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, eight partner economies (Argentina, Brazil, the People’s Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

Brazil is Latin America’s largest economy, and its energy consumption has risen rapidly in recent years. In 2017, the country ranked as the seventh-largest energy consumer globally and the tenth-largest energy producer.

Brazil is a relatively small producer of coal, extracting about 2.9 million tonnes in 2018. 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.

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 announced a USD 20 billion-asset sale and partnership plan to reduce its debt, which is among the highest for oil companies in the world.

Electricity demand in the country is increasing rapidly, with hydro-electricity accounting for around 65% of Brazil’s electricity generation in 2018. State-owned Eletrobras (Centrais Elétricas Brasileiras SA) is the dominant power generator while 41 other private and state-owned companies are responsible for 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 2022.

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 Agência Nacional de Energia Elétrica (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)*

![Graph showing fossil fuel support in Brazil](image)

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. Declines seen in the graph for years 2016, 2017 and 2019 were contributed mainly by the absence of estimates for CIDE Fuel-Tax Reductions and the Energy Development Fund, this measure whose administrative oversight has transferred to the Electricity Energy Trading Chamber (CCEE) in May 2017.

In Brazil, oil and gas production is taxable under two general social contributions: the federal PIS (Programa de Integração Social) and COFINS (Contribution for Social Security Financing). Refined oil products are additionally subject to other taxes namely CIDE (Contribution for Intervention in the Economic Domain), and ICMS (Impost on Operations Related to Circulation of Mercaderies and Services of Inter-municipal and of Communication), with the latter levied at the state level. Rates for PIS, COFINS and CIDE 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. In May 2018, following an increase in the price of diesel and a major strike by truck drivers all over the country, the CIDE fuel-tax rate for diesel was set to zero again.

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 110 million in 2014, rising substantially to 1.2 billion in 2018, and dropping to 390 million in 2019.

**CIDE Fuel-Tax Reductions (2004-)**

This measure was introduced by the Federal Government to limit increases in domestic fuel prices. It consists of reductions in the rate of CIDE fuel-tax applicable to imports and retail sales of gasoline, diesel fuel, kerosene, aviation kerosene, and natural gas. CIDE tax rates are generally expressed on a specific basis, taking into account the volume of fuel sold or imported. CIDE tax rates for gasoline, diesel fuel, kerosene, aviation kerosene, and natural gas were set to zero between June 2012 and May 2015 in order to offset increases in the refinery prices of petroleum products. In May 2015, the CIDE fuel-tax was resumed with rates of BRL 0.12 per litre of gasoline and BRL 0.08 per litre of diesel fuel. In May 2018, following a major strike and road blockages by truck drivers, the CIDE fuel-tax rate for diesel was set to zero again. Tax rates for kerosene, aviation kerosene, fuel oils with high sulphur content, fuel oils with low sulphur content and natural gas still remain at zero.