LATIN AMERICA AND THE CARIBBEAN CARBON MARKET OBSERVATORY INITIATIVE - ILACC

EDITORIAL

The last few months have been an intense period for the global agenda on climate issues and carbon markets, especially in Latin American and Caribbean. Events such as the Conference of the Parties to the United Nations Convention on Biological Diversity (COP16) in Cali, Colombia, the Conference of the Parties to the 2024 United Nations Convention on Climate Change (COP29) in Baku, Azerbaijan, and the G20 Summit in Rio de Janeiro, Brazil—all held in November 2024—have brought the climate and biodiversity agenda to the forefront of global media.

In addition to that month's international events, an evolving global geopolitical landscape and changes in political leadership in key countries call for renewed attention to environmental and climate issues. Amid intensifying skepticism, it will be necessary to demonstrate even more clearly the net social and economic benefits of investing in biodiversity, emissions reduction, and climate resilience despite recent setbacks and ongoing uncertainty.

This edition of the ILACC newsletter presents updated global and regional data both for the voluntary and regulated carbon markets, and it highlights the role of COP16 (biodiversity) and COP29 (climate) in strengthening the case for increased financing in these areas. In particular, the global dialogue on biodiversity and carbon markets has been invigorated by the progress on Article 6 of the Paris Agreement achieved at COP29. COP30 is slated to take place in Brazil, which chaired the G20 in 2024 and led many social, economic, environmental, climate, and governance discussions, raising hopes of a broad-based and robust debate on the future of the climate agenda. In addition, the Brazilian government recently approved a law establishing a domestic regulated carbon market—a key development discussed in this edition of the newsletter.

Countries across Latin America and the Caribbean actively participated in these events, submitting proposals at international forums and holding discussions at the national level. The region's wealth of natural resources; immense terrestrial biodiversity; extensive coastal, marine and oceanic ecosystems; and longstanding policy commitments to inclusive growth and development underscore its crucial importance to the global climate agenda. This edition of the ILACC newsletter is designed to inform the ongoing dialogue around strategic leadership of the climate agenda in Latin America and the Caribbean, and it highlights the vital role of science-based projects that utilize nature-based solutions to address the evolving challenges posed by climate change.

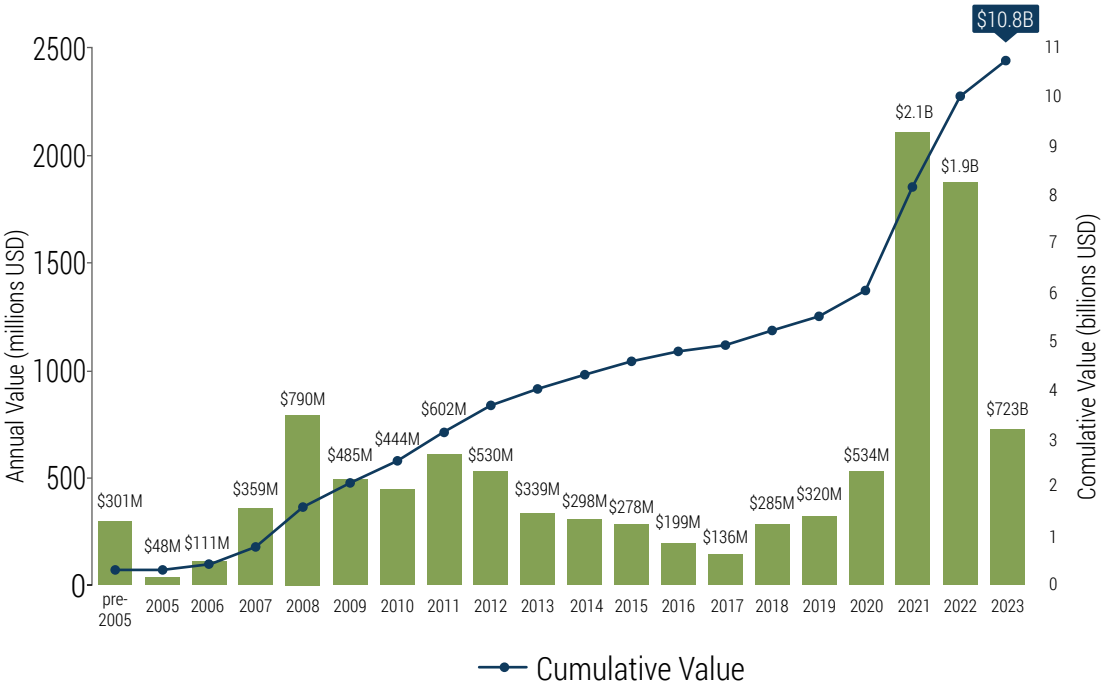
Sincerely,

Federico Vignati
Principal Executive, VSP

VOLUNTARY CARBON MARKETS GLOBAL OVERVIEW

- In 2023, both the volume and value of the voluntary carbon market (VCM) declined for the second consecutive year relative to their 2021 peak.[1];
- The VCM's total market value fell to US$723 million, down from US$1.9 billion in 2022 and US$2.1 billion in 2021.
- Although total market value decreased across all VCM credit categories, different categories showed varying trends in terms of traded volumes and average prices. The largest volume declines occurred in forestry and land use credits and renewable energy credits, which remain the most popular project types. Conversely, transaction volumes increased in the energy efficiency and fuel switching, agriculture, and household and community projects categories.
- The role of nature-based solutions (NBS) in providing carbon credits has been steadily growing, driven by several factors. First, NBS credits have significant mitigation potential; second, they are typically associated with broad social and environmental co-benefits; and finally, they are currently the only category of projects capable of delivering cost-efficient carbon removal credits.[2]
- Most carbon credits worldwide are issued under independent standards, including the Kyoto Protocol's international certification standard. Thirty-five government-run carbon credit mechanisms are currently operational, and 11 more are being developed.[3]

