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The political economy of the trade and environment nexus in Brazil: a case study on two EU's TrCMs*

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1. Introduction

As pointed out in a report published by the World Bank in 2021[1], which discusses the nexus between trade and climate change and the intersections between trade and climate policies, trade reforms in the absence of appropriate climate change policies can adversely impact emissions. However, when appropriate climate change policies are implemented, trade reforms ensure that goods and services are produced in the most (carbon) efficient location.

In the absence of collective action – a global carbon tax, for example – developed and some emerging economies are deploying unilateral climate policies that create their own demand for trade-related policies. Unilateral climate policies affect domestic competitiveness, create free-riding incentives, and change the comparative advantages landscape. Trade policy instruments to prevent carbon leakage (such as border carbon adjustment measures, anti-deforestation regulations, and a myriad of regulations and private standards) are the other side of unilateral climate policies.

Although these policies might pursue legitimate non-economic objectives, they are often captured by vested interests, resulting in protectionist measures. These policies produce negative spillovers, jeopardizing other countries' development perspectives.

This is also a challenging landscape for Latin American countries and Brazil in particular. Having its comparative advantages concentrated on natural resources-intensive products, the country has much to offer to the world regarding goods and energy to fight food insecurity and meet decarbonization goals. On the other hand, Brazilian exports are concentrated in sectors that are the first candidates for trade-related climate measures (TrCMs) imposed by countries implementing climate policies. Those attributes make it crucial for the government to adopt the best mix of trade and climate policies to mitigate carbon emissions, reduce adaptation costs, and face TrCMs.

The challenge goes beyond finding the "optimal" policy designs. Implementing those policies must overcome the obstacles imposed by the political economy of trade and climate/environmental policies. The interplay between interests and ideas often creates barriers to adopting the first best policies. Understanding the domestic landscape – the main actors, interests, and ideas – is therefore crucial to the design of the best mix of policies and instruments that can realistically be adopted.

This policy brief addresses the political economy of Brazil's "trade and environment" nexus, focusing on the domestic dynamics triggered by the setting of two EU's TrCMs that

[1] **Brenton, Paul, and Vicky Chemutai**. 2021. *The Trade and Climate Change Nexus: The Urgency and Opportunities for Developing Countries*. Washington, DC: World Bank. doi:10.1596/978-1-4648-1770-0. License: Creative Commons Attribution CC BY 3.0 IGO

supposedly will impact Brazilian exports. This emerging issue is making its way within a predominantly hostile political and institutional context, as Brazil's historical position in trade negotiations has been to reject the inclusion of environmental-related rules or disciplines in the trade agenda.

Some of the questions that this article intends to address are the following:

- What are the main external and domestic drivers of the convergence of Brazil's trade and environmental policy agendas?

- How are the issues raised by this convergence perceived by the leading players in trade and environmental policies, and how do they respond to the new agenda?

- What evolutions in the trade and climate nexus agenda can be expected in the near future from the interplay of trade and environmental policies?

The following section describes, in a synthetic way, the international context in which the convergence between trade and environmental issues and the emergence of TrCMs take place. In addition, it synthesizes the main features of the two EU' TrCMs considered in the article: the carbon border adjustment measure (CBAM) and the anti-deforestation regulation (EUDR).

The third section moves to the Brazilian landscape, where the connection between trade and environmental agendas is still incipient but tends to gain political and institutional density due to domestic and external factors.

In the fourth section, the dynamics of the political economy generated in Brazil by the two European regulations are highlighted: the anti-deforestation regulation generates a much more intense dynamic than the CBAM, which can be explained by its higher potential impact on Brazilian exports. Here, too, we seek to identify the main actors involved, their interests, and response strategies to the European regulations.

The fifth section is an effort to summarize what Brazil's short experience with the two TrCMs indicates about the consolidation of a political economy specifically organized around the nexus between trade and environment – and the limits of this process.

The sixth section presents the main conclusions of the paper.

2. The EU TrCMs: a stylized description

Despite the contrast between the activism observed in the climate negotiations and the near paralysis of the trade negotiations, the nexus between trade and environmental agendas was set institutionally through trade instruments and measures[2]. Through these

[2] Some multilateral environmental agreements have provisions geared at impacting – mainly through trade bans – the trade of specific goods (CITES and Montreal Protocol, for instance) but this

instruments, environmental concerns and objectives have been gradually "imported" into the trade agenda.

This process took place on the margins of the multilateral sphere, although multilateral trade negotiations have addressed specific issues on the trade and environmental agenda, such as the liberalization of trade in environmental goods and services in the Doha Round, with no effective results.

In contrast, preferential trade agreements (PTAs) and unilateral trade policies were the vectors that drove the setting of the nexus between the two agendas, in addition to the dissemination of voluntary (private) sustainability standards (VSSs).

Unilateral TrCMs have arisen more recently than environmental provisions in PTAs and VSSs. The EU has been the *locus* of such measures within the broad framework of the *European Green Deal*, adopted by the European Commission in December 2019. The Green Deal aims to make Europe the first net-neutral continent by 2050, and it encompasses a wide range of sectoral and horizontal policies and regulations, among which is the strengthening of the European emissions trade scheme.

From the beginning, the program identified, among the international implications of the measures to be adopted, the risks of carbon leakage in the form of the transfer of production from the European Union to countries "less ambitious in terms of reducing emissions" or the substitution of European products for the imports of carbon-intensive products. Therefore, the Green Deal provided explicitly for the possibility of establishing a border carbon adjustment mechanism (CBAM) aimed at compensating European producers for efforts to mitigate carbon emissions when such efforts are not matched by trading partners, seeking to ensure that the price of imports accurately reflects their carbon content.

Among the regulations set in the wake of the Green Deal, the European Commission released in November 2021 a new proposal for the flow of goods potentially associated with deforestation and forest degradation in the Common Market – the EU Deforestation Regulation (EUDR). As justification for the initiative, the European Commission argues that the bloc is a relevant consumer of products associated with deforestation and forest degradation and that it does not have, so far, regulations that promote a reduction in the bloc's contribution to this problem.

These measures represent explicit (and unilateral) TrCMs motivated by climate concerns and applied through trade instruments. Contrary to the environmental provisions of PTAs resulting from negotiations, they are unilateral. Different from VSSs, they are public and mandatory. The main features of the two regulations – the EU CBAM and the EUDR – are summarized below.

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fact does not invalidate the idea that the nexus between trade and environmental issues is being pushed mainly through trade instruments and within the frame of trade regimes.

