

Programa Floresta+ and Voluntary Carbon Markets

Article 6, voluntary markets and the new Brazilian
REDD+ programme

Brazilian REDD+ Alliance

About the Brazilian REDD+ Alliance (Aliança REDD+ Brasil)

Created by BVRio Environmental Exchange, Biofílica Investimentos Ambientais, Fundação Amazonas Sustentável (FAS), Instituto Centro de Vida (ICV), Instituto de Conservação e Desenvolvimento Sustentável da Amazônia (Idesam), Environmental Defense Fund (EDF), and Instituto do Homem e Meio Ambiente da Amazônia (Imazon), the Brazilian REDD+ Alliance has the objective to promote the use of REDD+ as a tool to combat deforestation and generate financial resources to support the government, rural producers, traditional and indigenous communities. Brazil has the potential to generate over US\$70 billion to 2030 through REDD+ in the Amazon region, and the Alliance aims to ensure that the country is in a position to lead the growing markets for GHG emission reductions internationally.

Authors

Pedro Moura Costa, BVRio, Oxford Climate Policy

Pablo Fernandez, EcoSecurities

Plínio Ribeiro, Biofílica

Beto Mesquita, BVRio

Mariano Cenamo, IDESAM

Pedro Soares, IDESAM

Victor Salviati, Fundação Amazonas Sustentável



Introduction



The Paris Agreement aims to establish the basis for the development of a new international carbon market. However, some of the rules stipulated in the Agreement's Article 6 are, potentially, incompatible with international emissions trading.

Voluntary markets could provide the basis for enduring climate cooperation. Recent changes in perception and demand, however, can replicate the challenges created by UNFCCC compliance rules, and/or result in negative impacts to host countries' engagement with the spirit of continuous reduction of GHG targets.

In this context, the Brazilian government recently announced a new programme to promote the payment for environmental services performed in native forests. The programme does not provide (and does not intend to) any methodological guidance; to date, it is merely a statement of intent to create partnerships that can attract voluntary international investment in these activities. That said, this change in position *may* result in an increase in voluntary investment flow into nature-based projects in Brazil, potentially helping to drive more investment in other tropical countries as well.

1. The Paris Agreement, Nationally Determined Contributions, and emissions trading



BVRio / Pedro Guinle

Article 6 of the Paris Agreement creates the basis for international cooperation in implementing Nationally Determined Contributions (NDCs), and, ultimately, allows for higher ambition in the parties' mitigation and adaptation options. The objective of Article 6, therefore, is to assist parties in following a path that would result in a net-zero greenhouse gas (GHG) emissions scenario. The ultimate goal is that emissions would be kept to a minimum, and any that do occur will need to be counterbalanced by an equivalent amount of carbon sequestration in terrestrial systems.¹

While at this stage this objective is neither economically nor socially possible, countries are encouraged to establish a trajectory where emission levels are reviewed periodically, and new, more ambitious targets are gradually set.² However, to engage in more ambitious low emissions trajectories there is a need for significant levels of investment – often beyond the means of some countries.³

To help lower income countries meet their NDCs, the Paris Agreement also creates two new 'cooperative approaches'. Article 6.2 establishes that Parties can

¹ As per Article 4.1 of the Paris Agreement, "Parties aim to reach global peaking of greenhouse gas emissions as soon as possible, recognizing that peaking will take longer for developing country Parties, ... and to undertake rapid reductions thereafter in accordance with best available science, so as to achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century".