The Worldwide Voluntary Carbon Market, Total Traded Value, pre-2005 to 2023



Volume e preço médio de créditos de carbono no mercado voluntário no mundo, por categoria

	2021			2023			PERCENT CHANGE		
CATEGORY	Volume ($MtCO_2e$)	Price (USD)	Amount (USD MM)	Volume ($MtCO_2e$)	Price (USD)	Volume (USD MM)	Volume	Value	Price
Forestry & land use	113.0	$1.1 B	$10.14	36.2	$351.3 M	$9.72	-68%	-69%	-4
Renewable energy	92.7	$386.1 M	$4.16	28.6	$111.1 M	$3.88	-69%	-71%	-7%
Chemical processing & industrial manifacturing	13.3	$68.5 M	$5.14	12.2	$50.2 M	$4.10	-8%	-27%	-20%
Household / Community devices	9.1	$77.6 M	$8.55	9.9	$76.6 M	$7.70	´+10%	-1%	-10%
Energy efficiency / Fuel switching	6.6	$35.6 M	$5.39	9.4	$34.4 M	$3.65	+43%	-3%	-32%
Agriculture	3.8	$41.7M	$11.02	4.7	$30.6M	$6.51	+24%	-26%	-41%
Waste disposal	6.2	$44.9M	$7.23	1.5	$10.9 M	$7.48	-77%	-76%	+3%
Transportation	0.18	$770 k	$4.37	-	-	-	-	-	-

Source: State of Voluntary Carbon Market (2024)

In 2023, buyers paid higher prices for carbon-removal credits that demonstrated clear project additionality. The latest data indicate a growing interest in higher-quality projects that deliver social and environmental co-benefits, such as preserving biodiversity, enhancing water security, and supporting local economies. This trend suggests a potential convergence with emerging markets that prioritize nature-positive and biodiversity-friendly credits.

Although the VCM contracted overall in 2023, many supply and demand segments continued to grow. The household and community projects category, driven by stove-efficiency projects, emerged as a significant source of credits with benefits extending beyond emission reduction. Transaction volumes in the forestry and land use category declined following debates about the environmental integrity of projects based on reducing emissions from deforestation and degradation (REDD+). However, increased project registrations and credit retirements in this category indicate strong long-term supply and demand dynamics. Meanwhile, credits from the renewable energy and transportation categories continued to lose market share to projects in the energy efficiency and chemical processes and industrial manufacturing categories.

The top 10 countries implementing NBS projects accounted for nearly 90 percent of all registered carbon credits in 2023. Colombia, Brazil, and Peru—the three largest producers—represented nearly two-thirds of all carbon-removal and emissions-reduction credits. Colombia alone generated NBS credits representing 30 million tons of carbon dioxide equivalent (CO_2e), driven in part by the expansion of carbon credits certified under the local standard, Cercarbono [2].

Main Countries Responsible for Nature-Based Solutions Projects, 2023

Source: Climate Focus 2023 [2]

As of November 2024, 5,619 carbon-credit projects had been registered under the leading independent certification standards worldwide, with total carbon credits generated representing over 2 billion tons of CO_2e. These were primarily associated with activities related to renewable energy and NBS. Retired credits amount to just over half of the total issued, leaving the current volume of credits in circulation slightly below 1 billion tons of CO_2e. The main standards include the ACR Standard, the Architecture for REDD+ Transactions (ART), BioCarbon, Climate Action Reserve (CAR), Cercarbono, Climate Forward, the Global Carbon Council, the Gold Standard, Plan Vivo, and the Verified Carbon Standard (VCS).

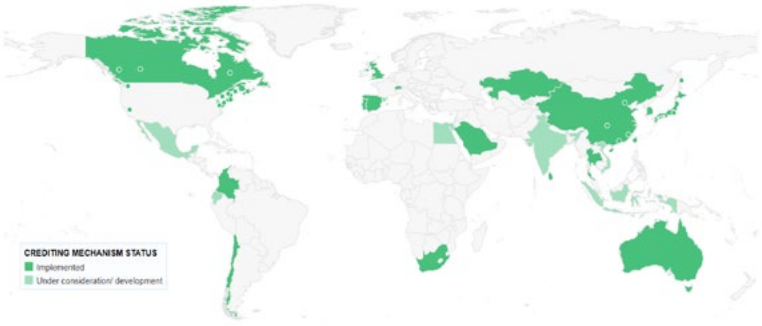
The Generation and Utilization of Carbon Credits Worldwide, November 2024