- **CBAM – Carbon Border Adjustment Mechanism**

The CBAM was announced in July 2021, and its stated goal is to prevent carbon *leakage*[3] and to preserve the competitiveness of the EU industry as the EU phases out the current leakage protection embodied in its Emission Trade System (ETS) – the free allocation of emission allowances.

The European Union's CBAM covers a limited number of emission-intensive goods – 41 categories, mostly at the 4-digit HS level – extracted from five sectors: iron and steel, aluminum, cement, nitrate-based fertilizers, and hydrogen. Electricity is also covered by special rules. Coverage is concentrated upstream in the value chain: basic materials, with a few downstream products such as steel bolts.

The mechanism entered into force on 1 October 2023, but until 2026, it will be in a transitional phase where reporting requirements apply to importers, but no fees will be charged. Charges begin on January 1, 2026. From this date, CBAM Certificates will be collected, and each certificate will be equivalent to one ton of CO_2e emissions.

Credit on the CBAM charge will be granted for any explicit carbon price paid by the exporter. The CBAM will be implemented while the free EU ETS licenses are phased out from 2026 to 2034, according to a pre-defined schedule.

The CBAM is a TrCM with a high potential to generate controversies and unfavorable reactions among countries such as China, India and Russia, which manifested themselves as soon as the mechanism was announced. Despite these risks, several countries are showing interest in adopting some type of BCA. Some of them, such as the UK and Canada, have taken concrete steps to discuss the adoption of the mechanism through formal public consultations.

- **EUDR - the EU deforestation regulation**

As part of the Green Deal framework, the European Commission released its deforestation regulation in November 2021. The products covered by the regulation are soybeans, cocoa, coffee, cattle meat, wood, pulp and paper, and palm oil, as well as products such as hides and skins, chocolates, and wooden furniture, which contain or have been produced from the use of relevant commodities. These are products largely originating in developing countries and whose production may imply or encourage deforestation or forest degradation.

The proposed regulation conditions the access and circulation of products imported by the bloc to the simultaneous fulfillment of three requirements:

[3] CBAM also aims to generate incentives for the adoption, by countries that export to the European Union, of more ambitious decarbonization policies.

- products must not be associated with deforestation (they must be *deforestation-free*);

- the production of the imported goods must have complied with the legislation of the country of origin and

- the products must have been subject to a *due diligence* procedure by the operators (importers), as defined by the proposed regulation.

In other words, although compliance with the relevant legislation of the exporting country is a requirement – as is already the case in the provisions of preferential trade agreements – it is not sufficient to guarantee entry into the European market. Added to this are the requirements that the product is not associated with deforestation – whether legal or illegal under the laws of the exporting country – and that the importer, before the product is placed on the European market, collects information on the origin of the product to be imported, assesses the risk that the product is associated with deforestation and, when appropriate, take action to mitigate such risk.

The risk assessment – the second stage of *due diligence* – must consider concerns related to the country of production, such as levels of corruption, non-implementation of laws, as well as the attribution of risk that the producing country or region receives from the *benchmarking system* established by the European Commission, which will classify countries into three levels of risk.

Some of the criteria to be considered in the country's risk classification include the rates of deforestation and forest degradation and expansion of agricultural land for the production of the products considered, the inclusion of commitments to reduce deforestation and forest degradation in the country's Nationally Determined Contribution (NDC) under the Paris Agreement, and the existence in the country, at the national and subnational levels, of legislation compatible with Article 5 of the Paris Agreement and the adoption of effective implementation measures to sanction activities that lead to deforestation and forest degradation.

3. The nexus between trade and environment in Brazil's external and domestic agendas

The policy measures linking trade to the environment have historically been perceived by Brazilian diplomacy and exporting companies more as a threat than an opportunity. This type of linkage was quickly labeled as developed countries' "green protectionism," and this perception largely persists to this day in broad sectors of Brazilian society.

Brazil was uncomfortable when the issue emerged in the international arena. Studies carried out from the mid-1990s[4] onwards identified significant vulnerabilities in Brazil's exports if environmental and social norms unilaterally imposed by other countries were to be used to condition trade flows.

Brazil's international specialization in natural resources and energy-intensive goods and sectors with high emissions made the country vulnerable to the imposition of environmental rules and standards that could increase production costs for its firms.

After a short period of export diversification towards manufactured goods – also relying on industrial sectors intensive in natural resources – Brazilian specialization has gradually reconcentrated on primary, agricultural, and mineral goods, a trend that intensified from 2000 onwards.

The growing relevance of the climate agenda in international environmental negotiations and Brazil's emergence as a global supplier of agricultural products led the country's sustainable development agenda to be identified, domestically and externally, with controlling deforestation in the Amazon.

Consequently, the focus of the climate agenda turned to those economic activities that supposedly benefit from deforestation – the sectors producing and exporting agricultural *commodities*, now a major component of the Brazilian export bill. These sectors are the same ones that are increasingly challenged on the grounds of food safety and quality by consumer entities in developed countries.

Therefore, it is not surprising that Brazil's economic diplomacy historically resisted initiatives to "import" climate issues to trade negotiations in which Brazil participated. And at least in the realm of diplomatic relations, it can be said that, until very recently, Brazil managed to achieve this goal.

As Brazil had not, until very recently[5], concluded PTAs with any country whose negotiating model requires the inclusion of environmental issues, the country could keep its distance from this vector of diffusion of these issues on the trade agenda.

In the sphere of trade negotiations, Brazil only had to deal with the issue in the GATT/WTO, where the relations between trade and environment became a negotiating issue in 2001

[4] **Motta Veiga, P., Castilho, M., Ferraz, G. (1994).** *Relations between trade and the environment: the Brazilian case* – research report for UNCTAD. **Young, C. E., Lustosa, M. C., Pereira, A. A.** (2001). *Trade and the environment: the insertion of Brazilian industry*. In Tironi, L. F. (org.). *Strategic aspects of Brazilian trade policy* (vol. 2). Economics and Diplomacy Collection, IPEA/IPRI. **Motta Veiga, P., Carvalho Jr., M., Vilmar, M. L. and Façanha, H. (1997).** *Eco-labelling schemes in the European Union and their impact on Brazilian exports*. In Zarrilli, S., Jha, V. and Vossenaar, R. (orgs). *Eco-labelling and International Trade*, UNCTAD.

[5] In December 2024, the EU and Mercosur announced the conclusions of the negotiations for the PTA between the two blocs.

with the launch of the Doha Round. The Doha negotiating mandate included the relations between WTO rules and the specific trade obligations contained in multilateral environmental agreements, as well as the reduction or elimination of tariff and non-tariff barriers levied on environmental goods and services. As is well known, the negotiations of the Doha mandate have made little progress and have not yet led to any concrete result.

