
# OBSERVATORY OF THE LATIN AMERICAN AND CARIBBEAN INITIATIVE FOR THE CARBON MARKET - ILACC

## EDITORIAL

Historically, entrepreneurs in Latin America and the Caribbean (LAC) have played an important role as providers of carbon credits for Nature Based Solutions (SBN) projects. It is noteworthy that carbon credits from SBN accounted for about 66% of the total value of transactions in 2021.[1] In that same year, turnover in the global voluntary market totaled US$748 million (a 134% growth compared to 2019), with Latin America accounting for around 20% of the market share[2], leading the offer of carbon credits in the global voluntary market through SBN projects.

The new traction of global demand, added to local efforts to comply with Nationally Determined Contributions(NDCs), is reactivating private investment in expanding the offer of carbon credits and diversifying the offer, with forest projects, forestry, climate-smart agriculture and the blue economy. The immediate effect can be seen in markets such as Argentina, Mexico, Chile, Colombia and Peru, where climate-smart investment clusters are forming, enabling an increase in the offer of carbon credits for both the national and international markets, as well as new investments in sustainable businesses associated with natural capital.

The new international competitive context offers a historic opportunity for Latin America, perhaps even more important than other bonanza cycles experienced by the region associated with agribusiness and mining. The difference is that, this time, the work agenda should contemplate the combination of, on the one hand, the conservation and regeneration of natural capital assets and, on the other, economic diversification, technological advancement and the fight against poverty as determinant factors for sustained growth and the sustainable development in the region.

On the other hand, advances in carbon pricing, as well as in climate regulation in mature markets such as the European Union (EU) and the United States (USA), are affecting the competitiveness of the private sector in Latin America, as companies that emit more greenhouse gases (GHG) may pay more because of their negative effects on the climate, thereby affecting its competitiveness vis-à-vis European companies or companies from other regions with lower emissions.

An example of this trend is the EU Carbon Border Adjustment Mechanism (CBAM), which should penalize European imports of carbon-intensive products not subject to restrictions in countries of origin. Despite still being just a proposal expected to be implemented in 2026 by the EU, the LAC private sector needs to be prepared and develop the necessary capabilities to act proactively in the face of this new competitiveness criterion.

At the same time, companies that manage to reduce their carbon emissions can benefit financially and improve their efficiency, reduce operating costs, integrate into new green business value chains and attract investments committed to sustainability. In this context, the objective of the Market Observatory ILACC's Carbon Program is to act as a market intelligence tool that supports the LAC private sector in monitoring and making decisions that allow it to mitigate the risks of loss of competitiveness vis-à-vis other regions and expand its capacity for innovation in solutions,

[1] The Rising Demand for Nature-based Climate Solutions (visualcapitalist.com)

[2] Status and trends of compliance and voluntary carbon markets in Latin America - IETA

environmental products and services, including generating carbon credits to offset emissions. This helps to position the region as an international industrial development hub based on the competitive advantages of a bioeconomy and a supply of clean, renewable energy, reinforcing the concept of Powershoring as a fundamental aspect for industrial competitiveness in the 21st century.

As part of this CAF ILACC initiative, market intelligence bulletins will be launched, as well as a strategic study of the relationship between the carbon market and the competitiveness of the private sector in LAC. In this first bulletin, we want to offer you a broad perspective of concepts and macro data about the market: its trading mechanisms, prices, regulations, trends, among others.

From the Vice Presidency of the Private Sector of CAF, we invite everyone to register to receive these market intelligence bulletins, as well as to send us your suggestions.

**Sincerely,**

Jorge Arbache
**Vice President of the Private Sector**
**CAF – development bank of Latin America**

In 2021, turnover in the global voluntary market totaled

**US$ 748 million**

a **134%** growth compared to 2019

[3] O powershoring refere-se à descentralização da produção para países próximos a centros de consumo e que oferecem energia limpa, segura, barata e abundante, além de outras virtudes para a atração de investimentos industriais. Mais em: : https://www.caf.com/pt/conhecimento/visoes/2022/11/powershoring/

# BOX 1 DEVELOPMENT BANKS AND THE CARBON MARKET

Climate change and the transition to a net zero economy represent a challenge for governments and an investment opportunity. The resource needs of the Parties – developing countries – for implementing the Convention and the Paris Agreements[1] are significant. It is estimated between US$28.14 to US$28.31 trillion by 2030. Only the investment needs for the National Determined Contributions (NDC) represent US$5.8 trillion to US$5.9 trillion up to 2030.

The good news is that 83% of NDCs intend to make use of market mechanisms to reduce greenhouse gas emissions, and this is increasing interest in carbon markets. In this sense, development banks can play a fundamental role in making these investments possible, directly or indirectly stimulating the development of this market, acting to increase the supply, or as applicants for carbon credits.

At the 2022 ALIDE Assembly Annual Meeting[2], it was highlighted that there are a set of challenges to address in order to develop the carbon market in the region:

1. Promote capacity building
2. Promote communication and harmonization/standardization of processes, taxonomies, methodologies, certifications, etc.;
3. Develop appropriate and attractive financial and non-financial instruments to mobilize resources; and,
4. Promote synergistic development between national and regional markets. In addition, to consolidate our regional vision, each country must address, among others, the following challenges:

   1) The political challenges regarding a regional strategic vision and not only a national one;

   2) The existence of subregional markets; and,

   3) The unequal size of the markets in the region.