Registered Projects	**5,619**
Total Volume Generated	**2,107,087,176**
Volume Retired or Cancelled	**1,140,989,713**
Volume in Circulation	**966,097,463**

Source: Authors' elaboration based on data from the Climate Focus VCM Dashboard (28 November 2024)

As highlighted in the previous edition of the ILACC newsletter, delays in implementing the ICVCM Core Carbon Principles and the VCMI Claims Code, along with a lack of guidance from the Science Based Targets Initiative (SBTi) on the use of carbon offsets to achieve corporate goals, kept buyers on the sidelines for much of the second half of 2023. However, efforts are underway to rebuild trust in these frameworks, which will benefit buyers, investors, and project developers. Although implementing the necessary adjustments will take time, the market demonstrated significant resilience throughout 2023.[2]

Government-Administered Carbon Credit Mechanisms Worldwide, 2024



Source: World Bank's Carbon Pricing Dashboard

Finally, domestic carbon credit mechanisms continue to expand. These mechanisms are now present on every continent and involve both developed and developing countries. In Latin America and the Caribbean (LAC), Chile and Colombia already have domestic mechanisms in place, while Ecuador is currently creating its own mechanism.

VOLUNTARY CARBON MARKETS OVERVIEW IN LATIN AMERICA AND THE CARIBBEAN (LAC)

Historically, the LAC region has been a major issuer of carbon credits and has pioneered NBS projects across multiple sectors. The region continues to play a significant role as an issuer of carbon credits, and in 2023 it ranked second globally in credit generation after Asia. However, ongoing debates about the credibility and reliability of carbon credits, particularly those tied to avoided deforestation, have impacted prices and traded volumes.

- LAC currently accounts for 27.4 percent of the worldwide volume of carbon credits in circulation issued under independent standards.[1]
- Most countries in the region are involved in projects generating carbon credits.
- Over 80 percent of the region's carbon credits originate from NBS projects, with REDD+ projects accounting for about 69 percent.
- The generation of carbon credits in Colombia has rapidly increased, and the national certifier, Cercarbono, has been developing methodologies tied to biodiversitye.[1]

Volume of Carbon Credits in Global Circulation by Source and Country, LAC

Pais	Total	% mundo	% LA&C	NBS (emissões evitadas)	NBS (remoções)	Energía renovable	Outros
Brasil	74.165.640	7,7%	28,0%	49.882.886	7.434.597	8.480.429	8.367.728
Colômbia	72.203.527	7,5%	27,2%	51.065.173	9.276.574	10.583.956	1.277.824
Guiana	40.612.145	4,2%	15,3%	40.612.145	0	0	0
Peru	39.211.407	4,1%	14,8%	36.816.139	110.796	1.382.703	901.769
México	9.831.832	1,0%	3,7%	0	7.032.256	890.587	1.908.989
Uruguai	8.395.242	0,9%	3,2%	0	7.039.722	1.355.520	0
Guatemala	4.647.346	0,5%	1,8%	3.605.283	247.294	500	794.269
Nicarágua	3.952.526	0,4%	1,5%	0	2.382.804	1.569.722	0
Chile	2.215.529	0,2%	0,8%	22.798	192.030	1.430.758	569.943
Argentina	2.048.665	0,2%	0,8%	0	100	2.048.565	0
Total	**265.043.716**	**27,4%**	**100%**	**69,1%**	**13,3%**	**11,0%**	**6,6%**

Source: Authors' elaboration based on data from the Climate Focus VCM Dashboard (29 November 2024) [6]

[1]https://carbon-pulse.com/241353/

The LAC region remains a major generator of carbon credits, reflecting its vast natural resources, extensive tropical forests, and enormous renewable energy potential. However, prioritizing environmental integrity in greenhouse gas (GHG) removal and emissions-reduction initiatives is crucial to ensure the effectiveness and financial viability of carbon credits. Adopting international standards and best practices, such as the ICVCM's Core Carbon Principles, can bolster the credibility of projects. Credit-generating entities in the region must also commit to transparency and integrity to maximize the market reach and value of their credits.

In 2024, LAC accounted for more than one-quarter (27.4 percent as of November 29, 2024) of the global carbon credits in circulation under independent certification standards. Among LAC countries, historical leaders include Brazil and Peru, while others are gaining prominence due to the increased issuances of NBS credits, particularly Colombia and Guyana. Brazil remains the largest issuer of carbon credits in circulation, representing 28 percent of the region's total, followed by Colombia (27.2 percent), Guyana (15.3 percent), and Peru (14.8 percent).

The largest share of the region's circulating credits is linked to avoided emissions, primarily REDD+ projects from avoided deforestation, which account for about 69 percent of LAC credits. The second largest share is removal-based NBS credits, which make up 13.3 percent of the total volume. Encouragingly, this category is in high demand in international markets, commanding significantly higher prices. These credits conform to major international independent standards, including VCS, the Gold Standard, Climate Action Reserve, ACR, Plan Vivo, the Global Carbon Council, ART, Cercarbono, Biocarbon, and CF.

The LAC region remains a major generator of carbon credits, reflecting its vast natural resources, extensive tropical forests, and enormous renewable energy potential.

