid economic growth and – to a lesser degree – social inclusion. This has become a major obstacle to the full integration of the environmental and climate dimension into the matrix of public policies in Brazil. The resulting difficulties in making room for this dimension in the design of public policies have led to a situation where environmental and climate policies are relegated to a second-tier priority vis-à-vis economic and social policies. Moreover, there is a limited degree of integration between the two policy areas.

To a large extent, the trade-off between economic and social objectives and environmental and climate targets expresses the difficulties in making short- and long-term goals compatible in terms of public policies.<sup>7</sup> In the case of developing countries, however, the priority given to short-term objectives tends to be broadly legitimised by the urgency of overcoming underdevelopment, poverty and social inequality.

Of course, this 'short term-ism' in public choices and policies tends to act as an obstacle to the adoption of policies and strategies necessarily anchored in larger horizons of time such as environmental and climate policies or green growth strategies.<sup>8</sup>

The trade-off between short- and mid-term objectives is exacerbated in a situation – like the one Brazil is currently going through – where concerns about the lack of competitiveness in industry, 'deindustrialisation' and competition from imports in the domestic market dominate the design of industrial policies.

Through the lens of the Brasilia Consensus, the impact of the policy agenda related to the green economy and green growth brings more threats than opportunities in terms of economic growth and social inclusion.

There is, of course, the fear that environmental and climate issues will be used by developed countries as the rationale for imposing barriers to exports from developing countries.<sup>9</sup> This is not a new concern, but one that emerging countries have voiced in international forums and trade negotiations for over ten years. In the trade field the climate agenda adds to this concern the likelihood that climate policies in developed countries will resort to subsidies, thus introducing new sources of distortion in international trade and investment flows.

The green economy issue adds a new risk to these trade-related concerns, as perceived by many Brazilian policymakers and private actors. This arises from the fact that the green economy agenda could be the source of new asymmetries between developed and developing countries.

As Cozendey notes:<sup>10</sup>

A concept of green economy which implies that developing countries will produce the same things, but with new inputs and technologies generated or produced in developed countries, would mainly mean additional development for developed countries, at the expense of greater equity in the international system. It is necessary that the research and discussions associated with the concept of green economy incorporate areas that can realistically and feasibly be appropriated and developed by developing economies.

As the transition towards a green economy implies a productive and technological revolution, it makes room for new flows of technology, trade and investment. Depending on the circumstances, these flows could widen the development gap between Northern and Southern countries, especially if international norms and standards, and national policies advance the dissemination of technological solutions generated in developed countries. As stressed in a report from the Ministry of Sciences and Technology in Brazil, 'de-carbonization of the economy, although desirable, might present risks to countries like Brazil, when adopted in an accelerated and indiscriminate way, as it depends on advanced technologies requiring technical and financial resources only available nowadays in the richest countries'.<sup>11</sup>

The domestic and international implications of the green economy are predominantly assessed in Brazil for their potential threats to, and opportunities for, the country's autonomous industrialisation project. Industrialisation has largely been identified as Brazil's national economic project, and one of its main components has been the permanent search for autonomy vis-à-vis international regimes perceived as restrictive and driven by Northern interests. This is the policy framework used to evaluate threats and opportunities linked to the green economy, and, as stated, threats seem to prevail when the balance of potential gains and losses is assessed according to these criteria.

This does not mean that opportunities are ignored in the dominant Brazilian view on the green economy. Brazil has many environmental and climate assets. The country boasts vast native forests, large reservoirs of water, globally recognised competitive food production and great potential for generating renewable energy from different sources. If well used, these assets could leverage participation in international forums and make Brazil a relevant player in the global economic agenda of the 21<sup>st</sup> century.

The political problem is that this agenda does not fit into the policy mindset largely shared by Brazilian public and private actors, especially those in charge of government affairs, independently of their position in the political spectrum.

