

EXECUTIVE SUMMARY

SUBSIDIES FOR FOSSIL AND RENEWABLE ENERGY (2018-2022)

REFORMING FOR A FAIR ENERGY TRANSITION

BRASILIA, DECEMBER 2023.



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Foreword

The Institute of Socioeconomic Studies (Inesc) has been monitoring federal subsidies to fossil fuel since 2018, with the aim of promoting public debate on government support for the expansion of production and consumption of oil, natural gas, and mineral coal in Brazil.

And why would an NGO that works to defend rights and tax justice, which holds comparatively less information than governments and sector analysts, venture into this assessment?

For three main reasons:

- 1) Because it is unfair to allocate scarce public resources and renounce taxes, which fund important public policies, especially in the case of subsidies for energy production from fossil sources, whose purpose is to favor the profitability of a sector that exploits resources account for the majority of global greenhouse gas emissions, in a context of profound climate crisis.
- 2) So that the topic and the agenda gain more space in the public debate and so that different social and political actors perceive the issue as an important part of the energy transition with social justice.
- 3) So that the reform of fossil subsidies, which is a global problem, is embraced as an agenda by the Brazilian government at the domestic level, towards its progressive elimination and as a relevant topic in its address to the United Nations, the G20 and the World Trade Organization (WTO).

In this publication, Inesc innovates by presenting, for the first time, subsidies to renewable sources with the aim of underscoring the importance of creating a policy of incentives for renewable sources based on principles of transparency, with governance and safeguards policies that put us on track towards an energy transition with social justice. The **methodology** for calculating these subsidies follows along the same lines as those for fossil fuels, with the identification of direct expenses and tax expenses and production and consumption categories. In this edition we also feature a five-year series –from 2018 to 2022 – for the two energy sources.

We know we are up against major challenges. But we have a favorable political context, both due to the government's commitment to building and implementing an Ecological Transformation Plan, and due to the international leadership role that Lula's administration assumes within the United Nations Framework Convention on Climate Change (UNFCCC) and at the presidency of the G20 starting December 2023.

Enjoy your reading!

Introduction

The year 2023, the hottest in history, melted climate denialism worldwide and reinforced the urgency of the energy transition from fossil fuels¹ to other energy sources. The [UN Emissions Gap Report 2023](#) shows the sheer size of the challenge: “The coal, oil and gas extracted over the lifetime of producing and under-construction mines and fields would emit more than 3.5 times the carbon budget available to limit warming to 1.5°C and almost the size of the budget available for 2°C.”

[Brazil’s place in the climate geopolitics of fossil fuels](#) clearly exposes the sheer complexity of the challenge. Brazil is the ninth largest oil producer in the world and, according to forecasts from the Ten-Year Energy Expansion Plan (PDE/EPE), the surplus (production minus domestic demand) could reach 2.7 million barrels per day (b/d) in 2030. Considering that in 2021 Brazilian exports reached an average of 482,000 barrels per day (b/d), according to the Brazilian Oil & Gas Institute (IBP),² the country could have an oil surplus 4.6 times greater in 2030. And, even though Brazil plays a central role in the geopolitics of oil, the problem of expanding Brazilian supply is still weakly perceived by the public opinion as part of the global climate crisis, having been the object of intense denial by the government.

In summary, the problem is global and complex, and emissions from fossil fuels are deeply associated with an unequally distributed global consumption pattern. It is undeniable that the system, at its current state, will only progressively abandon fossil energy as other sources prove viable in scale and profitability, and that a zero-emission scenario lead to a steep decline in fossil fuel prices. In other words, the current reading is that the oil and gas (O&G) industry sees the arrival of a peak demand, that is, the point at which it is the demand for oil – and not the supply – that reaches its peak and subsequent decline (Cebri).³

According to a [report by the International Energy Agency \(IEA\)](#), the efforts required to replace fossil energy with renewable energy at an accelerated pace would lead to a reduction in demand for fossil fuels by more than 25% by 2030 and 80% by 2050.