² See, for instance, Fransen, et al., 2017: Enhancing NDCs by 2020: Achieving the goals of the Paris Agreement. WRI. https://files.wri.org/s3fs-public/WRI17_NDC.pdf

³ For instance, for the 14 countries that provided clear cost estimates for the implementation of the land-use components of their NDCs, the mitigation cost a total US\$ 20.6 billion, while the adaptation cost estimates total US\$ 10.5 billion, for the period 2020 - 2030. See Gabrielle Kissinger, Aarti Gupta, Ivo Mulder, Natalie Unterstell, 2019: Climate financing needs in the land sector under the Paris Agreement: An assessment of developing country perspectives. Land Use Policy, Volume 83, April 2019

voluntarily provide financial assistance to each other in achieving their NDCs, in exchange for an amount of 'Internationally Transferred Mitigation Outcomes' (ITMOs) to be transferred and credited to their accounts. Similarly, Article 6.4 allows the private sector to contribute to the mitigation of GHG emissions of one Party and that the resulting emission reductions can be used by another Party to fulfil its NDCs.⁴

The concept of trading is supported by many parties, who argue that it could help reduce emissions by making it easier and cheaper for countries to meet their climate targets, while encouraging them to set increasingly ambitious goals. A recent World Bank report⁵ suggests that "the cost of meeting current NDCs could be cut by as much as 50%, in principle, with a fully global, friction-free carbon market". The Environmental Defence Fund (EDF), in turn, suggests that "emissions trading systems can lower political resistance to more ambitious targets."⁶

⁴ Article 6.4 is increasingly referred to as the "Sustainable Development Mechanism" – SDM.

⁵ World Bank 2019: State and trends of carbon pricing 2019. <https://openknowledge.worldbank.org/handle/10986/31755>

⁶ EDF 2018: Catalyzing carbon markets globally to realize the promise of Paris: The power of markets to increase ambition. EDF Submission to the Talanoa Dialogue Platform, April 2018



2. Is compliance trading compatible with NDC ambition?



Enthusiasm for international trading, however, must be tempered by the need to avoid double counting of emission reductions and ensure ‘overall mitigation in global emissions’ - another objective of the Agreement. In order to ensure the integrity of the international GHG accounting system, cross-boundary emissions transfers must be compensated by a system of Corresponding Adjustments. This mechanism subtracts emissions traded from the importing country’s inventory and adds an equivalent tCO₂e quantity back into the host country’s inventory: in essence, a zero-sum game.

These rules can have a negative impact on developing countries that are still in a transition phase. Unlike the Kyoto Protocol, when developing countries

did not have emission reductions targets, under the Paris Agreement all countries have to meet the emission targets stated in their respective NDCs. This creates a conundrum: while developing countries depend on inward investment to reduce their emissions, corresponding adjustments required for emissions trading could affect their ability to meet NDC targets.

The issue of corresponding adjustments and double counting is still the subject of much negotiation and interpretation⁷. Several parties and analysts believe that corresponding adjustments are required for trades involving all sectors and sources of emissions of the host country⁸. However, a more prevalent interpretation, at the moment, is that mitigation activities in sectors

⁷ Carbon Brief 2019: In-depth Q&A: How Article 6 carbon markets could ‘make or break’ the Paris Agreement. www.carbonbrief.org/in-depth-q-and-a-how-article-6-carbon-markets-could-make-or-break-the-paris-agreement

⁸ New Climate Institute, 2019: Serious issues in the negotiations on international carbon markets (Article 6) must be addressed to avoid undermining the Paris Agreement. <https://newclimate.org/2019/06/14/serious-issues-in-the-negotiations-on-international-carbon-markets-article-6-must-be-addressed-to-avoid-undermining-the-paris-agreement/>

outside the scope of the host country's NDC are *not* subject to corresponding adjustments⁹ – instead, they provide the basis for the inclusion of these sectors in future revisions of the NDCs.¹⁰

Regardless of what rule is agreed in relation to corresponding adjustments, there is an inherent conflict between emissions trading and the level of ambition of exporting countries. In essence, host countries are disincentivised to adopt ambitious NDCs, as these would jeopardise their ability to attract inward investment and climate finance. While the scope of the NDCs of host countries is not comprehensive, these can trade emissions reductions from projects in sectors outside the scope of their NDCs. But, as the scope of NDCs widens, the potential for international transfers of emission reductions diminishes, which in turn reduces their ability to attract investment.