Brazil remains the largest issuer of carbon credits in circulation, representing 28 percent of the region's total, followed by Colombia (27.2%), Guyana (15.3%), and Peru (14.8%).

Carbon Credits Generated, in 2023 and Cumulative, by Mechanism and LAC Country

Country	Clean Development Mechanism		Verified Carbon Standard		Gold Standard		ACR, Climate Action Reserve & Plan Vivo		Total	
	2023	Cumulative	2023	Cumulative	2023	Cumulative	2023	Cumulative	2023	Cumulative
Argentina	2.219.895	18.442.173	735.291	3.157.820	-	24.982	-	-	2.955.186	21.624.975
Chile	3.872.148	43.597.221	576.224	4.012.912	524.197	3.758.438	-	-	4.972.569	51.368.571
Uruguay	307.865	1.690.900	6.125.148	17.304.986	-	-	-	-	6.433.013	18.995.886
Brasil	11.764.781	214.359.279	5.293.074	97.065.304	891.815	1.898.036	-	5.680.432	17.949.670	319.003.051
Paraguay	-	6.819	1.009.138	1.699.583	-	-	-	-	1.009.138	1.706.402
Peru	483.392	7.970.647	16.831.850	87.558.971	813.992	2.850.866	-	-	18.129.234	98.380.484
Bolivia	-	2.873.275	-	72.000	7.073	181.659	-	165.438	7.073	3.292.372
Ecuador	-	2.826.297	-	93.663	-	-	-	-	-	2.919.960
Colombia	2.117.162	24.172.859	2.946.472	37.548.006	48.307	1.169.303	-	-	5.111.941	62.890.168
Dom. Rep.	-	857.854	60.000	1.867.925	-	-	-	-	60.000	2.725.779
Haiti	-	-	-	-	-	151.059	-	-	-	151.059
Cuba	-	1.018.055	-	-	-	-	-	-	-	1.018.055
Jamaica	-	718.777	-	-	-	-	-	-	-	718.777
Panama	244.059	2.900.800	13.000	13.000	-	2.741.053	-	-	257.059	5.654.853
Costa Rica	-	2.407.063	-	362.644	-	48.801	-	-	-	2.818.508
Nicaragua	527.490	6.849.995	4.000	669.260	292.288	515.278	1.040.796	3.331.398	1.864.574	11.365.931
Honduras	-	4.331.357	-	403.504	311.896	3.675.253	-	-	311.896	8.410.114
El Salvador	261.265	3.171.565	60.902	321.301	-	-	-	169	322.167	3.493.035
Guatemala	-	6.047.364	2.327.337	9.833.792	324.555	1.626.102	-	-	2.651.892	17.507.258
Belize	-	-	2.012.777	3.423.682	-	-	-	-	2.012.777	3.423.682
Mexico	2.534.737	41.169.136	793.130	4.028.034	42.927	235.967	4.091.228	6.437.835	7.462.022	51.870.972
LAC	**24.332.794**	**385.411.436**	**38.788.343**	**269.436.387**	**3.257.050**	**18.876.797**	**5.132.024**	**15.615.272**	**71.510.211**	**689.339.892**

Source: Authors' elaboration based on data from the Climate Focus VCM Dashboard (29 November 2024) [3]

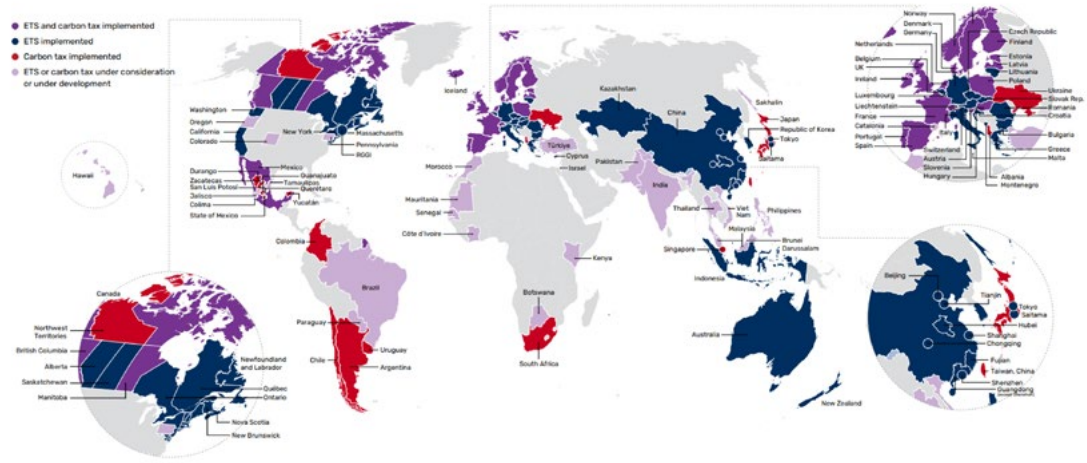
To date, LAC countries have issued nearly 700 million carbon credits under leading independent certification standards, with over 70 million issued in 2023 alone. Cumulatively, the Kyoto Protocol's international certification standard remains the primary mechanism for certifying carbon credits. However, the VCS, the largest independent standard globally, has recently assumed a dominant role in the LAC market. In 2023, VCS credits accounted for more than half of all carbon credits generated in LAC under the major global certification standards.