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[1] https://unfccc.int/sites/default/files/resource/NDR1_ExecutiveSummary_Final.pdf.
[2] https://www.alide.org.pe/wp-content/uploads/2022/06/Informe_Final_Alide52-1.pdf.

# WHAT ARE VOLUNTARY CARBON MARKETS?

The voluntary environment of carbon markets seeks to encourage the mitigation of emissions by non-regulated agents, based on the development of voluntarily implemented mitigation projects. In these, carbon credits are traded, representing the mitigation of 1 ton of greenhouse gases (GHG).

The issuance of carbon credits depends on verification processes, validation and certification of the project's emission mitigation, through recognized standards and approved methodologies. The verified emission mitigation can then be converted into carbon credits. The definition of the project baseline (what would have been the level of emissions from that source in the absence of the mitigation project in question) and the proof of the additionality of the project (that it would not have generated such a result in the absence of the financial incentive provided by the credit instrument) are essential to the environmental integrity of the carbon credit. Such credits are then tradable, constituting a positive financial incentive to mitigate emissions.

# GLOBAL PANORAMA

- **2021** broke records in value and volume of carbon credits transacted in the world
- Nature-Based Solutions (SBN) are featured
- Voluntary market reached **US$ 2 billion** in market value
- Volume and increasing average prices until then
- In 2022, the market cooled down momentarily, due to aspects such as the energy crisis resulting from the war in Ukraine;
- **46%** of the credits are from Forestry and Land Use projects;
- Positive expectations regarding the transition to the Paris Agreement mechanism (A6.4ERs and ITMOs).

**Volume and average price of carbon credits in the voluntary market in the world, by project category**

| | 2020 | | | 2021 | | | 2021/2020 |
|---|---|---|---|---|---|---|---|
| | Volume ($MtCO_2e$) | Price (USD) | Value (USD MM) | Volume ($MtCO_2e$) | Price (USD) | Value (USD MM) | Increase in Value |
| **SBN** | 58,3 | $ 5,49 | $ 320,10 | 228,7 | $ 5,84 | $ 1.336,20 | 317% |
| **Renewable energy** | 93,8 | $ 1,08 | $ 101,50 | 211,4 | $ 2,26 | $ 479,10 | 372% |
| **Others** | **50,6** | **$ 1,86** | **$ 94,00** | **53,0** | **$ 3,14** | **$ 166,60** | **77%** |

**Source:** This is our own elaboration based on data from Forest Trends' Ecosystem Marketplace, 2022.

The year 2021 was historic for voluntary carbon markets, whose market value reached US$2 billion, with around 500 million credits traded and good expectations for the year 2022. Such a mark is mainly due to the negotiation of credits for nature-based solutions (SBN). The volume of credits for forests and land use represented 46% of the total volume traded and was 4 times greater in 2021 compared to 2020, maintaining relatively high average prices[4]. Credits from removal projects, for example, amounted to $7.90/tCO 2 e. Still, of the renewable energy sector credits, 19% refer to wind energy projects

**Emission and use of carbon credits in the world, until 2022**

| | |
|---|---|
| Registered Projects | **4.431** |
| Total Issued Volume | **1.496.111.572** |
| Volume Used/Cancelled | **793.247.763** |
| Volume in Circulation | **702.863.809** |

**Source:** This is our own elaboration based on data from the Climate Focus VCM Dashboard (April 3, 2023)

In 2022, however, the voluntary carbon market in the world cooled down in relation to the strong growth trend seen in 2021, with market prices falling throughout the year. The war in Ukraine and the consequent energy crisis caused a reordering of priorities and certainly played a role in this scenario. It should be noted, however, that the prices of carbon credits vary greatly according to the characteristics of each credit.

4 The Voluntary Carbon Market Dashboard (https://climatefocus.com/initiatives/voluntary-carbon-market-dashboard/)

# OVERVIEW IN LATIN AMERICA AND THE CARIBBEAN (LAC)

The regional development of the Latin American carbon market could contribute to greater competitive advantages for its natural capital, optimizing efforts, reducing costs and expanding the supply of credits and their credibility. Therefore, Latin America and the Caribbean (LAC) can stand out even more in the generation of carbon credits, mainly with the growing expansion of REDD+ projects. Additionally, this movement could boost the development of more sustainable business clusters, attract technologies and catalyze national and international private capital. In this sense, the benefits of high quality carbon credits and their diversification could expand financing alternatives for investment projects with real impact in the region.