The opportunities deriving from the green economy are thus reinterpreted according to the model of import substitution industrialisation and positively evaluated if – and only if – they contribute to the diversification of the industrial structure in Brazil and the consolidation of new industrial activities. This appears clearly in the Brazilian policies geared to developing a wind energy sector, where the objectives of nationalising equipment and fostering the development of an indigenous productive sector prevails over green goals and mobilises the tools of typical import substitution policies (local content, for instance). As a benefit of these policies, a number of wind parks have been installed, but the transmission grid is still lacking.



To sum up, the absorption of green principles and criteria into the formulation of a development model based on the expansion of physical capital, and geared to increase investment rates, is not running smoothly nor in a comprehensive manner.

It may prove a difficult task to generate positive discrimination in favour of green investments without jeopardising efforts to foster investments *tout court* – a major economic goal of successive Brazilian governments. In any case, it seems difficult to evolve from the industrialist ‘developmentalist’ paradigm towards a green development model along a linear and continuous trajectory.

## PUBLIC POLICIES AND THE TRANSITION TO A GREEN ECONOMY

At the beginning of the 21<sup>st</sup> century, Brazil seemed well positioned to face the challenge of greenhouse gas (GHG) emissions mitigation. With the limited domestic availability of fossil energy sources, the country had been able to explore its huge hydroelectric potential through public policies adopted since the 1970s. As a result of these policies, the share of renewable sources in the energy matrix had reached high levels when compared with other developing, and even developed, countries. The Brazilian energy matrix used to be presented as an example of a ‘clean matrix’, and one main feature of the energy sector was the marginal share of fossil fuel consumption.

At the same time, the ethanol policy, introduced in the 1970s for economic reasons, gained a second life when the climate change issue emerged as a global challenge. As a reaction to the oil shocks of the 1970s, Brazil had developed a strong policy of energy source diversification, essentially to fuel its transport system, which was largely based on road transport. An economic sector geared to the production of ethanol was developed and consolidated, attracting important investments from both Brazilian and foreign groups. As a consequence, ethanol became an alternative fuel for the transport system and helped to increase the share of renewable sources in Brazil’s energy matrix.

In this context, the main source of GHG emissions in Brazil was the deforestation of its native tropical rainforest. At the beginning of the century the GHG emissions generated by deforestation were responsible for around half of Brazil’s total emissions. This explains why, as climate change mitigation became a relevant issue on the international and domestic policy agenda, the Brazilian authorities concentrated their efforts on reducing deforestation.

In the second half of the 2000s, Brazil recorded outstanding success in its efforts to reduce deforestation, bringing down the annual volume of deforestation from 20 000 to 12 000 square kilometres and paving the way to reach the voluntary target of national GHG emission reductions set by Brazil at the Copenhagen Climate Change Conference (COP-15) in December 2009.

An interesting by-product of the identification of Brazil’s mitigation policy with the reduction of deforestation is the disconnection between the mitigation agenda and the green growth one. As the reduction in deforestation would suffice to cut Brazil’s GHG emissions to the level committed to in Copenhagen,<sup>12</sup> the debate on the contributions of other economic sectors (ie, energy, industry) to climate change mitigation and, more broadly, on the green economy as a development strategy, did not gain momentum in the country.

This helps to explain why, in Brazil, the deforestation question is seen as the most relevant political and policy matter on the climate agenda, although the debate on the relationship between industrial and energy policies and GHG emissions (and their mitigation) has been secondary.