This is why we defend that the reform and progressive elimination of subsidies to fossil fuels make up the framework of global solutions and instruments so that investments in the O&G sector lose attractiveness when compared to investments in other sources. This is part of the narrative adopted by the World Bank to situate the problem: “by underpricing

1 Fossil sources account for 80% of the energy matrix and between 70% and 75% of greenhouse gases emitted globally.

2 Available at: <<https://www.ibp.org.br/observatorio-do-setor/snapshots/evolucao-das-exportacoes-de-petroleo-por-destino/>>. Accessed: 23 nov. 2023.

3 *Neutralidade de carbono até 2050: Cenários para uma transição eficiente no Brasil* [Carbon neutrality by 2050: Scenarios for an efficient transition in Brazil]. CEBRI, 2023. Available at: <<https://www.cebri.org.br/doc/309/neutralidade-de-carbono-ate-2050-cenarios-para-uma-transicao-eficiente-no-brasil>>. Accessed: 23 nov. 2023.

fossil fuels, governments not only incentivise overuse, but also perpetuate inefficient polluting technologies and entrench inequality.”⁴

It is also within this framework of solutions, already built at the global governance level, that the topic has been the object of discussions within the G20, which as of 2009 has committed to act so that countries rationalize and gradually eliminate subsidies to fossil fuels. It is also worth noting that, in 2013, finance ministers and central bank presidents of G20 members agreed on efforts to review subsidies.⁵

The topic is also on the agenda of the Organization for Economic Co-operation and Development (OECD), which elaborates an annual *Inventory of Fossil Fuel Support Measures*, which documents and estimates government measures in 51 countries (among them, Brazil) that encourage the production or consumption of fossil fuels in relation to renewable alternatives.

In Brazil, Inesc carries out a similar monitoring, following the OECD methodology, but with adaptations we deem relevant to the Brazilian reality, whose details are presented in the methodology section of this publication. We are in the sixth edition of this monitoring, and in several countries *other entities* do the same. Internationally, organizations also cooperate to produce multipass analyses. The last of them, led by the International Institute for Sustainable Development (IISD), *with contribution from Inesc*, showed in the report (entitled: “*Shifting Public Financial Flows from Fossil Fuels to Clean Energy under the Paris Agreement*”) that fossil subsidies have continued to increase since 2015 and that, in 2022, they surpassed the \$ 1 trillion mark for the first time.

In this effort, which involves multiple actors and multipasses, it is expected, as an effective result, that governments, which are responsible for granting subsidies, be pressured, convinced, and encouraged to face this challenge of measuring and reforming fossil subsidies. And not only because subsidy reform is a key instrument to change relative fossil prices and strengthen the growth of renewable sources. There is also a fiscal and moral urgency. Resources granted to fossil fuels in the form of subsidies need to be used to address the increasingly urgent problems arising from climate change. The financing needs associated with adaptation, losses and damages will progressively increase, and we know that this bill will not be borne by global finance.

Additionally, climate change tends to exacerbate poverty and inequalities with impacts caused by natural disasters, especially floods and droughts, rising food prices, health losses and reduced labor productivity. A World Bank report estimates that, by 2030, climate shocks could push 800,000 to 3 million Brazilians into extreme poverty.

4 Available at: <<https://www.theguardian.com/environment/2023/aug/23/g20-poured-more-than-1tn-on-fossil-fuel-subsidies-despite-cop26-pledges-report>>. Accessed: 23 nov. 2023.

5 The main instrument would be peer review. In it, countries strike bilateral dialogues regarding methodologies for measuring and evaluating subsidies, facing open questions not only about the scope of what should be considered a subsidy in the context of each country, but also what would be an “inefficient” subsidy or one that would cause “waste.” In the process of elaborating the reports, in addition to the two peer countries, other countries and the OECD also participate, through expert reviewers. Among the positive aspects reported in the process are mutual learning and a more realistic understanding of the challenges facing reform efforts.