REGULATED CARBON MARKETS GLOBAL OVERVIEW [4]

State and Trends of Carbon Pricing (worldbank.org)

- Worldwide, 36 emissions-trading systems (ETS) are currently operating, and 39 carbon taxes have been established. These instruments are present in 89 jurisdictions.
- ETSs cover approximately 19 percent of global GHG emissions; when carbon taxes are included, this figure rises to nearly 24 percent, equivalent to around 13 gigatons of CO_2e.
- Additional ETSs and carbon taxes currently being discussed or developed in various jurisdictions could increase their total coverage to nearly 30 percent of global emissions..
- Carbon pricing revenues surpassed US$100 billion for the first time in 2023, with US$75 billion generated from ETSs, mainly the European Union ETS
- The European Union's Carbon Border Adjustment Mechanism is in its initial phase and requires importers to report the embedded emissions of specific products.

Map of Carbon Taxes and Emissions-Trading Systems



Source: WorldBank, 2024

Despite setbacks, the movement toward carbon pricing continues. Both the number of national and subnational initiatives have increased in recent years, and the GHG coverage of established initiatives is expanding. As a result, the share of global emissions covered by ETSs or carbon taxes rose from 12.8 percent in 2020 to 23.9 percent in 2024. Recently, Brazil approved legislation for its ETS, and other countries are on track to follow suit, which is expected to further boost these figures.

According to a recent analysis by the World Bank (2024), the carbon taxes and ETSs currently under consideration could expand global coverage to nearly 30 percent of emissions in the coming years. However, the report underscores the need for greater ambition to align these instruments with an emissions trajectory compatible with the 1.5°C target.

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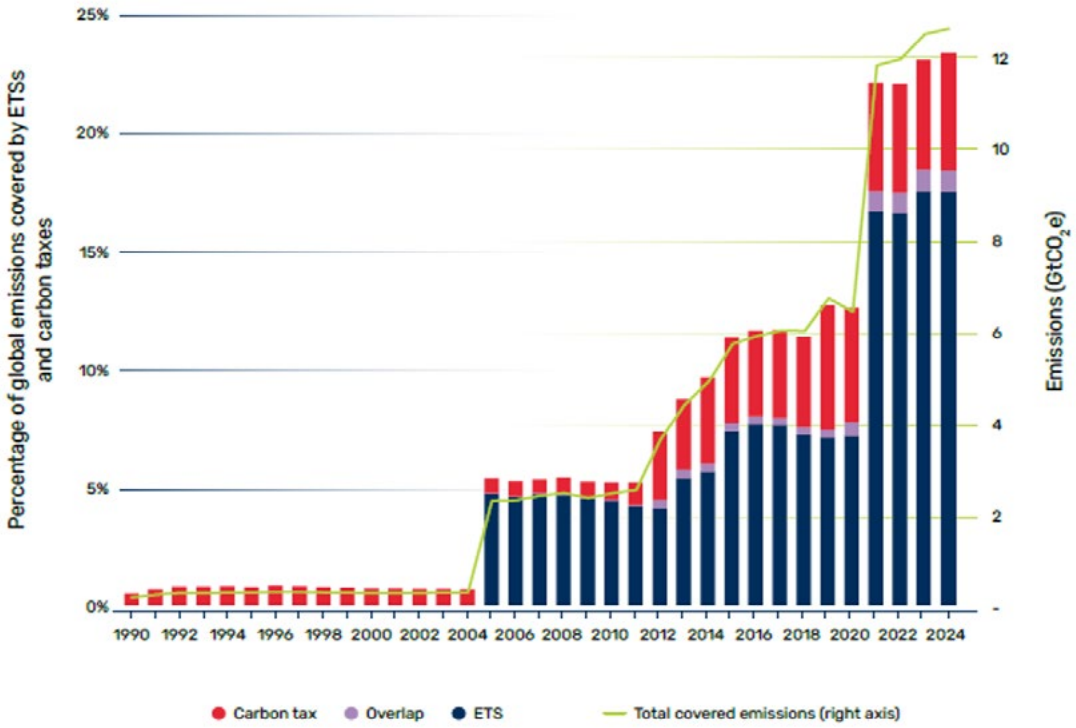
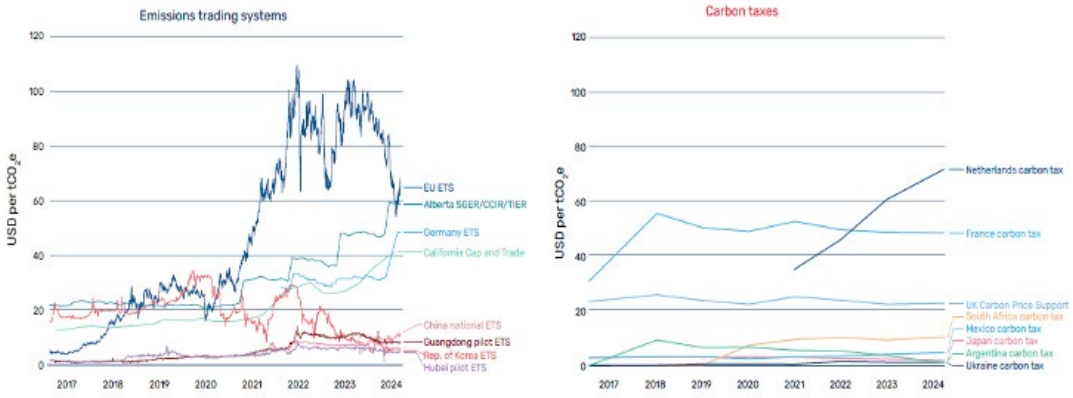
Global Greenhouse Gas Emissions Covered by Carbon Taxes and Emissions-Trading Systems