However, this paradox is likely to disappear in the next few years as a direct consequence of the reduction in deforestation and the subsequent reduction in GHG emissions. At the end of the 2000s, as a result of this process, the Brazilian emission profile approximated those of other middle-income countries: with an increase in the relative share of the economy's modern sectors (energy, industry, agribusiness and waste) in GHG production vis-à-vis the so-called land use, land use change and forestry (LULUCF) sector. Hence, in 2010, approximately 35% of emissions came from deforestation, 32% from energy, 25% from agriculture, 5% from industry and 3% from waste.<sup>13</sup>

In this new scenario, GHG emissions in the energy and industry sectors deserve more attention from the Brazilian mitigation policy. This holds true, especially if one takes into account that, even if the mitigation targets set by Brazil are reached, in the absence of additional mitigation measures in the coming years GHG emissions will recover a growth trajectory in the period 2020–2030. This will happen as a consequence of economic and demographic growth, and the resultant impact on the demand for energy.<sup>14</sup>

To date, Brazil's industrial and energy policies do not seem to have internalised the requirements and criteria needed to make these policies relevant tools to foster the development of a green economy and advance green growth. There are incentives and measures in both of these policy areas that are clearly inconsistent when assessed in the light of the green economy's criteria and goals (with the reduction of GHG emissions being the main criterion).

### **Industrial policies**

At an aggregate level, it seems clear that the industrial sectors and policies have encountered major difficulties in incorporating climate change concerns into their agendas despite some positive initiatives related to emission reductions, waste management and other such areas.

Brazilian responses to the international economic crisis in late 2008 and 2009 incorporated measures with high potential to include incentives for low-carbon initiatives. In the industrial area, public banks expanded financing to the automotive industry, including the automotive parts sector and automotive sellers. The automotive sector was among the main beneficiaries of governmental initiatives – especially the reduction of federal taxes – to foster domestic demand in the immediate post-crisis period. However, climate and environmental concerns were completely absent from the design of these policy measures which may have contributed to sustaining domestic activity during a period of deep turmoil in the international economy. Although the main consequence, from a green economy point of view, was the strong growth of the automotive fleet and the worsening of transportation conditions in Brazil's cities. Moreover, this negative consequence was exacerbated by the price policies adopted by Petrobras – the state-owned oil company – subsidising the consumption of fossil fuels.

Although the automotive sector remains one of the main beneficiaries of Brazilian industrial policies implemented since 2008, the new incentives regime tailored to this

sector (the so-called Auto Regime, set in 2012) offers incentives conditional on, among other things, the commitment to reducing GHG emissions. However, this requirement can be seen as a 'soft conditionality', as the automotive producer can 'choose' three out of four conditions, and thereby discard the green one. The price policies followed by Petrobras remain unchanged, subsidising the domestic consumption of fossil fuels.

The fact that the industrial sectors have been included in the scope of the National Policy of Climate Change (NPCC), as set out by the National Climate Law of 2010, has not changed this picture so far. The focus of the policy has been on certain sectors (ie, steel, chemicals, mining, paper and pulp)<sup>15</sup> and an industrial plan covering all the sectors is supposed to be released in the next few months.

## Finance

As no sectoral plan has been adopted until now, this policy vector, set by the NPCC, has not generated results. The Brazilian Development Bank (Banco Nacional de Desenvolvimento Econômico e Social, or BNDES) – the main operational arm of the government's industrial policies – has implemented few initiatives linking industrial policies and green concerns.

BNDES has developed two axes of activities that include an environmental and climate dimension. The first refers to the adoption, in its process of project evaluation, of social and environmental conditionalities. This axis was developed in the 1990s, under pressure from NGOs and trade unions, but the conditions have become stricter in the past few years, especially when applied to natural resource-intensive projects and projects to be developed in the Amazon.

The second axis relates to the setting of a policy for financing environmental projects, aimed at the improvement of companies' environmental performance, the building of renewable energy facilities, energy conservation projects, and the conservation of ecosystems and biodiversity. The financing conditions (eg interest rates and delays) BNDES offers to this kind of project are favourable when compared to the average conditions applied by this public bank.

However, the share of this kind of project in the volume of resources released by BNDES is considered to be marginal, a situation that derives – as far as public policies are concerned – from the fact that BNDES's focus is on the quantitative expansion of physical investments, domestic production and local content. In such a situation, policies to increase the economy's investment rate do not favour the development of new investment trajectories based on low-carbon production processes and technologies. On the contrary, as some researchers have shown,<sup>16</sup> this kind of policy can increase the weight of the 'path dependence effect' in companies' decisions, thus deepening the costs and productivity gap between clean and dirty technologies, in favour of the latter.