Given the negative impact of these transfers in the climate inventories of host countries, some of them are increasingly reluctant to accepting such transfers under a compliance regime.¹¹



BVRio / Pedro Guinle

9 Muller et al. 2018: Article 6. Market approaches under the Paris Agreement. ECBI. www.ecbi.org

10 EDF (ibid).

11 Carbon Brief 2019 (ibid).

3. Voluntary carbon markets as a basis for international climate cooperation...



Voluntary carbon markets, on the other hand, could provide the basis for emissions trading without being detrimental to host country targets.

Historically, voluntary carbon markets have operated in parallel with 'official' GHG accounting systems; their impact is not reflected in the UNFCCC GHG accounts of investor or host countries. Voluntary projects are often financed by companies that, even though they are not obliged to reduce their emissions, they still do so driven by their corporate environmental responsibility priorities. As companies do not need these credits for domestic or international compliance, the ones they receive do not need to be debited from host country accounts. The net effect is that emission reductions created by these voluntary investments contribute to the host countries' NDCs.

Under the Paris Agreement, these arrangements would continue to enable corporates and other voluntary buyers to engage in projects that offset their emissions, while helping developing countries to meet their NDC targets. At the same time, emission reductions created by voluntary projects are not reflected in the official accounts of the buying countries.

4. ...provided there are no transfers of mitigating outputs



To date voluntary markets have been a fraction of the size of compliance markets¹², but this is changing. In the last couple of years large multinational companies have made voluntary emission reductions commitments^{13,14}, that have the potential to greatly increase the importance of voluntary markets in overall mitigation efforts.

At the same time, uncertainty about the issue of double counting is leading voluntary buyers to demand that their projects secure host-country approval for the transfer of emission reductions. Responding to that, for instance, the Verified Carbon Standard recently announced plans to provide an 'Article 6 compliance'

label to voluntary projects that are authorised to export their credits¹⁵.

While such requests may appear to increase the credibility and environmental integrity of voluntary credits, they also create a negative impact on the host countries' ability to meet their NDCs. Instead, projects that do not result in a corresponding adjustment create emission reductions that are additional to global efforts. Indeed, the International Carbon Reduction & Offset Alliance's position with respect to a functioning voluntary market post-2020 is that there should be no exports of emission reduction credits, consequently avoiding the need for corresponding adjustments and the risk of double counting at the UN level.¹⁶

¹² Donofrio et al. 2020: Voluntary carbon and post-pandemic recovery. Ecosystem Marketplace. www.ecosystemmarketplace.com/carbon-markets/

¹³ For instance, from companies in sectors with high scope 3 emissions (e.g., oil and gas, retailers, food industry, etc.). See Donofrio et al. 2020.

¹⁴ Ecosystem Marketplace, 2019: Voluntary Carbon Volume Hits Seven Year High on Demand for Natural Climate Solutions. www.ecosystemmarketplace.com/articles/voluntary-carbon-volume-hits-seven-year-high-on-demand-for-natural-climate-solutions/

¹⁵ Verra 2020: Proposal for scaling voluntary carbon markets and avoiding double counting post-2020. <https://verra.org/project/vcs-program/public-consultation-proposal-for-scaling-voluntary-carbon-markets-and-avoiding-double-counting-post-2020/>

¹⁶ ICROA 2020: ICROA's position paper on scaling private sector voluntary action post-2020. www.icroa.org, www.ieta.org.

5. This situation is particularly serious in the land use sector



The negative effect of international emission transfers on host country's NDCs can already be seen in a number of sectors. A clear case is Natural Climate Solutions (NCS) – sustainable land use activities that reduce GHG emissions.

The NDCs of most tropical countries are reliant on improved land use practices to reduce GHG emissions^{17,18}, as the land use sector can potentially provide high levels of emission reductions at relatively low costs¹⁹. At the same time, most of tropical countries do need financial support to meet their NDC targets.