Therefore, reforming fossil fuel subsidies is a moral and ethical path to address public financing needs to face the consequences of global warming and its most intense effects on the poorest populations.

Despite its undeniable relevance, the global subsidy reform agenda has made very little progress and, in the case of consumption subsidies, it has receded. And the reasons are different for the production and consumption sides, with national specificities. Let us look at the Brazilian case.

Regarding production, the removal of fossil fuel subsidies implies facing an extraordinarily powerful industry in a world in which the availability of oil, which remained relatively stable throughout the 1990s, has rapidly grown since the 2000s – in 2020 it was 63% higher comparing to the beginning of the century. It must be pointed out that Brazil was one of the countries that contributed to the growth of discovered reserves and world production (CEBRI).⁶

To complicate matters further, in addition to the private global oil companies, there are state-owned oil companies and publicly-held oil companies, such as Petrobras, which mix private interests – which are limited to generating “additional value to shareholders” – with interests of national-state nature.

In other words, it is not just about confronting private interests and dealing with the potential effects of loss of investments, jobs, and revenue. The “gift” of fossil resources is part of the imagery of the “passport to development,” whose rubble no longer remains standing, but whose logic is still very difficult to forgo. As already shown by Inesc, the discourse of using state oil revenue⁷ as a source to increase resources for education, health and environmental policies does not stand. The resources received as dividends are intended to pay off interest on domestic debt. Of the revenue in the form of royalties and special participation, with the exception of those legally transferred to states and municipalities, little is allocated to social policies and practically nothing goes to energy transition, through the Climate Fund.

On the consumption side, it is known that it is also a strategic resource in the countries’ energy matrix and, therefore, its price is highly sensitive. There can be no better example than the electoral dispute in Brazil in 2022, when subsidies, through the exemption of such taxes as PIS/Cofins and the Contribution for Intervention in the Economic Domain (CIDE) on fuels, produced the effect of reducing the internationally inflated prices due to the war between Russia and Ukraine. What happened in Brazil was also repeated in other countries, as shown by data from the International Energy Agency, which focus on consumption subsidies.

⁶ Available at: <https://www.cebri.org/media/documentos/arquivos/PTE_RelatorioFinal_PT_Digital_.pdf>. Accessed: 23 nov. 2023.

⁷ State oil income is defined in the study as comprising the portion of the results of oil exploration that is appropriated by the State as a form of equity income.

Still in the domain of consumption linked to the energy matrix, both the issue of emissions and that of subsidies are shrouded in many veils. In the case of emissions, it occurs largely because the government discourse is strongly influenced by the fact that the Brazilian energy matrix is 47.4% renewable,⁸ a high proportion compared to the world average. This happens because there are large hydroelectric plants in the electricity sector. What's more: subsidies are, for the most part, embedded in the regulatory and cost structure of the electricity sector, in the energy development account, whose burden of subsidies (to any source) is largely covered by consumers.

It is in light of this complex and challenging scenario that we have launched the sixth edition of our monitoring of fossil fuel subsidies in Brazil. We hope that this work fulfills its role of providing information and provocations that fuel the public debate on the importance of reforming fossil fuel subsidies and on Brazil's role in this global agenda.

⁸ Available at: <https://www.epe.gov.br/sites-pt/publicacoes-dados-abertos/publicacoes/PublicacoesArquivos/publicacao-748/topico-681/BEN_S%C3%ADntese_2023_PT.pdf>. Accessed: 23 nov. 2023.

Main Findings

In 2022, fossil fuel subsidies reached **\$ 14.55 billion**. This represents a growth of 12.38% compared to 2021, the year in which subsidies were re-estimated by Inesc at \$ 12.4 billion.