**Volume of LAC carbon credits in circulation worldwide, by source and country**

| | Total | % world | % LAC | SBN (avoided) | SBN (removal) | EN. RENEW. | Others |
|---|---|---|---|---|---|---|---|
| **Brazil** | 53.434.869 | 7,6% | 41,9% | 36.303.382 | 3.933.037 | 9.902.132 | 3.296.318 |
| **Peru** | 38.899.415 | 5,5% | 30,5% | 37.282.628 | 2.612 | 1.069.163 | 545.012 |
| **Colombia** | 9.769.781 | 1,4% | 7,7% | 7.950.069 | 1.117.996 | 701.250 | 466 |
| **Chile** | 2.026.505 | 0,3% | 1,6% | 22.798 | 722.953 | 1.142.039 | 138.715 |
| **Argentina** | 1.634.203 | 0,2% | 1,3% | 0 | 0 | 1.634.203 | 0 |
| **Mexico** | 2.542.845 | 0,4% | 2,0% | 0 | 1.071.130 | 826.614 | 645.101 |
| **Others (approx.)** | 19.160.476 | 2,7% | 15,0% | 3.686.048 | 7.543.260 | 3.812.279 | 4.118.889 |
| **Total** | **127.468.094** | **18,1%** | **100,0%** | **66,9%** | **11,3%** | **15,0%** | **6,9%** |

**Source:** This is our own elaboration based on data from Climate Focus VCM Dashboard, independent certification standards (02 Jan 2023)

The LAC region is seen as a great potential generator of carbon credits, mainly given its vast tropical forest and energy potential. Currently, among the countries in the region, Brazil has the largest volume of carbon credit emissions in circulation in the region, representing 41.9% of LAC, followed by Peru (30.5%), Colombia (7.7%) and Chile (1.6%). Of the total volume issued in the world, LAC represents 18.1%. Still, leading the total volume in circulation, are credits related to avoided emissions . It is worth mentioning that this volume only represents the main independent international standards, such as VCS, GS, CAR and ACR, Plan Vivo, GCC.

The LAC region represents **18,1%** of the total volume of carbon credits in circulation in the world

Highlight for the large volume of SBN credits generated in the region.

**volume of carbon credit emissions in circulation in the region, representing:**

Brazil **41,9%** | Peru **30,5%** | Colombia **7,7%** | Chile **1,6%**

[5] The Voluntary Carbon Market Dashboard (https://climatefocus.com/initiatives/voluntary-carbon-market-dashboard/)

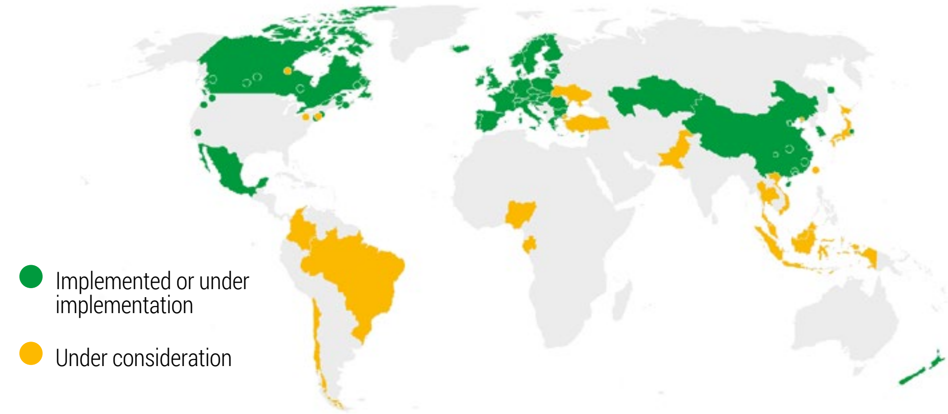
# WHAT ARE REGULATED CARBON MARKETS?

Regulated carbon markets are those in which the definition of the scope of participants is done by a centralized body, usually governments, and in which there are regulatory obligations. Here, the Emissions Trading Systems (ECS) stand out, which operate under the "cap-and-trade" logic. The regulator defines the regulated scope and emission reduction targets, which translate into a maximum amount to be emitted by regulated agents (the "cap"). Based on this, the regulator allocates – free of charge or through auctions – "emission allowances" in a volume equivalent to the cap, and regulated agents can trade such assets to reconcile their real emissions with emission allowances in an equivalent number (the "trade")

## GLOBAL PANORAMA

| | | | | |
|---|---|---|---|---|
| **34** Emissions Trading Systems (ETS) implemented in the world[6] | **39** countries covered (and 31 subnational jurisdictions); | Almost **18%** of global emissions covered (approx. 9 $GtCO_2e$) | **US$ 56 billion** in government revenue and market cap of US$800 billion (2021); | Increasing average prices **(US$ 22,63).** |

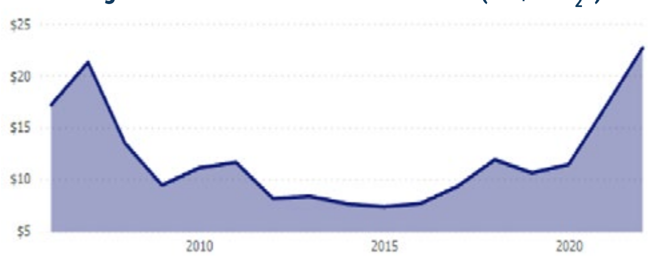
**Map of Emissions Trading Systems in the World**




**Source:** World Bank's Carbon Pricing Dashboard

By the end of 2022 there were 34 SCEs implemented worldwide – an increase of 7 initiatives compared to 2020 – covering 39 countries and 31 subnational jurisdictions. Altogether, such systems cover around 9 GtCO2e, or nearly 18% of global GHG emissions – more than double the 2020 figure. The highlight is the Chinese SCE, started in 2021, which covers 8.8% of global emissions, being the largest in the world.[7]