However, Brazil's official positions in the past did not prevent its exporting companies in different sectors – such as pulp, clothing, and footwear – from facing VSS challenges since the 1990s. Right from the start, large exporters saw VSS as a potential risk to their exports to the EU. However, in general, they were able to adapt to these new requirements. Clearly, the size of the companies and the relevance of exports in their revenues appeared as the key variables to explain the ability of companies to adapt to such schemes in the 1990s[6].

In recent decades, these VSS challenges have only intensified. As a 2010 study notes, "all Brazilian commodities with a strong presence in international markets are subject to questioning with regard to labor standards (cotton), environmental standards (cotton, soybeans, sugar, coffee), issues related to health, food safety and traceability (beef) and demands related to the quality and origin of the product (coffee). In all of them, Brazil has sought to adapt to international *standards* and, in some cases, has produced its own national *standards*."[7] Thus, already in the middle of the last decade, the issue of private standards was part of the international agenda of the main *commodities* exported by Brazil, acting as a pressure factor on these sectors[8].

Therefore, until recently, Brazilian players dealt with the trade and environment nexus exclusively through the private channel of the VSS, which did not affect the official diplomatic strategy of avoiding the contagion of the interstate trade agenda by environmental issues.

However, this scenario is going through a significant shift related to international and domestic evolutions.

On one side, the emergence of unilateral trade-related climate measures (TrCMs) through the EU initiatives sheds light on the limits of this diplomatic strategy. Unlike trade negotiations, in which the issue to be addressed should be accepted by the parties, unilateral European measures are imposed as market access requirements without the need for agreement from trading partners. The inclusion of environmental objectives and disciplines in trade instruments remained off the country's diplomatic agenda until the EU's

[6] Idem

[7] For more information on the subject, refer to **Veiga, J. P. and Rodrigues, P. C. (2010**). *Social and Environmental Certification – Institutional Arrangements and Impacts on Brazilian Commodities*. Breves CINDES 34, August.

[8] **Naidin, L., Motta Veiga, P. and Rios, S.P. (2020**) present two case studies of agricultural *commodity* exporting sectors – soybeans and cane sugar/ethanol – that faced the issue of private standards.

TrCMs were unilaterally adopted, defining a scope capable of impacting Brazilian agricultural and manufacturing exports.

The conclusion of the free trade negotiations between MERCOSUR and the European Union in December 2024 will also have impacts on the agenda of the trade and climate nexus in Brazil once the agreement enters into force. The chapter on Trade and Sustainable Development of the agreement includes binding disciplines applying to the compliance with domestic regulations and with international environmental agreements, among which the Paris Agreement.

On the other side, very recently, the trade and environment nexus, carefully avoided by Brazil's diplomacy, emerged in the domestic agenda through legislative proposals to establish a regulated emissions trading system and additional policy tracks.

The Brazilian Emissions Trading System (ETS, or SBCE, as for the Portuguese acronym) provides the first track. It was adopted in November 2024, but the legislation is very vague and general, which means that the regulatory process that will follow will be crucial to setting the parameters for implementing the System.

A second policy track is defined by a set of measures articulating trade and industrial policy instruments adopted in 2024. Starting with Nova Industria Brazil (NIB) – the new comprehensive industrial policy announced in January 2024. NIB makes explicit reference to decarbonization as an industrial policy objective while relying on traditional instruments and policy goals. That said, it is worth noting that support for decarbonization will be strictly conditioned to the achievement of goals related to the expansion of the internal capacity to produce goods and "import substitution" that contribute to those new objectives.

Other measures in the field of trade and industrial policies have been recently adopted on the grounds of achieving climate objectives. On the one hand, the government resumed the collection of import tariffs on photovoltaic modules and wind turbines, previously zeroed. Tariffs were raised to 10.8% for photovoltaic modules from January 2024 and 11.2% for wind turbines from January 2025. The government justified the increase in import tariffs on photovoltaic modules and wind turbines, arguing that they are "fundamental industries for the production of renewable energy and for the country's neo-industrialization project on innovative and sustainable bases."

Likewise, starting in January 2024, the import tax on electric cars, suspended since 2016, has been resumed. Tariffs will gradually increase, from 10% to 35% for electric cars, between January 2024 and July 2026[9]. At the same time, the government established tax-free import quotas, in decreasing amounts until 2026, varying according to the degree of electrification of the vehicle.

[9] In the broad tax reform being discussed in Brazil's Congress, electric vehicles have been listed as products subject to an excise tax to be applied to goods and services harmful to human health and to the environment. Although this tax is supposed to apply to domestic and imported electric vehicles, this kind of vehicles is not produced in Brazil. Therefore, the excise tax will affect only imported vehicles, negatively impacting its competitiveness *vis à vis* domestically produced combustion engine vehicles and hindering the decarbonization in the road transport sector.

In addition, the new automotive industrial policy (Programa Mover), adopted in 2024 and replacing similar previous programs, is based on a wide array of fiscal and financial incentives. It resorts to CO_2 emissions and other environmental criteria to set the amount of incentives that domestic producers can claim.

Also, in this case, the climate rationale is invoked to justify the sectoral program. As the Vice-President and Ministry of Industry and Trade put it, "Mover will help Brazil meet its commitments to decarbonizing the planet and to the fight against climate change. It is in line with our neo-industrialization, innovative, sustainable and export project, and other important government measures towards a greener economy."

Not by chance, these initiatives connecting trade and industrial policy tools and climate motivations have a clear protectionist profile, fitting into the country's tradition in these policy fields. Decarbonization goals are present as criteria for protection and subsidies in the policies. However, pursuing these goals is strictly conditioned to the achievement of "non-decarbonization" criteria, such as the increase in domestic production, rules of national content, and import substitution[10]. More than fostering decarbonization as a policy goal per se, the rationale for this set of measures lies in the development of domestic industrial capacity and import substitution.

A third policy track that promotes the linkage between trade and climate agendas emerges from the widespread perception in Brazil that the country has strong assets to benefit from the decarbonization process taking place around the world, through trade (exports) and investment flows. Although the nexus can, in some cases, be not explicit or secondary as a rationale for adopting the regulations and policy measures, in other cases, the trade and investment goals appear from the onset as policy objectives. Among the measures that can be attributed to this policy track, the following deserve attention for their potential to establish a nexus between the trade and climate agendas:

- New legislation for promoting and supporting the production of **low-carbon emissions hydrogen** was adopted in August 2024. This legislation is yet to be implemented, and there are specific regulatory processes related to the implementation of the law.
- New legislation, "**Fuel of the Future**", approved by Congress in September 2024, regulates and promotes the production and use of SAF, and other biofuels, among other provisions.