To sum up, concerns related to the transition to a greener economy do not seem to have any relevant weight in the design and implementation of industrial policies in Brazil. The same occurs with policies meant to attract foreign direct investment (FDI), which are increasingly focused on expanding the local content of production processes and products, and the technological intensity of foreign investments.

This has been confirmed by the launch of successive versions of federal industrial policies in 2011 and 2012. Green concerns have never appeared as a relevant factor influencing these policies, which focused on compensating domestic producers for their

lack of competitiveness. Green concerns have played a marginal role in the wide array of measures adopted during these past two years. This evolution is in itself evidence that the green agenda and the competitiveness agenda do not communicate with each other in Brazil.

### Energy policies

As already stressed, Brazil has a 'clean' energy matrix when compared to the majority of developed and developing countries, as a result of a strategy adopted in the 1970s in the context of skyrocketing oil prices, then a commodity essentially imported.

When climate change emerged as a policy issue, both domestically and internationally, Brazil's mitigation efforts focused on deforestation and the energy sector was not seen as a problem. As deforestation is being reduced, its contribution to mitigation shrinks, and other economic sectors emerge as potential targets of the climate change policy. Energy, which is responsible for around a third of total emissions, is certainly one of the strongest candidates to become a target of this policy.

There are many reasons to prioritise mitigation efforts in the energy sector:<sup>17</sup>

[E]missions derived from the use of fossil energy – oil derivatives, natural gas and mineral coal – are experiencing significant growth. These fossil fuels play a central role in the functioning of the modern sectors of the Brazilian economy, like ... industry and transport, beyond the agro sector, commerce and services. Their share in the supply of electric energy in the country is also growing, as a complement to the use of Brazil's hydroelectric potential.

As a consequence of these evolutions, GHG emissions produced by the use of energy – mainly carbon dioxide resulting from the burning of fossil fuels – increased by 68% between 1990 and 2005, and are expected to grow 140% until 2020 (taking 1990 as the base year).<sup>18</sup>

Industrial policies have until now largely ignored these trends and the relevance that mitigation in the energy sector and energy use by other economic sectors has acquired in this context. Since 2008, industrial policies have strongly benefited sectors that are relevant emitters, such as the automotive sector, through a multitude of instruments.

Energy policies do not differ from industrial policies in this respect and the prospects for the future do not seem bright. As far as current policies are concerned, Petrobras has been subsidising the domestic prices of fossil fuels for several years, thus encouraging the wasteful consumption of fuel. A consequence of the subsidy policy has been its strongly negative impact on the development of the ethanol sector, which produces a fossil fuel substitute. Investments in new ethanol plants have been suspended or delayed and the supply of ethanol has been reduced drastically, affecting exports in the sector.<sup>19</sup>

Taking the long view, the discovery of huge offshore oilfields (the 'pre-salt' fields) will radically change the energy scenario in Brazil. The country is likely to become an important oil exporter by the year 2020. As a result, Brazil is putting in place an industrial policy to foster the expansion and consolidation of domestic producers of goods and services to supply the oil sector. The main aggregate impact of these trends will be the strengthening of economic interests linked to fossil energy sources in Brazil<sup>20</sup> and stronger opposition to the green transition in the energy sector.<sup>21</sup>

In the hydropower sector, the Energy Decennial Plan (2010–2020) indicates that the expansion of the sector will be based on the construction of large hydroelectric plants in the Amazon region, where social and environmental risks are potentially high and admittedly difficult to measure.<sup>22</sup>

## EXTERNAL FACE OF BRAZIL'S APPROACH TO THE GREEN ECONOMY: BRICS AND THE G-20

'Developmentalist' objectives have traditionally been the driving force of Brazil's foreign economic policy. This resulted in the primacy of economic objectives over the political dimension in the formulation of Brazilian foreign policy strategies. Driven by the aim of preserving policy space to promote autonomous economic development, Brazilian foreign economic policy efforts are centred on avoiding international commitments that could hamper the country's ability to adopt autonomous domestic economic and industrial policies.

