

Brazil

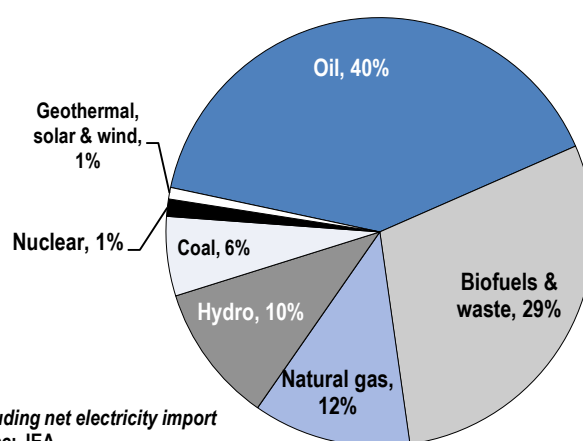
The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries and eight large partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

Energy resources and market structure

Brazil is Latin America's largest economy, and its energy consumption has risen rapidly in recent years. In 2012, the country has become the sixth-largest energy consumer globally and in 2013 the tenth-largest energy producer.

Brazil is a relatively small producer of coal, extracting about 7 million tonnes in 2016. Due to its high ash and low calorific content, Brazilian coal is unsuitable for use in the steel industry. Therefore, 85% of coal consumed in the country is imported, and coal produced domestically is used primarily for generating electricity.

Total Primary Energy Supply* in 2015



*excluding net electricity import
Source: IEA

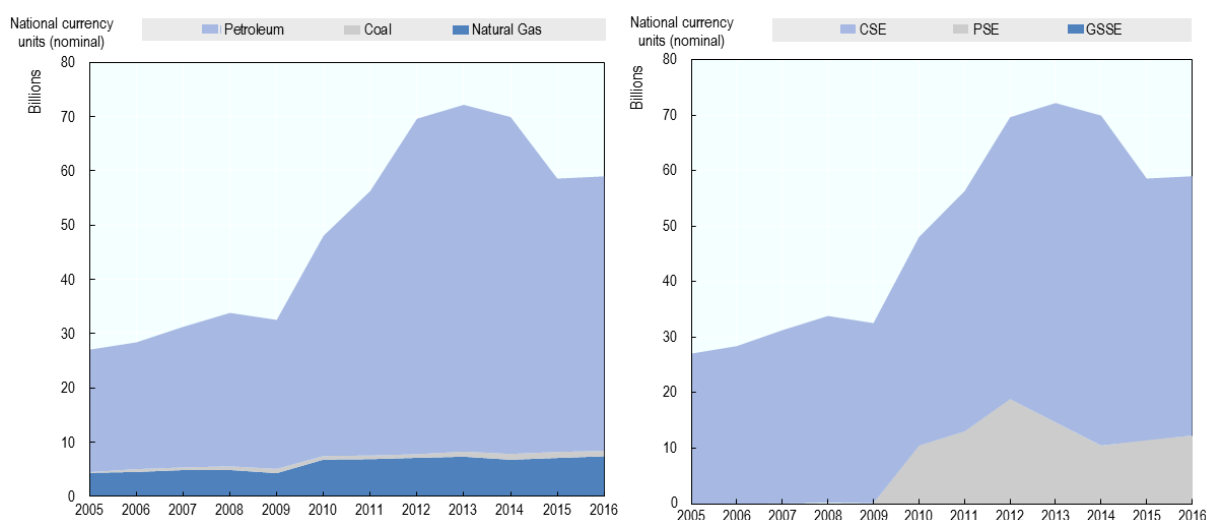
The national oil and gas company, Petrobras (*Petróleo Brasileiro SA*) enjoyed a monopoly in hydrocarbon production until 1997 and retains a dominant position in present oil and natural-gas production. Brazil's oil and gas industry is regulated by the National Agency of Petroleum, Natural Gas and Biofuels (ANP). The domestic production of oil and gas went through a significant process of expansion after its discovery in 2007 of large deposits of these resources in Brazil, estimated to be around 5 to 8 billion barrels of oil equivalent. Brazil also boasts significant natural gas reserves, mainly located in the coast of the Southeast region of the country. Petrobras controls over 90% of these reserves, as well as the production, transportation and importation of natural gas in the domestic market. However, as a part of its disinvestment strategy, the state company will probably sell most of its assets relating to the natural gas sector in the near future, creating significant opportunities for new investors to enter the market.

Electricity demand in the country is increasing rapidly, with hydro-electricity accounting for around 62% of Brazil's electricity generation in 2015. State-owned Eletrobras (*Centrais Elétricas Brasileiras SA*) is the dominant power generator while 41 other private and state-owned companies perform the distribution. The Federal Government has a rural electrification programme known as "Light for All" (*Programa Luz para todos*) which connected around 15.8 million inhabitants from 2003 to June 2016 and aims at further advancing energy access in the country up until 2018.

Energy prices and taxes

Prices for natural gas and for petroleum products in Brazil were officially deregulated in January 2002 with the elimination of formal price controls. Coal prices in Brazil have been deregulated since 1990 and are set by the market. Currently, electricity tariffs are set by ANEEL (the electricity regulator), which establishes maximum values to be charged in each concession agreement with contracted distributors.

Total support for fossil fuels in Brazil by support indicator (left) and fuel type (right)*



Notes: CSE=Consumer Support Estimate, PSE=Producer Support Estimate, GSSE=General Services Support Estimate;

*The above charts are based on an arithmetic sum of the individual support measures identified in the Inventory. Because they focus on budgetary costs and revenue foregone, the estimates for partner economies do not reflect the totality of support provided by means of artificially lower domestic prices. Particular caution should therefore be exercised when comparing these estimates to those reported by the IEA for these countries.

Recent developments and trends in support

Brazil's coal sector attracts support mainly through the Energy Development Fund (*Conta de Desenvolvimento Energético* — CDE) and through tax exemptions for coal used in generating electricity. Measures benefitting oil and gas producers include special tax incentives for infrastructure development in the north, northeast, and mid-western regions of the country, as well as a special tax regime for equipment used in the exploration and development of hydrocarbon resources, as part of the Federal Government's Programme for the Mobilisation of the National Oil and Natural Gas Industry (*Prominp*). The *Prominp* also provides preferential loans to companies along the oil and gas supply chain, the financing of which comes from Petrobras and the national development bank (BNDES).

In Brazil, oil and gas production is taxable under two general social contributions: the federal PIS and COFINS. Refined oil products are additionally subject to other taxes namely ICMS and CIDE. Rates for both contributions were increased in February 2015, and then dropped again in May 2015 when the CIDE fuel-tax reductions, which had been zeroed-out in June 2012 for gasoline and diesel, were increased in May 2015.

Examples of measures

Tax Exemptions for Coal and Natural Gas used in Electricity Generation (2002-)

Coal and natural gas for use in thermoelectric power plants are exempted from Brazil's PIS and COFINS taxes. The support thus provided amounted to around BRL 633 million in 2016, rising substantially from 110 million in 2014.

CIDE Fuel-Tax Reductions (2004-)

This measure reduces the rate of CIDE fuel-tax applicable to imports and retail sales of certain fuels in order to limit increases in domestic fuel prices. Zero rates ended in May 2015 when the CIDE fuel-tax was resumed on gasoline and diesel fuel.