

PERSPECTIVAS

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VOLUNTARY CARBON MARKET

The low carbon economy is already a reality. According to an article by Forbes, in 2020, the low carbon economy was responsible for moving about US\$ 269 billion in the world economy, or five times over when compared to the values of 2017. Also according to Forbes, part of the economic analysts who study the topic believe that **the carbon market should surpass, before 2050, the market of oil and gas, responsible for moving about US\$ 2 trillion, thus becoming the biggest market of the 21st century.**

Until the establishment of a global carbon market - which bases shall be defined in the negotiations around Article 6 of the Paris Agreement, during COP26, in November of this year - the low carbon economy has been largely driven by voluntary transaction initiatives of carbon credits around the world.

Voluntary carbon markets have played a central role in the efforts of companies and local governments to achieve their emission offset targets, representing a fundamental instrument for the leadership role of the private sector in the transition to a low carbon economy.

In this edition of the Perspectivas Newsletter, we will focus on existing voluntary carbon markets and the opportunities they represent for leading companies in the transition to a low carbon economy.



WHERE DID THE VOLUNTARY CARBON MARKET COME FROM?

The regulated carbon market first appeared as a result of the Kyoto Protocol, an international treaty signed by 141 countries and which came into force in 2005. In the treaty, the signatories committed to reducing their GHG emissions through the creation of legal obligations, among them the possibility of purchasing carbon credits.

At the same time, voluntary carbon markets also appear, including individuals, companies, groups or sectors that aim to reduce or offset their emissions through the generation and purchase of voluntary carbon credits, audited by an independent entity.

In order to guarantee reliability and credibility with buyers, due to the lack of regulation of these markets, standards were created that establish indicators for carbon accounting and evaluation of the projects' contribution to the generation of local environmental and social benefits.

According to the "State and Trends of Carbon Pricing 2021" report, published by the World Bank to present the status and trends of carbon pricing mechanisms around the world, **the Covid-19 pandemic has had little impact on voluntary carbon market initiatives, which in 2020 grew by 30%.**

In November 2004, Brazil submitted its first Clean Development Mechanism (CDM) project, created under the Kyoto Protocol. As of September 2019, Brazil had 343 projects registered, being the third country with the highest number of CDM projects, behind China (3,764 projects) and India (1,669 projects).

Among the initiatives of standards and methodologies in the voluntary market, the most used in Brazil are the Gold Standard and the Verified Carbon Standard (VCS). Regarding the first, the country has 9 certified projects and 5 in the certification process. In 2019, Brazil was the seventh country to trade the highest number of carbon credits within voluntary markets.



CLEAN DEVELOPMENT MECHANISM

Created in the Kyoto Protocol, the CDM made it possible for countries that emit the most GHGs to finance the execution of projects aimed at reducing emissions in other countries. Projects approved by the program generated Certified Emission Reductions (CERs), which validated the carbon credits of financing countries. However, uncertainties regarding the Kyoto Protocol also led to doubts about the CDM. In 2013, the European Union, until then the largest source of demand for CERs, stopped recognizing CDM credits from large developing countries, such as Brazil. This decision led to a collapse in the value of CERs and an increase in CDM discredit.

Brazil then proposed the CDM+. Along the lines of the CDM, the program allowed the voluntary cancellation of CER units, positive - and not punitive - incentives for meeting the goals of developing countries and which eligibility to host projects promoting sustainable development was restricted to these. **The proposal presented had its main elements incorporated in the final text of the Paris Agreement, in its article 6, in the form of the Sustainable Development Mechanism (MDS), which regulation is scheduled to take place at COP26 in November this year.**

GOVERNMENT PROJECTS THAT IMPLEMENT CARBON CREDIT TRANSACTION MECHANISMS

RENOVABIO

RenovaBio is a federal government program launched in 2016 by the Ministry of Mines and Energy, of which main instrument is the establishment of annual national decarbonization targets for the biofuels sector. Through the program, producers voluntarily certify their production and receive energy-environmental efficiency scores, which are multiplied by the volume of biofuel sold, resulting in the amount of decarbonization credits (CBIOs). 1 CBIO is equivalent to 1 ton of avoided emissions, which the producer can sell on the market. Currently, CBIOs are traded exclusively on the Brazilian stock exchange, B3, and by July this year (2021), 15.89 million credits had already been issued.