Source: WorldBank, 2024

Evolution of Carbon Prices under the World's Major Emissions-Trading Systems and Carbon Taxes (US$/$tCO_2e$)



Source: WorldBank, 2024

In 2024, only seven carbon-pricing instruments covering less than 1 percent of global GHG emissions reached price levels equal to or above the inflation-adjusted minimum of US$63 per ton of CO2e (in constant 2024 dollars). Furthermore, carbon prices remain below the lower threshold defined by the IPCC, highlighting the need for more ambitious ETSs and carbon taxes to achieve the 1.5°C target.

REGULATED CARBON MARKETS OVERVIEW IN LATIN AMERICA AND THE CARIBBEAN (LAC)

The LAC region has made significant technical and legislative progress in developing carbon-pricing instruments. Carbon taxes remain the most popular mechanism for pricing emissions in the region, with several countries implementing taxes at the national and state levels. Argentina, Mexico, Chile, Colombia, and Uruguay already have carbon taxes in place, often introduced as part of broader fiscal policies or structural reforms.

Colombia, Chile, and Mexico are leading the expansion of carbon markets in Latin America, and all three countries have approved legislation in place. Colombia is developing an ETS, while Mexico's ETS is transitioning to its operational phase, and the Brazilian government recently approved legislation to implement a domestic ETS. Moreover, countries in the region are promoting the development of voluntary carbon markets at the national level. For example, Colombia and Mexico are establishing carbon credit mechanisms that can, or may in the future, be used to offset emission taxes.

Mexico's carbon-pricing regime is the most advanced in the region and includes both a carbon tax and an operational national ETS. Mexico's ETS, the first in Latin America, began with a two-phase pilot program: an initial pilot phase from 2020 to 2021 and an ongoing transition phase that began in 2022. The country also has five subnational carbon taxes, which are expected to increase to nine by the end of 2024, highlighting the sustained interest in carbon instruments as a revenue source. However, the operational phase of the

Carbon taxes remain the most popular mechanism for pricing emissions in the region, with several countries implementing taxes at the national and state levels

Mexican ETS has faced delays in the definition of operational guidelines, including covered sectors, eligibility criteria, and compliance periods. Other challenges include pricing disparities between subnational mechanisms, which will require greater alignment with the national ETS.

Colombia has established a national carbon tax, and an ETS is being developed following the approval of the Climate Action Law. The law mandates the creation of a National Greenhouse Gas Emission Trading Program and establishes a regulated carbon market that could be integrated with carbon-taxation mechanisms.

Brazil's recently approved Law 182/2024 mandates the establishment of an ETS. After extensive debates in the National Congress on various versions of the bill since 2021, the law was passed in November 2024. It specifies that the Brazilian ETS must be operational within

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five years and that a monitoring, reporting, and verification system must be operational within three years.

Other countries in the region, such as Ecuador, Panama, Costa Rica, and Peru, are promoting voluntary carbon-footprint measurement and offsetting programs as preliminary steps toward adopting carbon-pricing mechanisms. Ecuador's Zero Carbon Program encourages businesses to measure and voluntarily reduce their carbon footprints, while similar initiatives are underway in Panama, Costa Rica, and Peru.

The development of carbon markets in LAC has the potential to generate significant revenue. Expanding these markets would enhance the region's global competitiveness as a supplier of carbon credits, further incentivizing global market development. However, challenges persist, especially around ensuring regulatory clarity, maintaining environmental integrity, and addressing country-specific barriers.

Sources:

[1] Forest Trends' Ecosystem Marketplace. 2024. State of the Voluntary Carbon Market 2024. Washington DC: Forest Trends Association (https://3298623.fs1.hubspotusercontent-na1.net/hubfs/3298623/SOVCM%202024/State_of_the_Voluntary_Carbon_Markets_20240529%201.pdf)

[2] Voluntary Carbon Market Review 2023 (https://carbonpricingdashboard.worldbank.org/credits/instrument-detail)

[3] World Bank's Carbon Pricing Dashboard (https://carbonpricingdashboard.worldbank.org/credits/instrument-detail)

[4] World Bank. 2024. State and Trends of Carbon Pricing 2024. Washington, DC: World Bank. DOI: 10.1596/978-1-4648-2127-1. License: Creative Commons Attribution CC BY 3.0 IGO (https://openknowledge.worldbank.org/server/api/core/bitstreams/253e6cdd-9631-4db2-8cc5-1d013956de15/content)

[5] https://www.argusmedia.com/en/news-and-insights/latest-market-news/2544266-latam-carbon-markets-continue-to-evolve

[6] Climate Focus VCM Dashboard (https://climatefocus.com/initiatives/voluntary-carbon-market-dashboard/)

NEWS: WORLD

COP16 LINKS BIODIVERSITY, CLIMATE, AND MARKETS

Between October 21 and November 1, 2024 in Cali, Colombia, nearly 200 countries participated in the United Nations Conference on Biological Diversity (COP16), which emphasized the recognition of the rights of indigenous peoples and traditional communities. Significant progress on the mobilization of financial resources and the design of tracking indicators had been anticipated, but a lack of consensus limited the ambition of global efforts. The LAC region was also expected to reaffirm its commitment to the biodiversity agenda and take on a global leadership role in this critical area, but progress on these efforts was mixed.