**Average Carbon Price in SCEs in the World (US$/$tCO_2e$)**




In terms of values, the average price practiced in SCEs in 2022 was around US$ 22, about twice the average value of 2020.[8] Meanwhile, market value and government revenues from SCEs have more than doubled since 2020, reaching US$851bn and US$56bn in 2021, respectively.[9]

6 All data were consulted and collected between December 26, 2022 and January 5, 2023.
7 World Bank's carbon pricing dashboard (https://carbonpricingdashboard.worldbank.org/).
8 Carbon Pricing Dashboard, Bioeconomy Observatory, FGV here
9 *State and trends of carbon pricing 2022*, World Bank; and Carbon Markets Year in Review, Refinitiv

# OVERVIEW IN LATIN AMERICA AND THE CARIBBEAN (LAC)

In recent years, efforts have been made to regulate GHG emissions in the way of carbon pricing in several LAC countries. Whether with SCEs or carbon taxes, it is important to highlight the importance of integrating these systems with carbon credit markets, as well as partnerships with the private sector, which will stimulate the development of markets in the region more quickly.

- Implementation Emissions Trading Systems in LAC: Mexico only;
- In Colombia, an SCE is already under development (Law approved);
- Brazil and Chile could be next (legislation pending).

In the LAC region, the only country with an ETS implemented so far is Mexico. The "Emissions Trading System Test Program" is a pilot program started in 2020, lasting 3 years, when the operational phase will come into force. The program covers approximately 40% of national emissions. In 2021, there were the first two allowance allocations and the verified compliance rate was 97%. The pilot phase does not generate economic impacts, but non-compliance reduces the free allocation to the operation phase.[10]

In Colombia, an SCE is in preparation following the approval of the Ley de Acción Climática, which provides for the implementation of an SCE in the country – the "Programa Nacional de Cupos Transables de Emisión de Gases de Efecto Invernadero". In Brazil, since 2021, Bills (PL) have been presented in the National Congress for the regulation of carbon markets. Highlight for PLs 528/2021 and 412/2022, pending in the Chamber of Deputies and the Senate, respectively. Finally, in Chile, the Ley Marco de Câmbio Climático defines the implementation of a carbon pricing instrument that could function as an ETS.

## Other regulated carbon pricing initiatives:

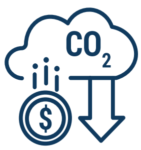
Among the carbon pricing regulations adopted in LAC, carbon taxes stand out, mostly applied to the consumption of fossil fuels. Mexico, Colombia, Chile, Argentina and Uruguay adopt carbon taxation.

In Brazil, the regulation that establishes a carbon price for fossil fuels is a kind of tradable performance standard. RenovaBio has a peculiar design and an asset (CBIO) that represents 1 $tCO_2e$ avoided over the life cycle of biofuels in relation to the fossil substitute. This must be purchased by distributors to meet regulatory targets.

The summary table of carbon pricing regulations (CPIs) in Latin America and the Caribbean was presented at

**[Assessment Of the carbon credit market in Latin america and the caribbean]**

(base year 2022). With this, advances are expected in their respective implementations, understanding the challenges and opportunities that emerge in each country specifically.

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10 *Emissions Trading Worldwide*: Status Report 2022, ICAP.


# COP27 AND ITS MAIN DEVELOPMENTS: OPPORTUNITIES AND CHALLENGES FOR LAC

## Results Summary

The COP 27 results left a mixed (even paradoxical) feeling of optimism and frustration. Despite advances in the global climate agenda, for example, new agreements signed and decarbonization commitments assumed, the expectation was of greater advances related to the control of GHG emissions under the Paris Agreement, as well as more ambition and details in the final document of the conference. COP 27, which called itself the "Implementation COP", ended up leaving something to be desired, although two main historical advances can be highlighted: the creation of a new fund for damages - something sought after by the countries most vulnerable to the climate since the initiation of the climate regime, as well as the call for structural reform of the international financial architecture to better serve both climate and development goals, in support of the Bridgetown Initiative.

It is noteworthy that the expectation of a conference without major advances already existed. However, other issues also delayed consensus and ended up preventing more ambitious results, demonstrating fault lines that dominate international climate policy - in particular debates on increasing the ambition of NDCs to enable the achievement of the 1.5°C target., the gradual elimination (phase out) of fossil fuels and reflections on annual targets for climate finance from developed countries to developing countries.

## Developments: Carbon Markets

Progress was made in defining how trade between countries would work, and negotiators also finalized most of the guidelines to align old credit trading systems with the new rules. Some of the advances were the differentiation of credits from the Article 6.4 mechanism authorized and not authorized by the Host Party, with the creation of "mitigation contribution ERs", credits not authorized by the Host Party and which, therefore, will count towards the exclusive fulfillment of its NDC, as well as the definition of a format for the initial reporting of transactions in Article 6.2.

However, many decisions were postponed. One of the difficulties was to advance in complex technical issues related to implementation with the multiplicity of parties involved. As a result, there is still no firm timetable for the operationalization of the Article 6 mechanisms.