FOREST + CARBON

The Forest+Carbon Program (Programa Floresta+Carbono), created by the current Minister of the Environment, Joaquim Leite, establishes guidelines for the reduction of greenhouse gas emissions from deforestation and forest degradation, as well as the conservation of forest carbon stocks, sustainable management of forests and increase in forest carbon stocks, providing for the generation of carbon credits through the conservation and recovery of native vegetation. In this way, it allows companies that are unable to reduce part of their carbon emissions to offset them, ensuring greater security for buyers and promoting incentives for developers of forestry projects.

RENOVABIO AND THE GOALS ASSUMED IN THE PARIS AGREEMENT



Brazilian society needs to understand that it has an important asset that must be transformed into development and collective well-being: it is called the ability to sequester or avoid carbon emissions in the production process of all segments of the economy.

And this heritage, which in practice means greater competitive capacity of our companies in the international market, needs the attention of the government and Congress to provide society with a regulation of the CBios trade, with an emissions registration system, so that the country is considered safe in what can already be considered the big business of the stock exchanges in the future, in addition to attracting more and more international investors.

The consumer market in the European Union and countries like the USA and Canada already demand products and services with a low carbon footprint in their production process. It will soon be an unsurpassed requirement in international trade.

Since 2015, Brazil has made climate commitments under the Paris Agreement that forecast a gradual process of decarbonization of our economic matrix. The predicted emission reduction target is 37% for 2025 and 43% for 2030. For 2031, the government proposed a target of 95.67 million CBios. The target announced by the government for 2022 foresees a range between 25.67 and 42.67 million tons of carbon. They are shy.

Renovabio, which is an example to the world as a decarbonization program, is an excellent initiative. But it needs to be better known by society so that it can be valued, expanded and enable the increasing use of the Brazilian potential to avoid or reduce carbon emissions, in addition to promoting a true revolution in Brazilian agriculture.

Furthermore, biofuels, especially biodiesel, are fundamental instruments for achieving these goals and, in the case of biodiesel, it is essential to improve the eligibility of soy. The government is disregarding and even belittling the carbon sequestration capacity of biodiesel, for example. It is among the energy production sectors that most generate positive externalities, from the production of raw materials to the car wheel, which is still not considered. With the social aspects, the biodiesel sector rises even more in the ranking.

China has just launched its carbon market. In the European Union, still the biggest market, CO2 is already a commodity, a mandatory role in the market's menu. Brazil needs to transform its capacity to sequester carbon, to avoid the release of greenhouse gases into the atmosphere, into credit, into equity, into jobs, into technology and GDP.

- Donizete Tokarski, Superintendent Director of the Brazilian Union of Biodiesel and Biojetfuel (Ubrabio)

CARBON MARKET STANDS OUT AT XP INVESTIMENTOS EVENT

The Carbon Market was featured in one of the panels of Expert XP 2021, annual event of XP Investimentos - one of the largest Brazilian investment management companies -, which took place between August 23rd and 26th.

At the event, the secretary for the Amazon, of the Ministry of the Environment, Marta Giannichi, pointed out the work done by the government to improve the voluntary credit scenario, seeking to bring more legal certainty and recognition.

Specialists agree that Brazil is in a position to assume a prominent position in the carbon market, whose perspective is to become the largest in the 21st century even before 2050, surpassing the oil and gas market.

"PERSPECTIVAS" ABOUT THE TOPIC



The growing mobilization of governments, international organizations, companies and civil society around solutions to mitigate greenhouse gas emissions, driven by the recent IPCC report and fueled by numerous multisectoral initiatives, demonstrates that it is a transition with no return and which is gaining strength.

Therefore, the companies and other actors who put themselves at the forefront of this process and see it as an opportunity, will benefit from it.

Within this reality, carbon pricing mechanisms will be indispensable due to their efficiency, as they assign a price to a negative externality: GHG emissions. In this way, they create economic incentives to reduce emissions, rewarding organizations that invest in sustainable technologies and solutions and allowing them to offset emissions. As pointed out by the World Bank, there are already more than 60 carbon pricing instruments - between taxation, market or hybrid mechanisms - implemented or under implementation around the world. In 2020 alone, there was a 30% increase in that number.

Thus, voluntary carbon markets play a fundamental role as they prepare companies and other actors in the economy for the new reality, bringing benefits and competitiveness above all to sectors that invest in mitigating their emissions.

- Marina Mattar, founding partner and CEO of Perspectivas

ABOUT PERSPECTIVAS

Perspectivas is a Communication & Institutional Relations consultancy specialized in advocacy strategy and image building based on the pillars of dialogue, ethics, and transparency, with a strong focus on ESG (Environment, Social & Governance) principles, especially in the Low Carbon Economy.

Access the previous edition of our newsletter in Portuguese and English, at www.perspectivasbr.com/newsletter

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