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Brazil courts China for ITMO demand as carbon market takes shape

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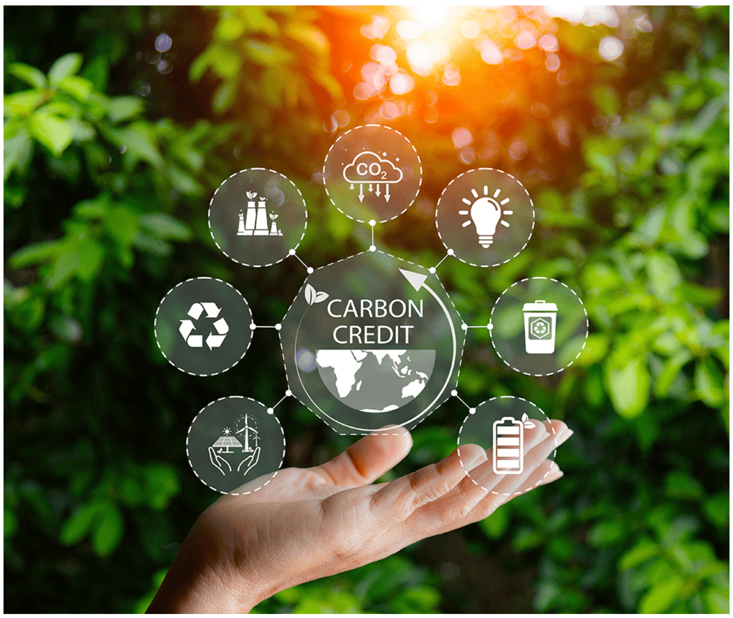
Brazil is exploring China as a potential buyer of ITMOs under Article 6, with a bilateral carbon market framework potentially emerging by COP31



Brazil is turning to China as a potential buyer of its internationally transferable carbon credits as it seeks to deepen cross-border carbon markets and attract new flows of climate finance. Brazilian officials are preparing for bilateral discussions with China that could pave the way for a carbon market cooperation agreement by COP31 in November, with talks expected to examine whether China could purchase Brazilian Internationally Transferred Mitigation Outcomes (ITMOs) under Article 6 of the Paris Agreement.

The discussions come as Brazil moves to operationalise its regulated carbon market while China continues to expand the world's largest national emissions trading system. A bilateral framework would potentially connect two major emerging-market carbon systems and establish a new route for international climate finance, although the talks remain at an exploratory stage and key rules and eligibility conditions have yet to be agreed.

Brazil is sending a carbon market delegation to Wuhan from September 14 to 18, where officials from Brazil, China and the European Union are meeting as part of a broader carbon market coalition. Brazil's Ministry of Finance has confirmed that the meetings will include bilateral discussions with China, following earlier exchanges under the China-Brazil High-Level Coordination and Cooperation Committee (COSBAN) in Beijing in June.

Brazilian officials are also examining the possibility of China becoming a buyer of Brazilian ITMOs. According to Brazilian officials cited by Reuters, China currently does not have an official bilateral ITMO trading agreement with another country. Brazil is therefore looking to move quickly, with the possibility of announcing a framework at COP31 in Antalya, Türkiye, scheduled for November 9–20. Any agreement, however, would depend on further negotiations covering market rules, eligible projects, authorisation procedures and other conditions for international transfers.

The international push is unfolding alongside Brazil's effort to establish its domestic carbon market. Brazil created the Brazilian Emissions Trading System (SBCE) through Law No. 15,042 in December 2024, establishing the legal foundation for a regulated market for emissions and carbon assets. The government is now developing the detailed regulations needed to make the system operational and integrate it with Brazil's wider climate strategy.

In July, Brazil opened a public consultation on rules governing international carbon transfers. The proposed framework would allow Brazil to participate in Article 6 cooperation while placing limits on the volume of mitigation outcomes that can be transferred overseas. It proposes a global ceiling of 50 million tonnes of COâ?? equivalent for international transfers, with the possibility of adjusting the limit depending on Brazil's emissions and the economic performance of the mechanism. The proposed rules would apply to mitigation outcomes generated during 2031–2035.

The distinction between ITMOs and conventional voluntary carbon credits will be central to any Brazil-China arrangement. Under Article 6.2 of the Paris Agreement, countries can cooperate directly and transfer mitigation outcomes towards their climate targets. Such transfers require robust accounting systems, including corresponding adjustments, to prevent the same emissions reduction from being counted towards the climate targets of both countries.

For Brazil, that accounting framework could turn verified emissions reductions and removals into a source of international climate finance. But it also creates a strategic choice: mitigation outcomes authorised for export cannot simultaneously be counted by Brazil towards its own nationally determined contribution. The government will therefore have to balance international carbon-market revenues with domestic climate commitments.

"Both the coalition and the closer relationship with China can help scale up carbon markets and unlock investment flows for Brazil as it seeks to reindustrialize around new technologies," said Ana Paula Cavalcante, Brazil's deputy secretary.

China's expanding carbon market provides a potentially significant counterpart. Its national emissions trading system covered 3,378 companies in 2025, spanning power, steel, cement and aluminium producers. Those companies traded 865 million tonnes of carbon allowances worth 57.663 billion yuan during the year. China added steel, cement and primary aluminium to its national ETS in 2025, bringing the system to more than 60 per cent of the country's total emissions, according to China's Ministry of Ecology and Environment.

China is also working towards a more comprehensive national carbon market by 2030, including wider sectoral coverage, stronger allowance controls and closer alignment between its voluntary carbon market and international standards. The expansion could provide a larger institutional base for future international carbon-market cooperation.

The Brazil-China discussions are part of a broader effort to improve interoperability among regulated carbon markets. Brazil launched the Open Coalition for Regulated Carbon Markets at COP30, with China and the European Union among its participants. The initiative focuses on monitoring, reporting and verification, carbon accounting, offset rules and the compatibility of regulated carbon-market systems.

The Wuhan meetings are expected to advance a work plan aimed at improving that compatibility. For Brazil, the longer-term objective is not simply to sell individual carbon assets but to help create common standards that could make cross-border carbon trading more transparent and scalable.

Credit quality will be critical to that ambition. Brazil's proposed framework requires internationally transferred mitigation outcomes to comply with approved methodologies and receive authorisation from the country's designated national authority. That is particularly relevant given Brazil's large pipeline of nature-based climate projects, including forest conservation and restoration.

Any international market will need to demonstrate that the underlying mitigation outcomes are real, measurable and properly accounted for. Weak verification or double counting could undermine both the credibility of the market and Brazil's ability to meet its own climate commitments. For China, the same safeguards would be important in establishing confidence in the mitigation outcomes acquired through any future bilateral mechanism.

The September discussions in Wuhan and COP31 in November could therefore become important milestones for Brazil's international carbon-market strategy. But neither event guarantees a bilateral agreement. Brazil is still finalising its domestic market architecture and international transfer rules, while China continues to refine and expand its national ETS.

A Brazil-China framework would not immediately create a large-scale carbon trading market. Its significance would lie in establishing the rules, institutional relationships and accounting architecture needed for future ITMO transactions between two major emerging economies.

For Brazil, the opportunity is to convert part of its emissions-reduction and carbon-removal potential into international climate finance without compromising its domestic climate objectives. For China, deeper engagement with Brazil could provide another pathway for international Article 6 cooperation as its domestic carbon market expands. The outcome of the talks will ultimately depend on whether the two countries can establish a system that combines credible accounting, high-integrity mitigation outcomes and sufficiently clear rules to support long-term cross-border trading.