## Opportunities for the LAC Region

The creation of a loss and damage fund for the benefit of developing countries affected by the impacts of global climate change could represent a source of funds for some countries in the region. However, it is anticipated that island countries with great vulnerability to climate impacts should be given priority in the allocation of such resources. Additionally, the call for redirecting priorities of international financial institutions, particularly development and multilateral banks, towards portfolios compatible with global temperature targets should reinforce climate finance flows available to developing countries, such as those in LAC.

The explicit mention of the SBN and the reinforcement of the importance of forests – mentioned for the first time in the final COP document – also represent an opportunity for the region, which is home to the largest tropical forest in the world, as well as other forest biomes. In this sense, forest-based carbon credit transactions are already taking place, both privately and between countries - anticipating possible transactions under Article 6.2. Finally, the resumption of the Amazon Fund stands out, signaling a strengthening of the fight against deforestation in the region.

In addition, the need to find innovative financing mechanisms, such as green and blue bonds, was highlighted. Blue bonds, for example, are of unique relevance to the region, given that a large part of its population lives in coastal areas, and many are especially vulnerable to the effects of climate change. In this regard, on the occasion of COP 27, CAF stated that it will allocate US$ 1.25 billion to preserve the health of the ocean.

# NEWS: WORLD

## CARBON TAXATION AT THE BORDER: THE CASES OF THE EUROPEAN CBAM AND THE AMERICAN INITIATIVE[11]


To achieve carbon neutrality in 2050, the European Union (EU) used strategic decarbonization measures, in the package called the European Green Deal. Among the measures, the European bloc announced the Carbon Border Adjustment Mechanism (CBAM), whose purpose is to tax the carbon of imported products - initially steel, aluminum, electricity, fertilizers and cement - from countries that do not have measures to face climate change in their industries as ambitious as the EU. In this sense, in addition to reinforcing the adoption of more sustainable measures, it seeks to prevent carbon leakage when companies transfer their production to countries with less stringent environmental policies.

Basically, European companies that decide to import products covered by the CBAM from countries outside the bloc will have to acquire CBAM certificates, covering the GHG emissions incorporated in the imported products. The value of CBAM certificates follows that of the EU ETS, applying the principle of isonomy. This, in itself, is already causing a movement of industries in other countries, which seek to assess the impacts caused by such a policy in different spheres.

In addition to Europe, the United States has been introducing a strong recent climate policy, with initiatives based on subsidies. Among them, a new agreement is under discussion with the EU for taxing steel and aluminum based on carbon intensity. In general, this measure seeks to improve the carbon intensity standards of industries, creating a climate regiment for international trade and, in particular, putting pressure on Chinese industry. However, this measure is still in an embryonic stage, discussed by American and European diplomacy.

CARBON NEUTRAL

**Among the measures, the European bloc announced the Carbon Border Adjustment Mechanism (CBAM), whose purpose is to tax the carbon of imported products - initially steel, aluminum, electricity, fertilizers and cement**

[11] Source: https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3661
https://www.bloomberg.com/news/articles/2022-12-05/us-eu-mull-climate-based-tariffs-aimed-at-china-steel-aluminum
https://blog.waycarbon.com/2022/06/o-que-e-o-cbam-e-como-afetara-empresas-brasileiras/

# NEWS: WORLD

## THE TRANSITION OF CDM CREDITS[12]


In addition to voluntarily traded carbon credits, the Kyoto Protocol established the Clean Development Mechanism (CDM). With the end of its validity in 2020, it is expected that the Article 6.4 mechanism will succeed the CDM and can leverage mitigation projects. Like the CDM, Article 6.4 establishes a decentralized mechanism, linked to an international certification standard for the generation of carbon credits from emission mitigation projects, implemented by public or private entities. Such credits can be transacted without authorization from the host country (as in the voluntary environment), or they can be used by the buyer country to comply with its NDC, a situation that requires authorization from the host country (involves compliance with an international commitment).

Among the efforts to ensure the effective implementation and operation of this mechanism, in order to seek high standards of environmental integrity, there are strategic discussions and the development of functional elements, such as cycle of activities, design standards, validation and verification standards, and processes for the CDM transition. In this sense, the Supervisory Body decided to take into account the specific circumstances of the Parties, which will be mandatory for assessing the co-benefits of the activities proposed under the mechanism.

In addition, a capacity building work plan to support the transition from the CDM to the Article 6.4 mechanism was adopted. This training is crucial, especially considering the criticisms involving projects that have already been approved, showing that many of them did not guarantee real emission reductions. Some projects were also linked to the infringement of human rights, and other compensations were considered fraudulent. Thus, it is expected in the near future that CDM credits and projects that meet defined requirements – requirements that are revalidated – will be able to adapt to the rules of 6.4 and transition to the Paris Agreement environment.

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[12] Source: https://unfccc.int/news/new-mechanism-provides-a-key-tool-for-countries-to-meet-their-climate-goals
https://www.hrw.org/news/2023/03/07/cop28-carbon-market-rules-should-protect-rights

# BOX 2 VERRA CASE AND THE "GHOST CREDITS"

Verified Carbon Standard
A VERRA STANDARD

A recent study analyzed several projects, with emphasis on REDD+, around the world and estimated that up to 90% of the carbon credits received by these projects in the largest independent certifier in the world, Verra, would not represent emissions actually avoided in forest areas.