While the climate contributions of the land use sector had been mostly neglected in mitigation strategies and markets in the past, there is now significant interest and rising awareness of NCS as an important asset class. If the pledged voluntary commitments to GHG emission neutrality come to fruition, this could create a demand for billions of tonnes of CO₂e reductions from these countries. However, should these transactions demand international credit transfers, the corresponding adjustments required by the Paris Agreement could result in severe negative impacts to the NDCs of host countries.

17 See, for instance, Forsell et al. 2016: Assessing the INDC's land use, land use change and forest emission projections. Carbon Balance and Management. www.researchgate.net/publication/311523930_Assessing_the_INDCs%27_land_use_land_use_change_and_forest_emission_projections

18 Griscom et al., 2020: National mitigation potential from natural climate solutions in the tropics. Philosophical transactions of the Royal Society B. <https://royalsocietypublishing.org/doi/full/10.1098/rstb.2019.0126>

19 Moura-Costa et al. 2017: Integrated REDD+ markets: A financial model to support forest protection, agricultural production and decarbonization efforts. Brazilian REDD+ Alliance. BVRio. www.bvr.io/org/view?type=publicacao&key=publicacoes/3621895f-cd73-492c-8c6c-12a98ecad9df.pdf

6. The new Brazilian REDD+ programme

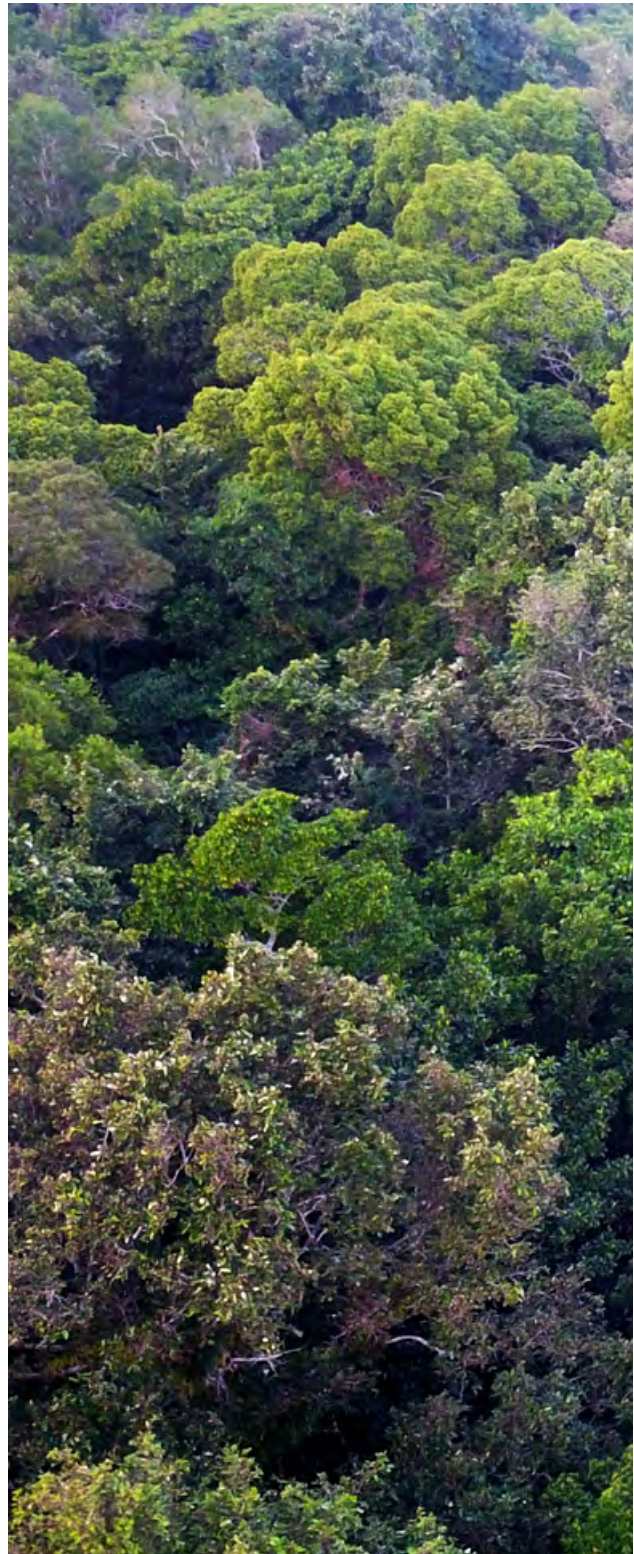
In this context, Brazil recently announced *Programa Floresta+*²⁰, a new voluntary payment programme for environmental services (PES). Under this new programme, the Ministry of Environment hopes to “accelerate and consolidate the market for PES, including more effectively the private sector in the agenda of forest conservation, biodiversity protection and GHG mitigation”.

