Energy transition and the importance of the New Gas Market

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The prospects for increased demand in the power market, combined with public and private energy transition policies, generate enormous room for the growth of energy sources that contribute to the low-carbon economy

Energy transition is a matter that is attracting growing attention and requiring greater commitment in public policies and from the private sector. Many countries have made agreements and commitments to reduce carbon emissions, leading in turn to the adoption of measures aimed at decarbonizing the economy in the near future, through private initiatives.

The consumption of electricity per capita in Brazil is currently half of Spain's and one-fifth of the United States'.[1] The prospects for increased demand in the power market, combined with public and private energy transition policies, generate enormous room for the growth of energy sources that contribute to the low-carbon economy.

In this scenario, natural gas has been tagged as an energy transition fuel, since it offers efficiency with low levels of polluting emissions, and can serve as a bridge to a low-carbon future, while renewable sources of energy, like wind and solar energy, are being consolidated.

Brazil's New Gas Market program, coordinated by the Ministry of Mines and Energy since 2019, seeks to create an open, dynamic and competitive market for natural gas, establishing conditions that will result in a reduction in prices and so attract the interest of investors. One of the options that is being explored is incentives for thermoelectric stations, which would become consumers of natural gas, and distribute the power they generate using the country's vast electrical energy distribution network. Thermoelectric generation of energy using natural gas would meet the growing demand for power in Brazil and at the same time would create new demand for natural gas being produced, especially the abundant pre-salt gas, while new forms of distribution are being constructed.

The New Gas Market program appears to respond to the concerns of investors that are increasingly concerned with governance and environmental responsibility. In our view, there can be no denying the importance of demonstrating that the Brazilian market not only prioritizes discussions about the ESG, but also meets minimum environmental, social and governance requirements in practice: to do the contrary would threaten Brazil's ability to attract the major investments it needs.

The expectation is that approval of the new Gas Law by National Congress will create a welcoming environment for foreign investment, which is fundamental to achieving the objectives of the New Gas Market and ensuring that it functions effectively.

Energy transition is necessary and urgent. Using natural gas as a transition fuel can be a beneficial alternative for Brazil, especially considering the enormous potential for gas production in the pre-salt, and the fact that gas offers high efficiency and lower emissions. Transition is an issue that has caught the attention not just of governments, but also investors, who are increasingly looking for projects that are committed not only to sustainability, but also to all other ESG principles.

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NOTES:

1. See <https://www.indexmundi.com/map/?v=81000&r=xx&l=en>.

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