The main argument of the study is that there are methodological flaws in the analysis of projects used by Verra, which cause overestimations of their real impact. A REDD+ project, for example, generates a volume of credits proportional to the forest impacts that would no longer be generated in the absence of the project made possible by the carbon credit mechanism. According to the study, the calculation of such volume presents errors, which generates incorrect estimates.

What is latent in the study is the amount of credits in circulation that these methodological failures represent. The implications of these analyzes are even more worrying when one sees companies like Gucci, Salesforce, BHP, Shell, for example, using credits to represent offsetting their emissions. Verra, however, defended itself, stating that the study is flawed, reiterating its methodological rigor and the validity of the credits certified by the institution.

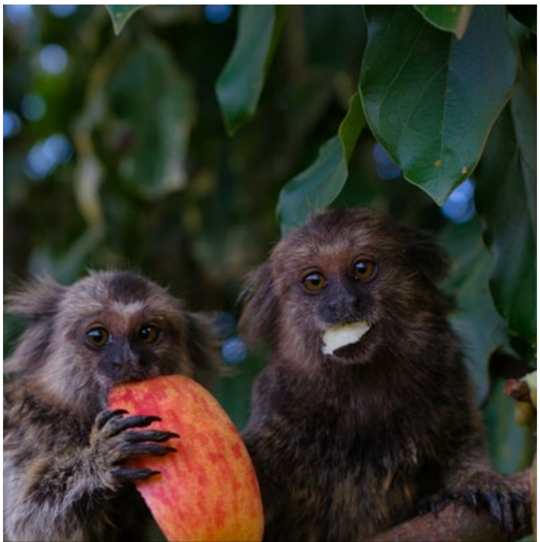

**The implications of these analyzes are even more worrying when one sees companies like Gucci, Salesforce, BHP, Shell, for example, using credits to represent offsetting their emissions**

# NEWS: LATIN AMERICA AND THE CARIBBEAN

## SWOT MATRIX ON CARBON CREDIT MARKETS IN LAC


Analyzing the strengths, weaknesses, opportunities and threats of the Latin America and Caribbean region in relation to carbon credit markets, it is possible to identify different challenges related to the development of carbon markets. An example is the support infrastructure, which ranges from the need to develop capabilities in obtaining, recording and updating data, information and methodologies, to gaps in the development, execution and monitoring of projects. In addition, the existence of legal and supervisory bases is a key factor in guaranteeing credit integrity and market predictability, which reinforces the need for institutional developments.

With regard to strengths and opportunities, one can highlight the great potential for credit generation in the region, particularly SBN and renewable energies. With the maturity of the LAC voluntary market, regional integration is expected to make the market even more robust and serve to finance projects with greater impact. Also, with the implementation of Article 6 and other international regulations, a new demand window opens, also allowing a comparative and quality advantage for the region in relation to other credits in circulation.



**More information on the complete SWOT matrix can be found at:**

**Click here:**

**The existence of legal and supervisory bases is a key factor in guaranteeing credit integrity and market predictability, which reinforces the need for institutional developments.**

12 Source: https://www.capitalreset.com/itau-se-une-a-oito-bancos-e-cria-bolsa-para-creditos-de-carbono/

# **NEWS:** LATIN AMERICA AND THE CARIBBEAN

## ITAÚ AND THE NEW MARKETPLACE FOR CARBON CREDITS[13]


Along with nine other global banks, Banco Itaú invests US$ 45 million in "Carbonplace" – a Marketplace which should start operating in April and whose purpose is to facilitate negotiations and transactions of carbon credits through transparency and better access to the purchase and sell in this market.

The business model is based on Blockchain technology and will bridge the gap between companies interested in buying credits and carbon project developers that want to sell their credits. In addition, customers will have a contract signed upon entering the platform and for the relationship with banks, including the obligation of due diligence. In this sense, this initiative bets on the credibility of the financial institutions involved, especially after issues involving the lack of transparency of information on the credits generated. On the other hand, the platform does not guarantee the quality of the credits, which are increasingly questioned about their real impact, but it admits that it is in conversation with companies that build rankings of carbon projects, such as BeZero and Sylvera.

For now, the platform is only connected to Verra, where it registers and writes off compensation. However, the initiative intends to connect with other registry centers such as Gold Standard and American Carbon Registry.