This pattern underwent some changes in the first decade of this century, under former President Luiz Inácio Lula da Silva's administrations. During this period, the primacy of economic interests was challenged. Furthermore, foreign economic policy was conditioned to priorities and restrictions framed by a political view. The central value of Lula's diplomacy was the explicit questioning of the distribution of power in the global scenario.<sup>23</sup>

The increasing importance of global governance issues in Brazil's foreign economic agenda and the country's preferential alliances – particularly centred on emerging economies and, after 2008, in the BRICS, IBSA (India, Brazil and South Africa) and BASIC (Brazil, South Africa, India and China) coalitions – is a feature of its new approach. In the global governance arena, the main policy objective has turned out to be the redistribution of power, which means not only giving more voice to developing countries, but also making developed countries carry the costs for the new commitments related to global co-operation and co-ordination (eg the costs of GHG mitigation efforts). As such, the formation of the BRICS coalition fitted well into this new external policy orientation.

Brazil was the first country to ratify the UNFCCC, seeking to take on a high-profile role in these negotiations. At the same time, since the beginning of the negotiations, the country has promoted and supported the principle of 'common but differentiated responsibilities' incorporated in the Kyoto Protocol, making this the core of its position in the climate change negotiations.

Five dimensions guided the orientation of Brazil's strategies in these negotiations:<sup>24</sup>

- reaffirm the right to development;
- promote the concept of development linked to environmental sustainability, corresponding to the increasing environmental conscience of Brazilian society;
- demand financing flows from developed countries to promote climate change mitigation in developing countries;
- promote a leading role for Brazil; and
- block international regulations on the use of forests.

In the climate change and environmental arenas, despite being a developing country with a relatively clean energy matrix, Brazil has always given preference to its alliance with other emerging countries, most of them dependent on fossil fuels. In setting its positions in international negotiations, the advantages of the Brazilian energy matrix were subordinated to the disadvantages posed by the country's deforestation problems.

In August 2009, for the first time, Brazilian policymakers pointed to the possibility of the country committing itself to emissions reduction targets in the timeframe to 2020, on condition that developed countries would commit themselves to highly ambitious targets. Domestic political movements from different sectors of society, combined with the incorporation of the environmental agenda in debates during the presidential election process, were the main driving forces behind this move.

On 13 November 2009, in the context of the preparations for COP-15, the Brazilian government announced its commitment to voluntarily reducing the country's GHG emissions to a range between 36.1% and 38.9% until 2020, in relation to the business-as-usual scenario. In the following days other BRICS countries also announced emissions reduction targets, but with varied degrees of commitment: China announced it would reduce the carbon intensity of its GDP by 40% to 45% between 2005 and 2020, without a stabilisation target; India affirmed it would increase its energy efficiency without any kind of commitment; Russia adopted a position similar to that of India; and South Africa defined 2025 as the target year for the stabilisation of emissions.<sup>25</sup>

Despite these demonstrations of goodwill, on the eve of COP-15, representatives of Brazil, China, India, South Africa and Sudan (at the time the president of the G-77) met to define a common position based on four main points:

- rejection of binding commitments for emissions reductions;
- denial of international verification mechanisms of their domestic policies if these were not financed by developed countries;
- rejection of the definition of a peak for emissions growth; and
- rejection of the imposition of border tax measures by developed countries regarding their exports.