A fourth policy track derives from Brazil's commitments under the Paris Agreement and, more specifically, the implementation of the NDC presented by Brazil at COP29, which foresees the reduction of net GHG emissions in a range between 59% and 67% until 2035, in relation to the level of 2025.

[10] Another indication that the trade and climate agenda is beginning to sensitize public agents responsible for trade policy is the establishment, at CAMEX, of a working group on trade and sustainability and the public consultations, organized by SECEX, on the subject, in order to gather positions and perceptions of risks and opportunities associated with this agenda with stakeholders.

To accomplish this target, the government is preparing the "Plano Clima", which includes two tracks: adaptation and mitigation. Regarding the mitigation track, the Plan encompasses seven sectorial plans: agriculture and livestock; land use and forests; cities, including urban mobility; energy and mining; industry, scraps, and transport. These sectorial plans are deemed to be ready for public consultations by mid-2025.

4. The political economy of EU's TrCMs in Brazil

The EU regulations on CBAM and deforestation and forest degradation – summarized in Section 2 – have become hot topics in trade and environment policy circles as expressions of what seems to be an irreversible trend impacting trade flows and policies. They are unilateral measures setting mandatory obligations, motivated by climate concerns, operationalized through trade tools, and labeled as Trade-Related Climate Measures – TrCMs.

Both regulations will likely impact Brazil's exports, industrial goods in the case of CBAM, and agricultural products in the case of the anti-deforestation regulation. Brazil's potential vulnerability to the EU regulations depends on a series of variables: for CBAM, CO_2 emissions of the affected sectors and the existence of a system of carbon pricing in Brazil and the competing countries in the EU market; for the anti-deforestation law, the extension of deforestation and forest degradation, the rating of the country (and its competitors) in the risk evaluation system set up by the European Commission, etc.

4.1. The EU CBAM

The EU CBAM and, more broadly, the BCAs as TrCMs are issues that provoked some concern and reactions among government representatives and national business associations representing the sectors potentially impacted by such mechanisms. The reactions of these players show a high level of convergence, rejecting such a mechanism in principle, although some nuance can be observed in the positioning of different business associations.

The Brazilian government has formally expressed concerns about the distortive nature of CBAM regulations within the WTO. The arguments presented by Brazilian representatives relate to concerns that CBAM may violate the principles of non-discrimination laid out in the General Agreement on Tariffs and Trade, as the measure introduces differential treatment between nations (mainly EU member states, EFTA countries, and countries outside the bloc). There is also the argument of a possible violation of the principle of common but differentiated responsibilities in international environmental law, which determines that nations will have different roles in combating climate change depending on their individual conditions.

At the same time, going beyond principles and taking a pragmatic view, government representatives acknowledge that BCAs are part of an international trade regulation trend

that is here to stay and will evolve through expanding its coverage and adopting other mechanisms that link trade to the environmental agenda[11].

This perception led government representatives to identify as the main risk for Brazil associated with CBAM and CBAM-like mechanisms the systemic impacts stemming from the diffusion of unilateral initiatives: risks for global trade, multilateral rules, and Brazilian interests, such as fragmentation and distortion of the "map" of comparative advantages due to these initiatives.

On the business side, the National Industry Confederation (CNI) has played a leading role in fostering awareness within the Brazilian business sector of the challenges and implications that could derive from the CBAM initiative for the country's exports. It has also sought to influence the design of the mechanism by responding to public consultations opened by the EU and other countries considering adopting BCAs.

The statements made by CNI regarding the European CBAM incorporate both general issues and various specific concerns, including some at the sectoral level. There is some overlap between the issues raised by the government and those presented by CNI, although the latter has significantly advanced in the detail of its concerns. The statements provided by the other sectoral business organizations (representing the steel, aluminum, glass, and energy sectors) are in line, although less comprehensive and detailed, with those presented by CNI.

CNI representatives emphasize the need for Brazilian companies to prepare and adapt to face an international scenario in which decarbonization issues will impact the trade agenda. CNI agrees with the government condemning the instrument but considers that the Brazilian authorities should actively alert companies to the irreversible trend of decarbonization and the need to adapt. In this regard, their representatives point out that Brazil is not doing its "homework" in carbon pricing policy: the ETS has yet to be implemented, and the country lacks a data monitoring system for emissions.

So far, the main reactions of exporting companies to the CBAM have been limited to: engagement with the government for negotiations with countries that adopt BCAs; diversion of exports to markets other than the EU; and support for sectoral coordination to influence the definition of international standards. More proactive actions such as MRV emission practices in line with the requirements of importing countries and investments in clean technologies remain relatively uncommon.

Despite the engagement of the government institutions in charge of trade and foreign policy as well as some business associations, it should be recognized that BCAs and their implications for Brazil's exports could hardly be referred to as a "hot topic" in the policy

[11] The Brazilian government—and some business organizations in the country, including the CNI and sectoral associations—have sought to influence the design of the mechanism by responding to public consultations opened by the EU in various stages of regulation development, as well as those opened by the governments of the United Kingdom and Canada.

debate. This situation is owed to two different factors: Brazilian tradition in trade and foreign policies and the specific characteristics of the BCA as a trade-related mechanism.

The first factor is made explicit in the government's reactions. These reactions were essentially defensive, in line with the Brazilian policy tradition that rejects the trade and environment nexus and points to the supposedly illegal or unfair characteristics of the BCAs. While government representatives repeatedly recognized that the mechanism is irreversible and signals a change in the era of trade policy, the government's defensive stance does not help to prepare companies and other relevant stakeholders to face an unavoidable reality, as recommended by the CNI representatives.

This is confirmed by the limited debate in civil society organizations beyond business associations. The trade agenda, in general, is distant from the concerns of players like the financial sector and labor unions. Industrial workers' unions only engage through their leadership when supporting business demands for protection. In the case of civil society and, most notably, environmental NGOs, very few of them include trade in their agenda or promote the need to establish links between trade and environmental policies.

In fact, among environmental think tanks and NGOs, there is a prevailing anti-trade bias, and there are few—if any—resources allocated to trade-related environmental issues. In academia, the topic mobilizes a few trade and international law experts, but it does not generate significant interest. Even the think tanks and NGOs that actively participated in the PMR (Partnership for Market Readiness[12]) discussions in the 2010s, promoting the idea of an ETS in Brazil, have not engaged in the CBAM debate.