The figures presented in the 2023 edition, relating to the years 2018 to 2022, differ from the figures presented in past editions. This is due to adjustments made to the calculation methodology, notably: (I) change in the calculation basis for consumption subsidies, with a new baseline defined for the year 2017, which resulted in a reduction in the amounts for tax losses associated with the Contribution for Intervention in the Economic Domain (CIDE) and the PIS/Cofins, in addition to the inclusion of the consumption of liquefied petroleum gas (LPG); (II) greater detail for the Special Incentive Regime for Infrastructure Development (REIDI), which made it possible to separate subsidies for fossil fuels from subsidies granted to renewable sources; and (III) separation of the three operations that make up the Fuel Consumption Account (CCC), with the breakdown between fossils and renewables.

The main effect of the change in methodology was the significant drop in consumption subsidies. In the previous editions, we chose to use PIS/Cofins and CIDE per cubic meter figures, dating from the beginning of the 2000s, as the “limit of the law.” As over the years governments have successively reduced tax values per traded volume as a strategy to control prices, the base has become very inflated, especially due to the measures taken in 2022, which brought down the CIDE for gasoline and the PIS/Cofins for diesel and gasoline to zero. Therefore, for the 2018–2022 historical series, we chose to update the baseline, considering 2017 as the reference year, which allows us to present a five-year historical series, adjusted from a more recent baseline.

The numbers of subsidies to fossil fuels are presented in table 1, with the two categories: production and consumption.

TABLE 1 SUBSIDIES TO FOSSIL FUELS (PRODUCTION AND CONSUMPTION) – SERIES FROM 2018 TO 2022*

SUBSIDIES TO FOSSIL FUELS					
Subsidy name	2018	2019	2020	2021	2022
Production					
Fuel Consumption Account (CCC) (fossils)	\$2.15	\$2.28	\$1.67	\$1.89	\$2.26
Special Customs Regime for Export and Import of Goods Intended for Research and Mining Activities in Oil and Natural Gas Deposits (Repetro)	\$6.24	\$9.18	\$11.52	\$6.29	\$2.19
Deduction of amounts applied to the exploration and production of oil and natural gas to calculate IRPJ [Corporate Income Tax] and CSLL [Social Contribution on Net Profits]	\$0.00	\$2.08	\$1.84	\$1.55	\$1.44
Special Incentive Regime for Infrastructure Development (REIDI) (fossil)	\$0.18	\$0.07	\$0.03	\$0.01	\$0.13
Liquefied natural gas	\$0.17	\$0.10	\$0.02	\$0.02	\$0.02
Geology and geophysics services applied to oil prospecting	\$0.01	\$0.00	\$0.00	\$0.00	\$0.00
Thermoelectricity	\$0.25	\$0.21	\$0.12	\$0.11	\$0.12
Production Total	\$9.01	\$13.92	\$15.20	\$9.88	\$6.17
Consumption					
Exemptions for consumption of diesel oil, gasoline, and LPG	\$1.89	\$2.70	\$1.86	\$2.30	\$7.31
Gas Aid for Brazilians	\$0.00	\$0.00	\$0.00	\$0.06	\$0.50
Payment of assistance to independent cargo transporters	\$0.00	\$0.00	\$0.00	\$0.00	\$0.42
Energy Development Account (mineral coal)	\$0.34	\$0.23	\$0.15	\$0.15	\$0.16
Consumption Total	\$2.22	\$2.93	\$2.02	\$2.51	\$8.39
GRAND TOTAL	\$11.23	\$16.85	\$17.21	\$12.39	\$14.56

* Amounts presented in billions of dollars (\$). Original values in reais adjusted from inflation – IPCA 12.2022.

Source: elaboration by Inesc (for sources, see methodology).