**More information on the complete SWOT matrix can be found at:**

**Click here:**

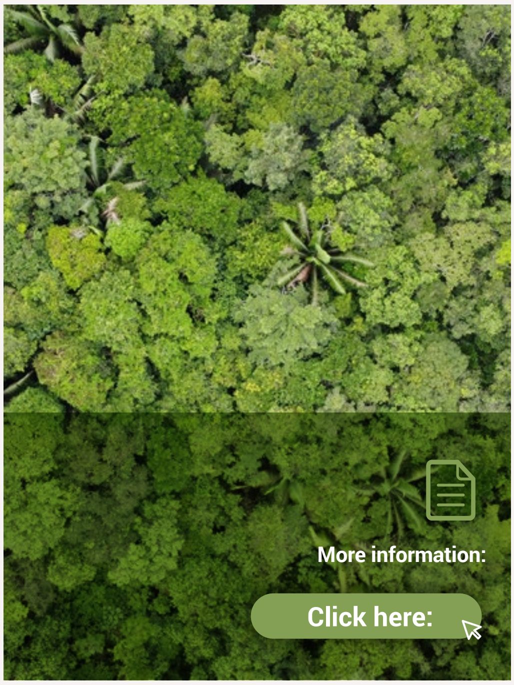
**Along with nine other global banks, Banco Itaú invests US$ 45 million in "Carbonplace"**

# BOX 3 MODEL DESIGN OF NATURE-BASED SOLUTIONS: AMAZON FORESTS / AMAZON WOODS – BAM PERU.

20% of global GHG emissions originate from deforestation and inappropriate agricultural practices. In the case of Peru, where around 200,000 hectares are deforested per year, deforestation represents just over 50% of the country's total $CO_2$ emissions. In this context, BAM Peru carries out several conservation projects, including the REDD+ Castanheiros Project in the Madre De Dios region, one of the areas with the greatest biodiversity on the planet, recognized as the "Biodiversity Capital of Peru". The *Madre de Dios* region is characterized by its lowland Amazon forest, which is home to one of the largest extensions of primary forest protected in national parks and wildlife reserves, such as the Bahuaja Sonene National Park and the Manu, recognized by UNESCO as Natural Heritage of Humanity. However, in the last 15 years, *Madre de Dios* has lost more than 200,000 hectares of rainforest, making it one of the Peruvian regions most affected by deforestation, degradation and habitat fragmentation.

The abundant biodiversity of *Madre de Dios* has been threatened mainly by human pressure resulting from the construction of the Interoceanic Highway that connects Brazil to Peru: since its construction (2009), the migration of people in the region to exploit its riches (wood and ore) generated a 4-fold increase in the rate of deforestation (MINAM). This pressure seriously affects the region's chestnut forests distributed among small local concessionaires. Faced with this threat, BAM initiated the REDD+ Castanheiros project, which houses 600 chestnut producing families from the Federation of Chestnut Trees of *Madre de Dios* (FEPROCAMD), in order to protect more than 490,000 hectares of chestnut forests threatened by increasing deforestation. For 14 years, BAM and the region's chestnut producers have been working together with the objective of conserving the ancestral forests of *Madre de Dios*, promoting sustainable economic development and improving the quality of life of the project's partner families. In order to fulfill its preservation and development objectives, the REDD+ Castanheiros project carries out a set of activities such as: the implementation of a monitoring, control and surveillance system, permanent technical and legal advice for concessionaire partners, legalization and demarcation services for concessions, training workshops, production pilots for the benefit of concessionary families, among others. In addition, the project distributes profit resulting from conservation efforts and sales of carbon credits directly to the community.

As a result of the good management and impact of the project, in the last two years, 200 new dealers were incorporated, representing approx. 170,000 additional hectares under REDD+ protection Chestnut trees and avoiding the emission of 2.5 million $CO_2e$ per year on average, based on 3,000 hectares preserved from deforestation and 490,000 hectares of protected chestnut forests, as well as 335 bird species and 437 species of fauna. In this way, sustainable growth and improvement in the quality of life of local communities generate multiple sources of income through sustainable forest management, strengthening the community's organizational and operational capacities to properly manage their forests and allowing them to maintain their active role in conservation. CAF offset the carbon emissions ($tCO_2e$) generated by its operations during the years 2019 and 2021 by acquiring carbon credits from the project in question.



# INTERVIEW

## THE STATE OF CARBON MARKETS IN BRAZIL: OPPORTUNITIES FOR POST-COP 27 CARBON MARKETS

By: Laura Albuquerque (WayCarbon) and Fabiana Assumpção (WayCarbon)

There are 3 coexisting carbon credit trading environments :

(i) The internationally regulated carbon market, which is within the scope of the United Nations Framework Convention on Climate Change [1] where, currently, the Paris Agreement is in force, which introduces two new market mechanisms that help the signatory parties to the agreement cooperate to achieve their NDC's emission reduction targets [2] - the 6.2 mechanism, in which transfers of mitigation units [3] can be negotiated between countries and the 6.4 mechanism, which allows direct transfers of 6.4 Emission Reduction (6.4ER) between countries and the private sector;;

(ii) The regulated regional, subnational and national carbon markets called ETS (emissions trading system), which depend on a regulatory framework, in which, in general, allowances are negotiated; and

(iii) The voluntary carbon market, in which certified GHG emission reductions [4] known as carbon credits are traded, meeting voluntary, corporate or individual targets, these credits generated from processes certified by a third party, respecting recognized standards. The study Opportunities for Brazil in carbon markets 2022 begins with advances in terms of the evolution of the definitions of new carbon market mechanisms under Article 6 post-COP 26 and an updated overview of regulated markets and the voluntary market.