At that time, it was increasingly clear that reaching an international agreement at Copenhagen was improbable. During the conference, the G-77+China coalition almost disintegrated into three main sub-groups: the Alliance of Small Islands, the BASIC and the African group. An unlikely coalition formed by the BASIC group and the United States was responsible for forging the text that paved the way to the Copenhagen Accord at the end of COP-15.<sup>26</sup> (In another gesture of goodwill, Lula announced that Brazil would contribute to a fund destined to support the adaptation process in small, poor and vulnerable countries).

Since then, the domestic evolutions in Brazil have not been very promising. Some examples of the new trends have been the increasing participation of fossil fuels in the energy matrix, industrial policies aimed at stimulating the automotive sector, setbacks in the new Forestry Code and delays in announcing the sectorial plans as part of the NPCC. As formulated by Viola and Franchini, the big question in 2010 was, '[F]or how long [will] Brazil ... maintain the disconnection between its domestic policies and its positions in the international negotiations?' Now the question is, '[W]ill the country be able to keep up with its emissions reduction targets?'<sup>27</sup>

### **Brazil and the BRICS in the green growth agenda within the G-20**

Although concerns related to climate change and sustainable development have been mentioned in all the G-20 summit declarations since the first one in Washington in 2008, specific commitments were only introduced at the Pittsburgh Summit in 2009, with the agreement to ‘phase out and rationalize over the medium term inefficient fossil fuel subsidies while providing targeted support for the poorest’.<sup>28</sup> Moreover, they committed to reporting their implementation strategies at their next meeting. They also committed, on a voluntary basis, to funding programmes that promote the deployment of clean, affordable energy resources to the developing world.

The following summits: Toronto, Seoul and Cannes, reiterated the statements and commitments of the Pittsburgh Summit, but did not introduce new ones. At the last summit, Los Cabos in 2012, the green growth concept was formally introduced after an intense dispute between Mexico and Brazil over the concepts of green growth versus sustainable development.

Neither in the discussions preceding the summit nor in debates on the main topics on the agenda has there been much co-ordination among the BRICS countries. Their main goal seems to have been to avoid mandates and commitments that could cause discomfort or difficulties to one or some of the coalition members. Co-ordination among the BRICS to tackle green growth issues, particularly within the G-20, is limited.<sup>29</sup> Brazilian official negotiators only state that the country pushes for a deeper engagement of the BRICS countries with this agenda.

At Los Cabos, the G-20 leaders received the joint report of the International Energy Agency, the Organization of the Petroleum Exporting Countries, the Organisation for Economic Co-operation and Development and the World Bank, which analysed the scope of energy subsidies and offered suggestions for the implementation of this initiative. In their final declaration, the G-20 leaders decided to explore options for a voluntary peer-review process for G-20 members by their next meeting. Brazil is in a comfortable position in this regard, since the Annex of the Joint Report states that the country has no inefficient fossil fuel subsidies. The only inefficient subsidies recognised are those resulting from the payments for national coal power plants, but domestic legislation already demands its elimination by 2027.

This was an exercise based on national declarations and it explains why the only subsidies recognised by Brazil are those related to coal power plants. As mentioned before, Petrobras has been subsidising the domestic price of fossil fuels for the past three or four years. However, this is not recognised as an inefficient subsidy in Brazil’s submission to this initiative.

In this area, BRICS countries have been adopting different positions according to their domestic priorities. Brazil has been supportive of the fossil fuel subsidy initiative, safeguarding the need to preserve vulnerable populations’ access to energy. Brazilian authorities say that the country will engage in the peer-review process. China and India have notified subsidies and seem to be willing to reform them, but India has decided not to participate in the peer-review exercise. Russia has been avoiding engagement in these negotiations, while South Africa, like Brazil, has declared that it has no inefficient subsidies.

There has been little progress on the other two topics emerging from the G-20 agenda. The commitment to voluntarily self-reporting domestic policies to integrate green growth



and sustainable development into structural reform agendas has until now not resulted in publicly available reports. The discussions to find innovative ways to finance reforms have not produced any relevant outcomes either.