In production subsidies, figures fluctuated over these five years, with a higher peak in 2020, when they reached \$ 15.20 billion. Throughout the series, Repetro⁹ appears as the main production subsidy. In past editions, Inesc detailed this regime and the problems

⁹ Repetro allows the import or acquisition of raw materials, packaging materials and intermediate products used in the manufacture of products intended for the oil and natural gas industry in the domestic market with the exemption of payment of federal taxes (IPI, II, PIS/Pasep, Cofins).

associated with it—among them, the lack of transparency and its non-classification by the Brazilian Federal Revenue Service (RFB) as tax expense (GT). It is worth noting in this edition that the RFB itself, in 2023, began publishing tax waivers with greater detail and with benefits by CNPJ [Corporate Taxpayer ID Number] for some taxes and special taxation regimes.¹⁰ The data confirms Inesc's concerns: in 2021, the country failed to collect R\$ 18,02 billion only in regards to the Tax on Industrialized Products (IPI) and the Import Tax (II), as a result of Repetro tax benefits granted to 108 companies operating in Brazil. Although Petrobras leads the ranking of companies benefiting from the aforementioned regime (which is consistent with its position as the country's main oil explorer), among the 10 greatest beneficiaries, 8 are foreign companies, with numbers ranging from R\$ 100 million and R\$ 900 million.

Overall, in 2022, production subsidies decreased, from \$ 9.88 billion in 2021 to \$ 6.17 billion in 2022. This drop, however, is explained by the substantial variation in numbers associated with Repetro, which, in turn, derive from the complex tax and customs mechanisms that permeate the sector. Therefore, it is increasingly urgent that the Brazilian government, especially the Federal Revenue of Brazil, begin to calculate and disclose, on an annual basis, all production subsidies that affect the oil and gas (O&G) sector in the country.

Still in relation to production subsidies, the Fuel Consumption Account stands out with increasing numbers, which in 2022 reached \$ 2.26 billion, whose resources are used to subsidize the use of diesel and natural gas in isolated systems. The increases in the last two years largely reflect the rise in the prices of these fuels, which are influenced by external factors and by the cut in imports of electricity from Venezuela.

In relation to consumption subsidies, the values had a significant increase in 2022, reaching **\$ 8.39 billion** due to tax relief measures implemented throughout the year, in response to the increase in international prices, mainly resulting from the war between Russia and Ukraine and, notably, due to the electoral dispute in Brazil.

The figures for subsidies for renewable sources are presented in table 2, with the two categories: production and consumption.

¹⁰ Available at: <<https://www.gov.br/receitafederal/pt-br/centrais-de-conteudo/planilhas/beneficios-e-renuncias-fiscais>>. Accessed: 23 nov. 2023

TABLE 2 SUBSIDIES TO RENEWABLE SOURCES–PRODUCTION AND CONSUMPTION
– 2018 TO 2022 SERIES*

SUBSIDIES TO RENEWABLE SOURCES					
Subsidy name	2018	2019	2020	2021	2022
Production					
Incentive Program for Alternative Electricity Sources – Proinfa	\$1.37	\$1.37	\$0.90	\$0.78	\$0.98
Special Incentive Regime for Infrastructure Development – REIDI Renewable	\$0.63	\$0.65	\$0.91	\$0.91	\$0.58
Distributed generation	\$0.02	\$0.06	\$0.10	\$0.26	\$0.51
Wind turbines	\$0.02	\$0.02	\$0.03	\$0.03	\$0.03
Biodiesel	\$0.79	\$0.69	\$0.02	\$0.02	\$0.00
Fuel Consumption Account – CCC Renewable	\$0.08	\$0.04	\$0.02	\$0.04	\$0.06
Incentivized Sources - Reduction in payment of the Tariff for Use of Electrical Transmission Systems (TUST) and Tariff for Use of the Electrical Distribution Systems (TUSD)	\$0.12	\$0.12	\$0.10	\$0.09	\$0.12
National Biofuel Policy - Renovabio	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Support Program for Technological Development of the Semiconductor Industry	\$0.14	\$0.11	\$0.06	\$0.05	\$0.05
More Light for the Amazon Program	\$0.00	\$0.00	\$0.00	\$0.02	\$0.07
Production Total	\$3.18	\$3.05	\$2.14	\$2.21	\$2.41
Consumption					
Exemptions for consumption of hydrated ethanol	\$0.00	\$0.00	\$0.00	\$0.00	\$0.39
Consumption Total	\$0.00	\$0.00	\$0.00	\$0.00	\$0.39
GRAND TOTAL	\$3.18	\$3.05	\$2.14	\$2.21	\$2.80