This configuration of positions predates the discussion of the CBAM in Brazil and is reflected in any trade-related debate. The government and the industrial sector usually take a defensive stance, while other sectors and organizations show limited interest. Discussions on the negotiations of the Free Trade Area of the Americas at the beginning of the century and the Mercosur–EU agreement were exceptions, as they were able to mobilize non-governmental organizations more widely and, to a lesser extent, labor unions.

A second factor explaining the general lack of interest is, as discussed earlier, the highly concentrated potential impact of mechanisms such as the EU CBAM — the only one currently in force. In addition, debating BCA is quite complex, requiring a considerable degree of "technical" content.

In any case, the adoption of the EU CBAM does not seem to have impacted domestic policy initiatives that combine trade and climate concerns. This is particularly clear in the case of

[12] PMR is a World Bank program that provides support to prepare and implement climate change mitigation policies, including carbon pricing instruments, in order to increase the scale of GHG mitigation. Approved in September 2014, the project effectively began its implementation in 2016, under the coordination of the then Ministry of Finance and the World Bank.

Brazil's ETS, whose dynamics precede the debate on CBAM and whose adoption is almost paralyzed in the Legislative.

However, one should not exclude the possibility that the adoption of a Brazilian CBAM gain traction in the future, pushed by the same protectionist industrial sectors currently rejecting the introduction of the EU CBAM.

4.2. The EU anti-deforestation regulation - EUDR

Unlike CBAM, EUDR has the potential to reach a significant percentage of Brazilian exports to the EU. In 2020, products covered by the regulation accounted for 37% of Brazil's total sales to the European bloc. However, the relevance of the European market for each affected product varies widely. While for coffee, the EU absorbs half of Brazilian exports, in the case of beef, this percentage is 5%. As for soybeans, the European bloc has a relevant share in soybean meal exports but not a significant share in grain sales.

With such potential impact, it is to be assumed that the issue would mobilize a broader range of public and private actors in Brazil, particularly among the sectors potentially impacted by regulation. Therefore, a high degree of mobilization and pressure is to be expected from the actors involved. At the same time, the diversity of interests affected could make it difficult to formulate a common position and develop concerted strategies to adapt to the new conditions defined by regulation.

In the specific case of the EUDR, although there is, between the government and the representatives of the various agricultural value chains, a convergence of positions around a very critical view of the "spirit" of the regulation, there seem to be divergences among the private players regarding the response and adaptation strategies in the face of the new scenario, which has compromised their effectiveness so far.

The political economy of the implications of the EUDR for Brazil essentially mobilizes federal government agencies and the production chains potentially affected by the measure. The most relevant actors on the side of the federal government are the Ministry of Agriculture, which conducts domestic dialogue with the private sector, and the Ministry of Foreign Affairs, which conducts international negotiations and articulations on behalf of the country's interests[13].

The Ministry of the Environment does not intervene in this arena, not least because the central area of intersection between the theme and its sphere of competence disappeared

[13] Some subnational actors, such as governments of states that export products included in the scope of regulation, also demonstrate some level of mobilization. This is the case of the government of the state of Pará, which launched, at COP 28, at the end of 2023, the Program for the Integrity and Development of the Production Chain of Cattle Ranching in Pará. The program provides that the individual identification and traceability of Pará cattle will have their implementation stages completed by December 2026. https://www.agenciapara.com.br/noticia/49601/para-lanca-na-cop-28-plano-para-rastrear-individualmente-todo-o-rebanho-do-estado-ate-2026

when the management of the Rural Environmental Registry (Cadastro Ambiental Rural--CAR), an instrument that originated in the scope of environmental policy, was transferred, under pressure from the agricultural sectors and the Ministry of Agriculture, to a third ministry (see below).

The Ministry of Foreign Affairs acquired publicly a pivotal role in the discussion of the issue and the formulation of the official position of the federal government when it brought together, in Brasilia, in early July 2024, 75 representatives of the affected productive sectors, secretaries of agriculture of the states, representatives of other ministries and indigenous peoples, with the aim of advancing Brazil's preparation to face the challenges of the new regulation.

The meeting sought to share information on initiatives taken by the federal government, state governments, and the productive sector. According to an article published in the newspaper *Valor Econômico*, the representative of the Ministry of Foreign Affairs informed that the country would follow two parallel strategies[14]:

- Pragmatic strategy: domestic preparation to meet the requirements imposed by the new regulation, either through demands to the European Commission for more specific information or through the development of technological tools to gather information and certify production. The main instrument in this dimension of the strategy is the AgroBrasil+Sustainable Platform, developed by the Ministry of Agriculture, which will provide organized, traceable, and reliable information on sustainable agricultural production, having been presented as an alternative for the producer to meet the requirements of the European market.

- International mobilization strategy: Brazil has sought to articulate with other commodity-producing countries in Latin America, Africa, and Asia, systematically complaining to the European Commission and in international forums such as the WTO.

Despite these efforts to coordinate and promote public-private convergence in relation to means and objectives, several factors related to the characteristics of the different agricultural value chains contribute to explaining the diversity of private responses to the concerns generated by the EUDR.

Before listing these factors, however, it is worth taking a step back to identify a critical element that undermines the implementation of the Brazilian environmental and climate policy and, within it, of measures aimed at tracking and curbing deforestation: the CAR's status[15].

[14] **Valor Econômico (2024).** *Brazil aligns strategy on European anti-deforestation law*. 07/03/2024.
[15] The CAR originated from Law No. 12,651/2012, within the scope of the National Environmental Information System - SINIMA, and was regulated by MMA Normative Instruction No. 2, of May 5, 2014.

The CAR is a national electronic public registry, mandatory for all rural properties, with the purpose of "integrating the environmental information of rural properties and possessions, composing a database for control, monitoring, environmental and economic planning and combating deforestation." In this sense, an operational and updated CAR could be an essential database for identifying legal and illegal deforestation areas under Brazilian legislation, and to contribute to preparing the agricultural sector to deal with regulations such as the EUDR.[16]

It turns out that the CAR, twelve years after its approval and ten years after its regulation, is far from operational, which undercuts its possible use as an instrument for controlling and monitoring environmental policy and the achievement of one of the Brazilian NDC's targets, which commits to zero deforestation by 2030.