The BASIC countries insist that financing is crucial to address the challenges brought about by the green growth agenda. However, in the case of Brazil this does not seem to be the decisive obstacle to moving forward this agenda. As discussed earlier, Brazilian industrial policies rely on the impressive official financial support provided by BNDES, which could have a more substantial share in the green economy agenda.

Furthermore, Brazil has the *Fundo Amazonia*, created five years ago with funds donated by Norway, Germany and Petrobras, and managed by BNDES. The committed donor funds amount to R\$ 1,035 billion<sup>30</sup> (around \$ 500 million) and must be used to finance projects aimed at preventing, monitoring and combating the deforestation of the Amazon. However, until 9 May 2013, the total outlays corresponded to only 15% of the entire budget. Difficulties in structuring a project portfolio and the sluggishness of the bureaucratic process regarding the evaluation and approval of proposals may explain this backwardness. The original deadline for the use of these funds – December 2015 – will probably have to be extended.

Brazilian challenges do not arise from a shortage of funds. They come from the priorities directing domestic industrial policies, which do not focus on green economy projects, but rather on the expansion of the domestic industrial base, with lax criteria for green innovation and energy efficiency conditionalities for accessing fiscal and credit benefits.

An abundance of natural resources creates an unequivocal advantage for Brazil in the green economy agenda vis-à-vis its partners in the BRICS coalition, but this advantage is being watered down by the domestic preference for development policies. Domestic preferences help to explain why Brazil maintains its alliances with developing countries that face more even more difficulties with respect to cleaning their energy matrixes or adopting policy reforms towards a green economy.

## ENDNOTES

- 1 Jacobs M, 'Green Growth: Economic Theory and Political Discourse', Working Paper 92. London: Centre for Climate Change; Heal G & A Millner, 'Uncertainty and decision in climate change economics', Grantham Research Institute of Climate Change and the Environment, 2012.
- 2 Protectionist measures related to the green growth agenda could include the imposition of standards and regulations that would increase the costs of goods exported by developing countries or the implementation of border carbon taxes, to compensate for the different climate change mitigation commitments in developed and developing countries.
- 3 This means the belief that the agenda of developed countries is in conflict with the interests of developing countries.
- 4 The 'Brasilia Consensus' refers to the paradigm behind Brazil's foreign policy for the past 50 years. The 'Consensus' results from the interplay between domestic factors that have permanently shaped the policy in this period: the high priority given to autonomous industrialisation as an economic objective and the perception of economic international regimes as threats to national development based on industrialisation.