* Amounts presented in billions of dollars (\$). Original values in reais adjusted from inflation – IPCA 12.2022

Source: elaboration by Inesc (for sources, see methodology).

Subsidies for renewable sources total \$ 2.80 billion in 2022. This figure is more than five times lower than that of the subsidies granted to fossil sources.

In what concerns production, associated with the electrical matrix, it is worth highlighting the three main subsidies.

The Incentive Program for Alternative Electricity Sources (Proinfa) was the mechanism that granted the most tax incentives, through direct spending in the last five years, totaling \$ 5.41 billion. Implemented in 2002, Proinfa has been improving over the last two decades, and today stands out internationally as the largest incentive program for alternative electrical energy sources in the world. The program has so far been implemented in more than 100 Brazilian municipalities and has enabled the construction of over 200 clean electrical energy generators. Proinfa encourages not only the diversification of the Brazilian electrical matrix, but also the sector's technological advancement as well as local development. However, recent analyzes point to the fact that Proinfa has not achieved the goals intended by Eletrobras, including with regard to CO₂ emission levels in the energy sector.¹¹

The second largest subsidy for renewable sources comes from the Special Incentive Regime for Infrastructure Development (REIDI), which also covers fossil sources. It must be noted that the renewable sources included in Reidi's framework give substantial importance to the regime considering that, starting in 2020, a greater number of approved projects increased the amount of the policy's annual subsidy allocated to support renewable sources, especially large-scale wind and photovoltaic projects. Between 2018 and 2022, the regime contributed to the waiver of \$ 3.67 billion in taxes related to energy sources (solar, wind, biomass, and hydroelectricity).

Thirdly, the subsidies associated with distributed generation (DG) stand out in terms of numbers, which saw significant growth in 2021 and 2022, the year in which it reached \$ 0.51 billion. This is a subsidy that was an important stimulus for the implementation of photovoltaic panels and the expansion of this source in the Brazilian energy matrix. However, it will be progressively reduced after the approval of the Legal Framework for Distributed Microgeneration and Mini-generation, which means that, as of 2023, the government will start charging for the use of the concessionaire's distribution infrastructure up to the final destination. Therefore, demand for installation of photovoltaic panels increased in 2022. This context gives an example of how the government can, through subsidies, influence the presence of renewable sources in the energy matrix. On the one hand, the decrease in subsidies starting in 2023 could lead to the installation of fewer DG units. On the other hand, if there is an increase in the use of DG units after the implementation of the framework, the absolute number of subsidies may rise.

In short, the numbers presented in this edition, summarized in tables 1 and 2, show how the topic is key to the direction of the energy transition, and becomes even more relevant given the Brazil's comeback as leader in the global climate debate and, not less important, in the context in which the country assumes the presidency of the G20, a place where the reform of subsidies to fossil fuels remains on the agenda.

¹¹ Available at: <https://repositorio.usp.br/directbitstream/34c26fc6-2b7e-47d1-9373-30fc239fa225/Giovanna_de_Lima_Silva_Monografia.pdf>. Accessed: 23 nov. 2023.