The difficulty in operationalizing the CAR jeopardizes the main government initiative motivated by concerns about the impacts of the EUDR on Brazilian exports: the aforementioned establishment of a platform (AgroBrasil + Sustentável), at the Ministry of Agriculture, with the objective of "integrating information from databases and government institutions in an organized way, traceable and reliable on sustainable agricultural production in Brazil".[17]

The platform was launched in January 2024 with the support of several agricultural entities (vegetable oils and pulp, among others), and in addition to technical difficulties, its effective implementation has been hampered by diffuse resistance originating in primary commodity-producing sectors (the first link in the value chains). Apparently, the producers were concerned with providing companies that buy their products for export with detailed information about their properties, as well as with the bureaucratic costs of *compliance* with the platform.

This resistance takes place despite the fact that, in 2002, in view of the risks brought about by the "mad cow crisis", the Ministry of Agriculture, in partnership with CNA – the National Confederation for Agriculture and Livestock, created the Brazilian System of Individual

[16] The CAR is a normative instrument originated in the scope of environmental policy and its adoption has been the subject of long controversies in Congress and in society, between representatives of the agricultural sector, interested in reducing the provisions that limit the productive use of land, and the "environmentalist bloc", concerned with the preservation of areas on rural properties for environmental reasons. In addition, the institutional location of the CAR itself and its management have been the subject of disputes between the Ministries of Agriculture and the Environment in recent years, and it was finally allocated, as a compromise solution, to the Ministry of Management and Innovation in the current government.

[17] https://www.gov.br/agricultura/pt-br/assuntos/noticias/plataforma-agrobrasil-sustentavel-e-apresentada-a-ministerios-e-instituicoes-ligadas-ao-setor-produtivo. The options for entering and searching for data are organized as characterization and compliance (who, where, what, when, and how much was produced), characterization and sustainability (how, with which sustainable practices and certifications it was produced), in addition to chains of custody (standards and specificities of production).

Identification of Cattle and Buffaloes (SISBOV), " to which rural producers can voluntarily adhere, except when its obligation is defined in a specific normative act, or required by official health controls or programs".[18] SISBOV does not, however, include information on deforestation, focusing exclusively on the individual tracking of cattle since the system is operational only in areas of the slaughterhouses (and not on the sourced farms).

This economic and political background and institutional fragility, reflected in the CAR implementation, hinder coordinated initiatives among the most mobilized actors and shape the private sector's positions and strategies in this new scenario.

These tend to vary according to a set of factors, among which the following stand out:

- the position in the European market (magnitude and relative importance of exports to the European market and market share);
- value chain position and firm size; and
- VSS experience.

The first two factors seem to be the most relevant. For instance, the coffee, pulp, and soybean sectors together account for 92% of bilateral exports of goods subject to regulation and hold a relevant share of the European market. Their companies are actively, through their associations, discussing and questioning specific aspects of regulation. For such sectors, the European market is of great importance, and ignoring regulation and seeking other markets is not considered an option.

This stance is particularly clear for the downstream segments of these value chains, which oversee exporting and have direct relationships with customers and international markets. This is true both for sectors whose exports are dominated by large companies, as in the case of soybeans and pulp, and for those in which smaller companies predominate – such as coffee. The associations of these sectors have been actively seeking solutions to meet the EUDR, particularly those practical difficulties in attributing the origin of goods to specific productive polygons.

In the case of soybeans, ABIOVE, an entity that brings together large trading companies, argues that it will be necessary to segregate a part of the production for export, with plantations, silos, internal transport, and ships just to serve the European market. There are doubts about the extent to which European buyers will be willing to bear the costs inherent to this process[19].

[18] SISBOV, a system for individual tracking of cattle, has been in operation since November 2006 and gathers information on 20 million live animals and on the approved rural establishments (ERAS) able to export to the European Union https://www.gov.br/agricultura/pt-br/assuntos/sanidade-animal-e-vegetal/saude animal/cgtqa/dpc/sisbov

[19] Between 2022 and 2023, a Swiss NGO, with funding from a European supermarket chain, monitored bulk carriers departing from Brazil to Europe with soybean meal, in order to assess whether the cargo of these ships met the standards required by the EUDR. According to Valor Econômico, "19 ships (...) were evaluated. Eight of these ships did not meet the required standards

In the coffee sector, Cecafé, which represents 96% of Brazilian coffee exporters, has been seeking to liaise with its European counterparts to obtain information on how the law will be applied and asking for the postponement of the penalties' enforcement. In Brazil, as in other exporting countries, there is growing pressure to postpone the legislation's enforcement– or, at least of certain parts of it, of more complex operationalization (Box 1).

Box 1 – Under pressure, the EC proposes to postpone the EUDR enforcement.

In view of the high costs of compliance, the governments of the affected exporting countries claim that there are numerous technical challenges in responding to EUDR and that there is a lack of precise information on how the criteria will be applied.

In a letter to the European Commission dated June 20, 2024, the U.S. Secretaries of Commerce and Agriculture and the U.S. Trade Representative (USTR) stated that the law poses critical challenges for U.S. producers of affected products, calling for the suspension of penalties until these challenges can be overcome.

Other trading partners that are major producers of the products covered by the regulation, such as Malaysia and Indonesia, have also asked for the entry into force of the penalties to be postponed.

In addition, the Ministers of Agriculture of 20 of the 27 member countries of the EU requested, in July 2024, the temporary suspension of the legislation and the revision of the regulation, in view of its costs for farmers in the bloc – to whom the regulation also applies.

Among the challenges mentioned are the technological and logistical difficulties for tracking products that transit through different territories, are fungible and in some cases (soybeans, for example) transported on bulk carriers that aggregate cargo from different countries. There are also difficulties with certification schemes and data transfer, as well as doubts about the maps that will be used for geolocation and the possibility that such maps will make it impossible to differentiate the producing trees from the native vegetation. In addition, it is questioned how European importers will be able to check the compatibility of the imported product with the legislation of the exporting country.

Due to pressure from trading partners and agricultural producers in some of the bloc members, the European Commission agreed that, initially, all producing countries would be treated as a standard risk. Lately on October 2, 2024, the European Commission (EC) presented a proposal to the European Parliament and the European Council to postpone the enforcement of the regulation for one year.

A concern of coffee producers, but also other goods producers subject to regulation – forest products, cocoa, and palm – is about the map created by the *Joint Research Center,* a tool developed by artificial intelligence, which can identify across the planet when and where

– either because a mixture of traced soybean meal and untraced soybean meal is identified in storage or because it was identified that the origin of part of the cargo was related to deforestation." **Valor Econômico (2024).** *Soybean chain rushes to adjust to European rules*, 05/07/2024.

there was forest cover. In addition to the low degree of reliability of the information on the map, these commodities are produced from planted trees that are regularly cut down for their renewal. If this is the only control tool used by the EU, there is a risk that the bloc will identify as deforestation those trees that were cut down as part of the production cycle of these *commodities*.