In the context of COP16, concerns were raised about the potential for an unregulated biodiversity market to replicate the challenges faced by voluntary carbon markets. Unlike in the carbon market, there is a clear distinction between biodiversity credits and offsets, but the standardization of biodiversity metrics remains a key challenge, whereas in carbon markets CO_2e underpins a widely accepted measurement framework. By linking biodiversity conservation to climate action, COP16 was expected to ensure that emissions-reduction mechanisms actively contribute to the preservation of biodiversity—for example, by establishing clear and robust rules for calculating carbon offsets and prioritizing NPS projects that support ecosystem restoration. A few weeks later, from November 11 to 22, the United Nations Framework Convention on Climate Change Conference of the Parties (COP29) took place in Baku, Azerbaijan. As described below and in Table 1, notable synergies were observed between the agendas of COP16 (biodiversity) and COP29 (climate), particularly regarding financial mechanisms and markets for biodiversity and carbon.

Source:

[1] https://www.caf.com/pt/presente/noticias/o-que-esta-em-jogo-para-a-america-latina-e-o-caribe-na-cop16-de-cali/

[2] https://www.climatechangenews.com/2024/11/06/biodiversity-market-takes-off-at-cop16-in-shadow-of-carbon-credit-chaos/

[3] https://www.clearbluemarkets.com/knowledge-base/key-outcomes-of-cop16

[4] https://www.southpole.com/blog/cop28-cop16-climate-action-biodiversity

NEWS: WORLD

A REVIEW OF COP 29: CHALLENGES AND OPPORTUNITIES FROM BAKU TO BELÉM

COP29 was marked by intense negotiations amid a challenging geopolitical context. The global transition to clean energy and climate commitments faced pressures from entrenched economic interests and an uncertain political environment. The possibility of less ambitious climate policies following the United States presidential election underscored the importance of international cooperation to advance the goals of the Paris Agreement.

The choice of Baku, a rising symbol of the oil industry, as the host city highlighted the contrast between the need to reduce global emissions and the economic interests of fossil-fuel-dependent nations. The oil lobby had a notable presence and pushed for a slower, less disruptive energy transition, requiring a concerted effort from vulnerable nations and civil society to maintain and strengthen climate commitments. However, no significant progress was achieved in the official text regarding a gradual phasing out of fossil fuels.

Key outcomes included progress in climate finance and carbon markets. A milestone was reached with the operationalization of Article 6.4 of the Paris Agreement, which regulates international carbon markets. The approved mechanism aims to ensure environmental integrity, prevent double counting of credits, and incorporate human rights safeguards. This framework could channel up to US$250 billion annually to developing countries, bolstering mitigation and adaptation actions. Multilateral financial institutions announced a significant increase in climate finance, including a World Bank commitment to reach US$120 billion annually by 2030. A new set of climate-finance objectives was also established, with a minimum of US$300 billion per year and a target of US$1.3 trillion. These measures are critical to help developing nations implement renewable-energy projects, strengthen mitigation efforts, and enhance their overall resilience, though global targets remain insufficient to address the escalating threat posed by climate change.

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The conference also emphasized the need for more ambitious national commitments. Although Brazil, the United Kingdom, and Australia announced that they would revise their Nationally Determined Contributions (NDCs) to embrace more aggressive emissions-reduction targets, these updates were criticized for lacking concrete plans to phase out fossil fuels in major emitting economies. Preliminary analyses indicate that even with these revised NDCs, global temperatures are projected to

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increase by over 2.4°C by the end of the century, underscoring the urgency for greater ambition and international cooperation.

Adaptation measures also received increased attention at COP29. The conference reviewed national adaptation plans and announced commitments to strengthen and expand climate-resilience tools, with a focus on least-developed countries. Specific initiatives included a program by the Asian Development Bank targeting glacial melt in Central Asia and the Caucasus, highlighting the importance of regional action within the global agenda.

Key challenges include funding shortfalls and the need for greater engagement by major global emitters. Fossil-fuel lobbying continues to hinder the implementation of more robust climate action. Leading up to the next COP in Belém, Brazil, the focus will be on transforming the decisions made in Baku into tangible actions. Securing adequate climate financing, especially for developing countries, and aligning financial commitments with adaptation and mitigation needs will be critical. The implementation of carbon-market mechanisms defined at COP29 and stronger commitments from major emitters such as China and the United States will also be essential.