- 5 Motta Veiga P & S Rios, 'A Política Externa Brasileira sob Lula: o Fim do "Consenso de Brasília"?', *CEBRI Artigos*, 3, 5, July–September, 2010.
- 6 Bolsa Familia is an anti-poverty scheme – a conditional cash-transfer programme that benefits poor families with a monthly per capita income below a threshold of 70 reais. Mothers are paid a benefit of up to 95 reais on condition that their children go to school and take part in government vaccination programmes.
- 7 As happens in the majority of countries, be they developing or developed.
- 8 It should be noted that a recent 'harvest' of economic studies – many of which come from institutions that promote the notion of green growth and green economy, such as the World Bank – has stressed the need to qualify these notions and to relativise the idea that a virtuous circle between growth, inclusiveness and sustainability will emerge 'automatically' once a set of policies broadly recommended to deal with the climate agenda is adopted. Moreover, these studies discuss the conditions under which positive relationships between economic growth, social inclusion, and the environmental and climate agenda are generated. Although there seems to be no automatic relationship between economic growth, social inclusion and green economy, the perception of trade-offs between these objectives is largely owed to national circumstances and domestic interests and policy preferences.
- 9 See note 2.
- 10 Cozendey CM, 'Green Economy as a Programme for Sustainable Development', *The Road to Rio+20 – for a Development-Led Green Economy*. Geneva: UNCTAD, 2011, p. 41.
- 11 Brazil, Ministry of Sciences, Technology and Innovation, CGEE (Centro de Gestão e Estudos Estratégicos), 'Economia Verde para o Desenvolvimento Sustentável', Brasília: CGEE, 2012, p. 26.
- 12 Viola E & M Franchini, 'A Mudança Climática em 2011: Governança Global e o Novo Perfil de Emissões do Brasil', Rio de Janeiro: Breves CINDAS 54, July 2011. According to Viola and Franchini, the strategies to reduce deforestation and emissions related to the agricultural and cattle sectors were supposed to 'deliver' around 80% of the reduction target set by Brazil at the COP-15 in December 2009, p. 22.
- 13 *Ibid.*, p. 23.
- 14 La Rovere E *et al.*, 'Depois de 2020: do Desafio do Desmatamento ao da Energia no Brasil', Rio de Janeiro: Texto CINDAS 32, July 2012.
- 15 Viola E, 'Impasses e Perspectivas da Negociação Climática Global e Mudanças na Posição Brasileira', Rio de Janeiro: Breves CINDAS 20, March 2010. According to Viola, the sectoral plans should include emissions reduction targets for 2020; indicators for monitoring and evaluating the output of plans; proposals for the adoption of regulations and incentives geared to fostering the implementation of these plans; and sectoral studies on the impact and costs of the measures proposed for the competitiveness of the sectors.
- 16 Aghion P, Hemous D & R Veugelers, 'No Green Growth Without Innovation', Bruegel Working Paper 2009/07, 2009.
- 17 La Rovere E, 'A Evolução da Matriz Energética e seu Potencial como Fator de Desenvolvimento Sustentável', *Economia Verde para o Desenvolvimento Sustentável*. Brasília: Ministry of Sciences, Technology and Innovation, 2012, p. 105.
- 18 *Ibid.*, p. 106.
- 19 It is worth remembering that as recently as during Lula's term, the president had developed an 'ethanol diplomacy', publicising worldwide the economic and environmental issues of Brazilian ethanol, and criticising the US and the EU for their barriers to exports from Brazil. Some of

these barriers have since been dismantled, but the sector's crisis in Brazil prevents the country from exporting the product.

- 20 CINDES, Políticas Climáticas e Industriais: o caso do Brasil, Rio de Janeiro: Breves CINDES 56, September 2011.
- 21 Oliveira A, Transição para a Economia Verde: A Agenda Energética, Rio de Janeiro: Texto CINDES 31, July 2012.
- 22 *Ibid.*
- 23 Motta Veiga P & S Rios, *op. cit.*
- 24 Viola E, 'O Brasil na Arena Internacional da Mitigação da Mudança Climática, 1996–2008', Rio de Janeiro: Breves CINDES 14, January 2009.
- 25 Viola E, 2010, *op. cit.*
- 26 *Ibid.*
- 27 Viola E & Franchini M, *op. cit.*
- 28 G-20 Leaders' Declaration, St Petersburg, 6 September 2013.
- 29 This assessment is based on interviews with Brazilian negotiators.
- 30 R\$ is the three-letter currency code for the Brazilian *real*.

### **SAIIA'S FUNDING PROFILE**

SAIIA raises funds from governments, charitable foundations, companies and individual donors. Our work is currently being funded by, among others, the Bradlow Foundation, the United Kingdom's Department for International Development, the European Commission, the British High Commission of South Africa, the Finnish Ministry for Foreign Affairs, the International Institute for Sustainable Development, INWENT, the Konrad Adenauer Foundation, the Royal Norwegian Ministry of Foreign Affairs, the Royal Danish Ministry of Foreign Affairs, the Royal Netherlands Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency, the Canadian International Development Agency, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, the United Nations Economic Commission for Africa, the African Development Bank, and the Open Society Foundation for South Africa. SAIIA's corporate membership is drawn from the South African private sector and international businesses with an interest in Africa. In addition, SAIIA has a substantial number of international diplomatic and mainly South African institutional members.

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