Among large companies in other sectors for which the European market is less relevant – cattle meat, mainly, a sector currently dominated by Brazilian multinationals – adaptation initiatives are also taking shape, benefiting from the ability of these companies to absorb costs linked to new requirements of markets such as the European.

Some of these companies seek to buy private tracking tools without any guarantee that they will be considered acceptable by European importers[20], and there is a case of a large company that sold its slaughterhouses in the North of the country, starting to export exclusively from its units in the South and Southeast, where the risk of deforestation is not relevant.

These cooperative and proactive positions of downstream sectors contrast with the reactions of rural producers and their associations, especially in the soy and cattle meat sectors. Unlike large companies that export processed raw materials, they resist tracking initiatives and providing information that is commercially sensitive.

Besides commercial concerns, the reaction of some upstream associations mirrors the political stance of many economic and political leaders in these sectors – especially in Soy – against the current federal government, not hiding their preferences for the previous administration.

A third factor to consider when evaluating the different reactions of sectors and companies is the fact that companies producing various commodities included in the scope of the EUDR have accumulated, over the last decades, experience in dealing with voluntary certification and chain traceability requirements guided by sustainability criteria[21].

This experience can be an incentive for representatives of these sectors, including those with the greatest weight in Brazil's EUDR agenda, to adopt a less resistant stance, more prone to adaptations and adjustments necessary to meet its requirements.

[20] As one of the interviewees noted, European importers "need to be comfortable with the risk management in the chain presented by exporters to avoid fines in case of purchasing the products."

[21] **Veiga, J.P.; Hehs, K.; Rodrigues, P.C.** (2014). *Regulation and international governance of* agricultural commodities*: situation and perspectives for Brazilian exports*, Brief Series 81, CINDES, February. See also, for a description of the experience of two Brazilian agricultural export sectors – soybeans and sugar – with certification schemes with sustainability criteria**, Naidin, L.C.; Motta Veiga, P. and Rios, S.P.** (2020). *The international regulation of food production and trade: Brazil's participation and positioning*, Final Report of Research carried out for Instituto Escolhas, January

Thus, in the specific context of the EUDR, resurfaces a broader issue discussed in the section on Brazil's political economy of environmental policy: the distancing and even the opposition between different sectors of the value chains: upstream, resistance to measures; downstream, adaptation to them[22].

Also, in relation to the policy issues derived from the EUDR, it is worth noticing the almost complete absence of participation of environmental NGOs, even though they may have their focus and action in the Amazon. This absence reflects the fact that these NGOs do not follow trade-related issues but also seem to stem from the political alignment of many of them with the current government – whose position rejects the EUDR outright[23].

5. The political economy of the trade and environment nexus in Brazil

Over the past few decades, the convergence between the trade and environmental agendas has been carefully avoided by the public actors responsible for the country's foreign economic policy – and, particularly, trade policy – to which the main representatives of the private sector from agriculture and industry have aligned.

The inclusion of environmental objectives and disciplines in trade instruments remained off the country's diplomatic agenda until the EU's TrCMs were unilaterally adopted, defining a scope capable of impacting Brazilian agricultural and manufacturing exports.

In broad terms, TrCMs are perceived by most of the relevant public and private actors in the political economy trade and environmental policies as new expressions of "green protectionism" and, therefore, essentially as trade – rather than environmental – policy initiatives.

In this sense, far from weakening the public-private coalition that sustains Brazil's protectionist trade policy, the setting of these measures strengthens this coalition and reasserts the historical positions of the country's foreign economic policy.

Unilaterally set and perceived by the main players intervening in trade policy as an expression of the interests of developed countries, the TrCMs fit perfectly into the vision of the world that dominates Brazilian economic foreign policy. In this view, North and South oppose each other on the main issues of the international agenda, the former imposing barriers that hinder the development efforts of the latter (for more details, refer to section 4.2 of this policy birief).

[22] In the perception of producers, difficulties in entering the European market could be compensated with higher sales to Asian markets (especially China) or to the domestic market.

[23] By contrast, during the Bolsonaro government and under his disastrous environmental policy, environmental NGOs have made room in their agendas to discuss the MERCOSUR-European Union agreement and its provisions relating to trade and sustainable development. According to an NGO representative interviewed for this work, at that time "it was necessary to seek external allies" to confront the positions of the Brazilian government.

It is not surprising, therefore, that the dynamics of the political economy mobilized by the TrCMs in Brazil is the trade policy's one. The fact that the main players of the environmental bloc remain distant from the debate raised by TrCMs in Brazil favors this outcome.

But this is not likely to be the end of the story. Under the impact of TrCMs and influenced by discussions on the adoption of a domestic emissions trading system, the trade and environment nexus is emerging as a policy issue in Brazil.

As a matter of fact, so far, the EUDR has been the only initiative – domestic or external – that can be accounted for pushing the emergence of the trade and environmental nexus as a specific policy issue that cannot be reduced to the issues and positions that drive trade policy in Brazil.

By contrast, the EU CBAM is a relatively minor issue for Brazil's exports and for the industrial sectors potentially impacted by the mechanism, and the response of private players has been in alignment with governmental positions, without disagreements. Among these players, private and public ones, TrCMs are quoted in discourses and positions that intend to internally legitimize protectionist claims or even the adoption of BCAs with protection purposes[24], as Brazil is close to enforcing an emissions trading system.

In this sense, an indirect effect of the imposition of BCAs to Brazilian exports, together with the setting of a domestic emission trade scheme, could soon be the strengthening of the trade and climate nexus, pushed by industry's protectionist interests.

The main contribution of the EUDR to the emergence of the trade and environmental nexus as a policy issue in Brazil was its ability to deepen the cleavage within the agricultural value chains between the agricultural sectors *strictu sensu* (direct producers) and the downstream sectors that industrialize agricultural raw materials and export the industrialized goods.

The same cleavage can appear in specific issues of the domestic and external policy agenda of the agricultural value chains, but in broad terms, the different players converge on the same set of interests as far as trade and environmental policies are concerned. In the case of the reactions to the EUDR, the cleavage is more explicit and deeper, hindering the ability to coordinate a response to the challenges set by the regulation.

