FACT SHEET 2021

OPPORTUNITIES FOR BRAZIL IN CARBON MARKETS

ICC BRASIL INTERNATIONAL CHAMBER OF COMMERCE
The world business organization

WAY CARBON

The study explores the opportunities and barriers associated with Brazil's carbon market establishment, especially to Article 6 of the Paris Agreement and voluntary markets, bringing a sectoral view of the potential for generating carbon credits and the co-benefits generated in production chains and for society. Additionally, strategic recommendations are made for the structuring of the Brazilian carbon market, as well as for Brazil's positioning in the COP 26 negotiations and the performance of the private sector.

Global Scenario

G1 Advanced economies highlighting sustainable development and carbon neutrality in their economic recovery packages;

G2 Cumulative registration of more than 14,500 carbon credit projects in regulated and voluntary markets, of which more than half in CDM projects;

G3 Generation of approximately 4 billion tCO_2e in carbon credits (regulated and voluntary markets) – 42% in the forestry sector;

G4 Growth of 34% in carbon markets, reaching € 194 billion in 2019;

G5 Expected global demand for carbon credit from NDCs compliance of up to 4.5$GtCO_2$ per year;

G6 Expected demand for the world voluntary market between 1.5 and 2 $GtCO_2$ in 2030 and 7 to 13 $GtCO_2$ in 2050 depending on the price scenario.

Brazil Context

BR1 History of strong credit generation in CDM projects – about US$ 32 billion raised in 340 projects, mainly in the energy sector (hydroelectric, biogas, wind, and biomass);

BR2 Current National Initiatives: PMR Brazil Project; National Biofuels Policy; National Payment Policy for Environmental Services; Brazilian Market for Emission Reduction (still underway at the National Congress).

Co-benefits of carbon credit projects

C1 Diversification of economic activities;

C2 Improvement of the quality of working conditions in the field;

C3 Increased production efficiency in the field; food security; biodiversity; water availability;

C4 Generation of jobs and income;

C5 Energy security.

Carbon credit generation opportunities

O1 Generation of up to US$ 59 billion (19 billion + 40 billion in additional reductions) from investment in short-term emissions reduction, benefiting from higher future prices;

O2 The existence of public policies that provide for robust monitoring of mitigation results strengthens possible arrangements for Article 6.2;

O3 Estimated generation of credits in the Agriculture sector between 10 and 90 $MtCO_2e$; estimated generation between 71 and 660 $MtCO_2e$ in the Forestry sector; and between 27 and 250 $MtCO_2e$ in the Energy sector, if the Article 6 regulation accepts projects related to technological innovation in this sector;

O4 Potential for carbon credit generation in Brazil between 80 and 1000 $MtCO_2$ by 2030, generating between US$ 493 million and US$ 100 billion in revenue in the following scenarios:

I. Voluntary Market: Between 80 and 750 $MtCO_2$, revenues depending on price behavior. Brazil can supply 5% to 37.5% of global demand, tied to business commitments, in 2030;

II. Article 6.4: Between 107 and 1,000 $MtCO_2$;

III. Article 6.2: Potential greater than Article 6.4 because it includes results of the implementation of robust public policies that have MRV and incorporate projects of different sizes that allow scaling results collectively;

O5 Opportunity to reduce emissions beyond the NDC target and raise revenue equivalent to 1 $GtCO_2$ in 2030.

Brazil can supply 2% to 22% of global demand for each of the two mechanisms in 2030. And even more, considering public policies.

Barriers:

B1 Credit buyers, such as countries that have adopted the San Jose Principles for High Ambition and Integrity in International Carbon Markets, do not accept credits from countries without corresponding adjustment;

B2 The increasing methodological complexity of carbon credit projects under the Article 6.4 market mechanism and in voluntary markets;

B3 Scarcity of quality credits;

B4 Impasses and long political time regarding the regulation of Article 6;

B5 The pressure of green deals and the carbon border adjustments that impose the taxing of products imported from jurisdictions with more permissive climate policy, and the consequent loss of competitiveness of Brazilian products.

Recommendations for the government:

- Implement economic recovery packages focused on sustainable development, with regulatory mechanisms and carbon pricing instruments;
  G1
- Comply with NDC as soon as possible;
  G5 O1 O5 B5
- Organize the set of activities and projects that would form a robust ITMO;
  O2
- Pay attention to the potential of public policies in force for the sale of credits in Article 6.2;
  O2
- Defend the inclusion of the Agricultural, Forestry, and Energy sectors in COP 26 in the article 6 project types;
  O3 O4
- Establish institutional measures that make it possible to operate the markets:
  - Create an integrated national emission reporting system;
  - Create monitoring and evaluation systems for carbon projects;
  - Digitize the processes of monitoring, reporting, and verification (MRV);
  - Prioritize processes related to legal compliance with sustainable projects;
  - Incorporate an intersectoral architecture that allows the monitoring of the mitigation result of programs and policies related to the NDC sectors;

  O2 O3
- Review positions and collaborate for an international consensus on the corresponding adjustments considering, among others, the high risk of non-acceptance of national credits without respective adjustment by other countries in a global carbon market;
  B1
- Propose a temporary transition with the expiration of the carbon credits generated in the CDM to the Paris Agreement;
  B1
- Maintain an opinion in support of the equivalence of the Overall Mitigation of Global Emissions (OMGE) and the Share of Proceeds (SOP) in the instruments of Articles 6.2 and 6.4;
  O2 B4
- Institutionalize climate governance with a management body for monitoring, reporting, and verifying the various opportunities;
  B1 B2 B4
- Foster the potential for economic development, social equity, and ecological balance generated by carbon markets;
  C1 C2 C3 C4
- Create a national regulated market.
  B5

Recommendations for the private sector:

- Commit to long-term carbon credit purchase agreements;
  B5
- Support debureaucratization, process simplification and digitization of MRV processes and certification of carbon credits;
- Invest in credits from the Agriculture and Forest sectors, which in addition to having lower abatement costs, also have social co-benefits;
  O3
- Include the participation of indigenous and traditional populations directly affected in discussions about forestry projects;
- Expand the effort to reduce and remove emissions, not only in compensation strategies;
  B5
- Invest in projects that generate income and wealth for peoples, communities, small producers;
  C1 C2 C3 C4
- Establish partnerships between companies that make innovative projects viable.

Click on the image and check out the full report