According to the study, the projects registered with the VCS [5], Gold Standard and CDM [6] in Brazil are primarily in the renewable energy sector (108), followed by forestry (28), waste treatment (18) and livestock (15) and are distributed in 23 Brazilian states, most of them in Minas Gerais (21) and São Paulo (20), where renewable energy projects prevail. In 2021, projects in Brazil emitted around 45.28 $MtCO_2e$ in carbon credits, of which 97.2% were registered in the VCS. This amount, driven by REDD+ [7], represents an increase of more than 200% compared to 2020. The study updated the estimates of Brazilian participation in the supply of global credits, which rose from 3% to 12% between 2019 and 2021, and of the potential for transaction of Brazilian carbon credits until 2030, which rose from the range of US$ 493 million to US$100 billion (estimated in 2021) to the range of US$1.73 billion to US$120 billion (estimated in 2022). In terms of volume, it was identified that, in this way, Brazil could offer between 8.4 and 28% of the demand in the Article 6.4 mechanism and between 22.3 and 48.7% of credits in the voluntary market.

Based on interviews with players in the Brazilian carbon market ecosystem, it was possible to identify the main barriers and opportunities for operating in these markets in the country. We highlight: the low maturity of the market, lack of information and transparency in relation to the volumes transacted, the actors involved, prices and types of contract; and legal uncertainty, resulting from the lack of a regulatory framework for the national carbon market. However, there is great potential for solutions based on nature and the intensification of opportunities from the evolution of Brazilian legislation with the regulation of carbon markets. Recommendations were prepared for different market actors and the Brazilian government.

Among the recommendations to the government are the elaboration of clear definitions for the Federative Units on jurisdictional projects and procedures for implementation and taking advantage of the movement of preparation for a regulated market in Brazil, initiated with the Decree, to enable a series of institutional measures for a smooth operation of carbon markets. The offer actors were recommended to include and give visibility to the participation of local communities, explore opportunities in the new market mechanisms of Article 6, among others. As for the demand actors, the recommendation to expand their activities in the market by proposing and financing carbon projects stands out.

# WEBINARS ILACC

First ILACC Webinar Series Completed Successfully

Within the Enabling Component of ILACC, a first series of 5 webinars has been scheduled:

- The 1st was aimed at disseminating and sharing knowledge about the functioning of the carbon credits market and its operationalization through Article 6 of the Paris Agreement, with the participation of UNFCCC and CAF specialists.

- In the 2nd webinar, the carbon credit value chain was highlighted, from project design and certification to commercialization, with the participation of Paskay-Perú, Cercarbono and $CO_2$Cero, both from Colombia

- Subsequently, BMV Global from Brazil and the international Dorr Asset Management joined us in a 3rd webinar on international markets for carbon credits, focusing on market access mechanisms

- In the 4th session of the series, digital tools that facilitate transparency in carbon markets were presented; for this we rely on Ecoregistry from Colombia, ClimateCoin from Spain, as well as Arka Labs and Akemona from India. To date, the series has attracted 3,264 subscribers and has had 5,547 plays on YouTube..

- On January 31, the 5th and final webinar of the series was held, dealing with opportunities for the agricultural sector in the carbon credit markets.

- Recordings of the webinars can be accessed at the link.

**Click here:**

# EVENTS

**9th meeting of the Committee to facilitate implementation and promote compliance referred to in Article 15, paragraph 2, of the Paris Agreement**
18 April 2023 - 19 April 2023
https://unfccc.int/event/9th-meeting-of-the-committee-to-facilitate-implementation-and-promote-compliance-referred-to-in

**Measuring Development 2023: Mitigating the Risks and Impacts of Climate Change**
4 May 2023
https://www.worldbank.org/en/events/2023/05/04/measuring-development-2023

**118th meeting of the CDM Executive Board**
30 May 2023 - 1 June 2023
https://unfccc.int/event/118th-meeting-of-the-cdm-executive-board

**5th meeting of the Article 6.4 Supervisory Body (SB005)**
31 May 2023 - 3 June 2023
https://unfccc.int/event/Supervisory-Body-5

**Bonn Climate Change Conference**
5 June 2023 – 15 June 2023
https://unfccc.int/

**91st meeting of the Methodologies Panel**
26 June 2023 - 28 June 2023
https://unfccc.int/event/91st-meeting-of-the-methodologies-panel

**Latin America Climate Summit (LACS)**
27 June 2023 - 29 June 2023
https://icapcarbonaction.com/en/news/latin-america-climate-summit-lacs-2023-27-29-june-panama-city-panama

**6th meeting of the Article 6.4 Supervisory Body (SB006)**
10 July 2023 - 13 July 2023
https://unfccc.int/event/Supervisory-Body-6

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**DESIGN:**
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**FOTOGRAPHY:** Adobe Stock, Unsplash

**ILACC FOCAL POINTS:**

| | |
|---|---|
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[1] United Nations Framework Convention on Climate Change – UNFCCC.
[2] Nationally determined contributions.
[3] *Internationally transferred mitigation outcomes - ITMOs.*
[4] *Certified or Verified Emission Reduction – CER/VER.*
[5] The Verified Carbon Standard.
[6] Clean Development Mechanism.
[7] *Reducing Emissions from Deforestation and forest Degradation.*

The ILACC Observatory is a market intelligence tool, produced by the Private Sector Vice Presidency of CAF

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For more information and access to ILACC contents.

https://www.caf.com/es/temas/m/mercado-de-carbono/