As already observed, among the agricultural value chains with strong offensive components in their trade agenda, the position in relation to TrCMs diverges according to the position of the sectors in the value chain and the relevance accorded to the European market for the sectors concerned. The size of the firms and previous experience with VSS play a secondary role in shaping interests *vis à vis* the responses to the EUDR.

The industrial sector has kept its distance from the debate on the EUDR, even though the industry could be in favor of an anti-deforestation regulation as it could contribute to

[24] Representatives of the steel and aluminum sectors claim that the EU uses the climate agenda to set protectionist mechanisms. See https://www1.folha.uol.com.br/mercado/2022/03/taxa-de-carbono-europeia-pode-prejudicar-exportacoes-do-brasil.shtml

concentrating Brazil's efforts to reach its NDC targets on the agricultural sector, sparing the industry from decarbonization major efforts. But there is no sign that this is the case.

On the other hand, among the players that push for more stringent environmental policies, most notably the environmental NGOs, the emergence of TrCMs does not seem to have generated interest or some kind of engagement.

Curiously, this assertion holds true even in the case of the EUDR, whose objectives converge to a large extent with those of environmental NGOs working on the issue of deforestation in the Amazon and other biomes.

In general, these NGOs do not systematically monitor issues at the intersection of trade and climate agendas, except for international NGOs, such as Greenpeace and WWF. These international NGOs seek to bring these issues into their conversations with Brazilian NGOs, but this has not been enough to change the current situation.

In the domestic discussions that, in 2023, took place on the Trade and Sustainable Development chapter of the MERCOSUR-EU Agreement and on the Additional Instrument presented by the European Commission having this chapter as a reference, some NGOs positioned themselves against the agreement, in line with a broader view against preferential trade agreements with developed countries. Other NGOs maintained an ambiguous position more permeable to European positions to pressure Brazil on the issue of deforestation.

However, so far, there is no record of the participation of environmental NGOs in the debate on TrCMs, which mobilize exclusively the federal government and the sectors affected by the measures. The engagement of some NGOs in the debate on the MERCOSUR–EU Agreement, permeable to the EU positions, suggests that their position was essentially shaped by a domestic political stance (in relation to the government in charge) rather than by the inclusion of trade issues in their agenda.

This is the *status quo*. The domestic agendas of trade and environmental policies evolve subject to their specific political economy dynamics, with a very limited intersection between them.

In fact, in the current configuration of trade and environmental policies, the industrial and agricultural sectors are the main private players and primary beneficiaries of this status quo. On trade, they are direct beneficiaries of high levels of protection, while on the environment, they face little to no pressure to reduce their emissions. Consequently, current policies cannot produce clear distinctions between competitive and non-competitive companies and sectors, nor between those that are "cleaner" or "dirtier". In this configuration, introducing this type of distinction depends almost exclusively on factors external to the country (such as TrCMs).

However, as noted, the combination of external (e.g., the TrCMs) and domestic developments (e.g., the emissions trading system) tends to expand, in the near future, the area of intersection between these two policies and, consequently, between their political economies.

6. Main conclusions

Although in the global arena the convergence of trade and environmental policies has advanced through different axes, in Brazil, the two agendas have had practically no intersection. The Brazilian negotiating position in the trade forums has been to actively avoid bringing environmental issues closer to the international trade agenda.

This position has always been supported by the main private players of both policies: the industrial sectors—in trade policy—and agriculture—in environmental policy. It has never been challenged by other actors in the dynamics of the political economy of these areas, despite, for example, the large number of civil society actors who are engaged in debating and positioning on environmental policy.

This finding helps to understand why the political economies of the two policies had not generated, until very recently, any space for the intersection of trade and environmental issues. In theory, this convergence can lead to realignments and shifts in the players' positions that influence trade and environmental policies, impacting the direction of such policies.

We are still not there in Brazil, as the country's diplomacy has carefully kept trade and environmental issues apart. However, this picture began to change with the discussions on the trade and sustainable development chapter of the MERCOSUR-EU agreement and the additional instrument presented by the European Commission to this chapter. The same can be said of the European decision to unilaterally adopt two TrCMs, one of them with high potential to impact Brazilian exports.

Currently, these are the drivers of the rapprochement between the two policy agendas in Brazil, with emphasis on the EUDR, precisely because of its potential to impact Brazilian exports.

The two EU measures are apprehended by the leading public and private actors of the two policies as expressions of the European bloc's trade protectionism, and an alignment of those actors around the official position is observed without relevant counterweights from other actors, especially civil society ones.

However, particularly in the case of the EUDR, the responses of the potentially most impacted private actors—the agricultural value chains—reveal the emergence of internal divergences, which until then had not manifested in the external agenda of the agricultural sector.

Within the agricultural value chains, which have strong offensive components in their trade agenda, the stance in relation to TrCMs diverges according to the sectors' position in the value chain and the EU share of their exports. Firm size and previous VSS experience play a secondary role in shaping interests *vis à vis* the responses to the EUDR.

While the downstream actors in the chains – trading companies and producers of industrialized goods of agricultural origin – respond with proposals for positive adaptation

to European regulation, the upstream sectors – landowners producing agricultural goods – adopt a reactive posture of refusing export tracking initiatives.

In this sense, the main contribution of the EUDR to the emergence of the trade and environmental nexus in Brazil has been its ability to deepen the cleavage within the agricultural value chains between those that produce the raw materials and those that process and export them.

With the foreseeable growth in the use of TrCMs in developed countries, it can be expected that the policy space defined by the trade and environmental nexus will become more "populated", including with greater participation of the industrial sector.

This trend, so far driven mainly by external measures, is likely to be strengthened by domestic evolutions in the next few years, as a national emissions trading system will be implemented and it becomes evident that reaching Brazil's NDC targets will require decarbonization efforts from different sectors of the economy, including the industry. Not by chance, the Minister of Environment recently asserted, in relation to the updating of Brazil's NDC for 2030, that "sectoral targets are now mandatory, and we will have CO_2 reduction targets for energy, transport, agriculture, industry and for (...) deforestation"[25].

As the main private players who benefit from protectionist trade policy and poorly enforced environmental policy are required to contribute to decarbonization effectively, it can be expected that pressures will grow to reduce the costs of mitigation efforts and, at the same time, to use TrCMs against less environmentally active trade partners. As an outcome, a growing convergence between trade and environmental agendas is likely to occur, leading to shifts in the positions of their main players.

[25] Valor Econômico (2024). Marina defende metas setoriais de descarbonização, October 3, 2024. https://valor.globo.com/brasil/noticia/2024/10/03/meta-de-reducao-de-carbono-sera-ambiciosa-e-por-setor-diz-marina.ghtml