Highlights of the historical series: 2018–2022

- In the last five years, \$ 72.23 billion in subsidies for fossil fuels have been granted.
- Repetro alone represented \$ 35.42 billion of the waivers granted to oil and gas production in the period from 2018 to 2022.
- In the last five years, only the waivers associated with the deductions applied to the exploration and production of oil and natural gas deposits to determine the profit for calculating the IRPJ [Corporate Income Tax] and the CSLL [Social Contribution on Net Profits] were estimated at \$ 6,91 billion. The depletion expenses arising from the asset are considered in the aforementioned waivers. In other words, the faster the rate of extraction (thus, exhaustion), the more oil companies can deduct this amount from the calculation of taxes on their profits.¹²
- In 2022, consumption subsidies were more significant, reaching \$ 7.31 billion billion, due to waivers associated with the reduction of PIS/Cofins and CIDE, used to contain the price of fuel internally.
- Renewable energies, on the other hand, received \$ 13.39 billion in subsidies in the last five years. This means that five times more subsidies are offered to fossil sources than to renewable ones.
- Subsidies for renewable sources are mainly related to the generation of electrical energy through renewable sources. The largest subsidy in terms of monetary value is the Incentive Program for Alternative Electricity Sources (PROINFA), a subsidy that expanded generation of renewable sources in the energy matrix and cost the public coffers \$ 5.41 billion between 2018 and 2022. The second largest are the tax waivers provided by the Special Incentive Regime for Infrastructure Development (REIDI), which totaled \$ 3.67 billion for renewable energy in the country in the same period.
- Energy production receives the majority of subsidies aimed at renewable sources. Of these, half are incentives through direct spending. However, 99% are expenses arising from electricity consumers, that is, charged in the form of electricity tariffs.

¹² Law No. 13.586/2017, which renewed and extended Repetro by 2040, also brought, in its article 1, the possibility of deduction, for the purposes of determining the calculation basis of the Social Contribution on Net Profits (CSLL), of the amounts invested in the exploration and production of oil and natural gas deposits, also considering the depletion expense arising from the asset.

Recommendations

Reforming subsidies to fossil fuels is a major challenge and this agenda, although global, has economic, fiscal, social, and political specificities and sensitivities that are unique to each country. But Brazil today benefits from a political context, both due to the government's commitment to building and implementing the Ecological Transformation Plan, and due to the leadership role that Lula's administration assumes within the United Nations Framework Convention on Climate Change (UNFCCC) and at the presidency of the G20.

Given the country's leadership in these spaces of global governance, the fossil fuel denialism that permeates the Brazilian government's discourse and planning is no longer possible. Such denialism has been expressed both in the pressure to advance oil exploration in the Equatorial Margin and in the defensive discourse that focuses on the country's low emissions associated with the burning of fossil fuels and anchored in the renewable matrix of the electrical sector (hydro, solar, wind).

It must be acknowledge that Brazil is part of the problem of the continued expansion of global oil production, just as it must be admitted that the subsidies offered to the Oil & Gas (O&G) sector in Brazil are yet another element of pressure for new areas and deposits to be explored, by reducing extraction costs and increasing profits for the oil companies that operate here.

The government's firm action towards reform of fossil fuel subsidies, alongside the achievement of zero deforestation, would be the most valuable political anchors for effective, undisputed global leadership against climate change.

We thus recommend:

- That the Brazilian government include in its **Ecological Transformation Plan**, in the sustainable finance axis, its commitment to measuring and reforming fossil subsidies.
- That the Brazilian government take advantage of the historic opportunity window to implement the **Tax Reform**, which will inevitably change the structure of waivers that affect the O&G sector, to move toward the reform of fossil fuel subsidies.
- That the Brazilian government also include in the **Ecological Transformation Plan**, in the energy transition axis, a policy of incentives and subsidies anchored in strong and transparent governance, based on strong safeguards and effective outcomes for society in terms of jobs, regional development, local content, and respect for territorial rights.
- That the Brazilian government assume, as part of its leadership in global climate politics, in its actions toward COP 30 and in its G20 presidency, the commitment to carry out actions, both globally and domestically, so that the **agreement signed in the scope of the G20 since 2009, of reform and progressive elimination of subsidies to fossil fuel sources**, be effectively fulfilled.