The programme hopes to accelerate various market-based initiatives, including UN REDD+, voluntary markets, green bonds, ecotourism, and other instruments. To date, the programme does not create any specific rules for participation. Additionally, it does not appear that it will design a specific carbon accounting standard.

In practice, what is the impact of Programa Floresta+ in REDD+ in Brazil?

The initial reaction is that this programme does not significantly alter the playing field for REDD+ project development and investment in Brazil. In spite of the Brazilian Federal Government’s historical objection to voluntary investments, there is nothing in Brazilian or international regulation preventing voluntary projects from being developed, or their investors claiming voluntary credits.

What the Brazilian government can and has not authorised (historically, and under the Floresta+ Programme), is that the international transfer of the emission redu-



²⁰ Portaria nº 288, de 2 de julho de 2020, creating Programa Nacional de Pagamentos por Serviços Ambientais - Floresta+. www.in.gov.br/en/web/dou/-/portaria-n-288-de-2-de-julho-de-2020-264916875

tion credits from these projects to be included in the compliance accounts of buying countries (with “corresponding adjustments” to the Brazilian NDC). Indeed, this is the reason why Brazil still does not recognise REDD+ projects for compliance objectives (or ‘semi-compliance’, such as those for CORSIA²¹), as these will require emissions transfers to buyer countries.

Additionally, there have been suggestions that the new programme is not environmentally robust, as it does not establish any rules related to permanence, additionality or leakage. Indeed, the programme is silent on all these elements since it is not intended to be a carbon accounting standard, but simply a regulation incentivising the development of such activities.

Since the programme does not determine what carbon accounting standards it recognises, it leaves that to the discretion of buyers who can select the most appropriate standard for their circumstances (VCS, Gold Standard, American Carbon Registry, etc.). Ultimately, voluntary investors act to contribute to their own corporate responsibility objectives. Any investment that could result in negative publicity and reputational risk would defy its very purpose. For this reason, voluntary investors have taken all precautions to ensure the credibility of their projects.


Perhaps the only concrete impact of this new programme is to remove a sense of negativity from the government of Brazil with regards to its attitude towards international investors in voluntary REDD+ projects.

21 The CORSIA scheme (Carbon Offsetting and Reduction Scheme for International Aviation) starts with a voluntary participation phase, gradually turning into a compliance regime.

22 See, for instance, Seroa da Motta, 2020: Oportunidades e barreiras no financiamento de soluções baseadas na natureza. ICS and CEBDS.

Indeed, to date, the country’s attitude towards these projects has been extremely negative²², making investors reluctant to support Brazilian projects. This new position could, perhaps, result in more inward investment in forest protection at a moment when the Brazilian environment is so fragile.

Considering the potential for large scale GHG mitigation of the Brazilian nature-based sector, an increase in market activity for voluntary REDD+ credits could result in more widespread adoption of market practices accepted by Brazil. Given that these are based on the voluntary cooperation model for climate change mitigation and assistance for developing countries to meet their NDCs, this would be a truly positive outcome.



Brazilian REDD+ Alliance

www.bvrio.org