The upcoming COP30 will offer a unique opportunity to spotlight the Amazonian bioeconomy and the critical role of forests in global climate regulation. It will also present a chance to expand the leadership of LAC countries in areas such as climate justice and the inclusion of local communities, promoting a balance between sustainable development and conservation. COP29 highlighted the extent to which the success of the Paris Agreement will depend on collective action and the ability of countries to transcend national interests in favor of the planet's future.

The upcoming COP30 will offer a unique opportunity to spotlight the Amazonian bioeconomy and the critical role of forests in global climate regulation

Source:

[1] https://unfccc.int/news/cop29-agrees-international-carbon-market-standards

[2] https://unfccc.int/news/cop29-un-climate-conference-agrees-to-triple-finance-to-developing-countries-protecting-lives-and

[3] https://www.carbonbrief.org/cop29-key-outcomes-agreed-at-the-un-climate-talks-in-baku/

[4] https://www.bsg.ox.ac.uk/blog/climate-finance-and-embracing-renewables-azerbaijans-role-cop29

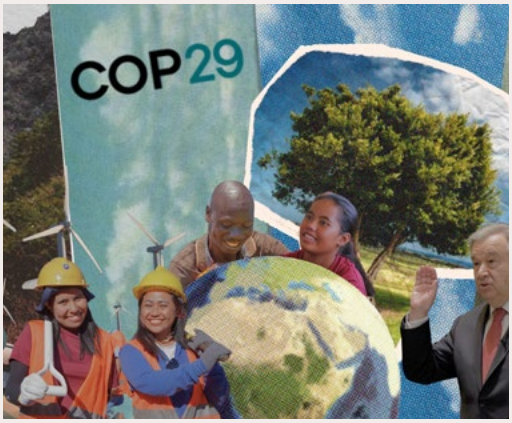
[5] https://www.eco-business.com/news/cop29-countries-still-miles-apart-on-climate-finance-at-tense-un-summit/

[6] https://ndcpartnership.org/news/more-26-countries-latin-america-and-caribbean-strengthen-climate-commitments

BOX 1

CARBON MARKETS AND ARTICLE 6 OF THE PARIS AGREEMENT: THE COP29 FRAMEWORK FOR GLOBAL CLIMATE GOVERNANCE

COP29 achieved significant progress in defining Article 6 of the Paris Agreement, which governs global carbon markets. Following years of intense negotiations, key stakeholders reached a consensus on key guidelines for cooperation mechanisms, including provisions under Articles 6.2 and 6.4. Under Article 6.2, which enables bilateral transfers of emission mitigation outcomes between countries, clearer rules were established for the authorization, revocation, and accounting of carbon credits. These guidelines aim to strengthen transparency and environmental integrity in carbon markets by addressing the risk of double counting and other issues. While some criticisms were raised regarding the limited oversight of the mechanism, the negotiations marked a significant step toward developing shared global standards for internationally transferred mitigation outcomes.



Article 6.4 creates a mechanism for generating carbon credits through a centralized carbon market managed by the UN. Progress was made in transitioning credits from the former Clean Development Mechanism (CDM) to the new system. Key milestones included the establishment of stringent criteria for project eligibility and an enhanced role for indigenous peoples and local communities. However, challenges remain, particularly in defining robust methodologies for carbon-removal projects and in creating a centralized registry for transactions, which is not expected to be operational until 2026.

These developments were welcomed as a significant opportunity to boost confidence in carbon markets and attract new investments in climate projects, particularly in developing countries. However, the effectiveness of these mechanisms will depend on rigorous implementation and ongoing standards reviews, with a focus on environmental integrity and climate justice. While COP29 has helped lay the groundwork for consolidating global carbon markets, continuous monitoring will be essential to ensure that these commitments translate into tangible benefits for the environment and for the communities most affected by climate change.

Source:

[1] https://carbonmarketwatch.org/2024/11/06/faq-fixing-article-6-carbon-markets-at-cop29/

[2] https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/energy-transition/112424-cop29-watershed-moment-for-carbon-markets-as-leaders-resolve-impasse-over-article-6

[3] https://www.ccacoalition.org/news/key-takeaways-ndc-30-regional-forum-latin-america-and-caribbean

NEWS: LATIN AMERICA AND THE CARIBBEAN

BRAZIL APPROVES A LAW ESTABLISHING A REGULATED CARBON MARKET

On November 19, 2024, Brazil's National Congress approved a bill regulating the country's carbon market under a cap-and-trade model, officially called the Brazilian Greenhouse Gas Emissions Trading System (Sistema Brasileiro de Comércio de Emissões, SBCE). The bill is now awaiting presidential approval. This milestone marks a pivotal step in a long process of discussions and revisions of proposed laws to regulate an ETS. The legislation also provides for the creation of a monitoring, reporting, and verification system for emissions, the establishment of a national certification standard for carbon credits, and the implementation of a registry system.

According to the approved text, the law applies to activities, sources, and facilities located within Brazil that emit or may emit GHGs, holding operators, individuals, or entities accountable. Activities generating emissions exceeding 10,000 tons of CO_2e annually will be required to submit an emissions-monitoring plan to the SBCE's managing body, provide an annual report on GHG emissions and removals, and fulfill other requirements established by specific decrees or administrative acts. Activities emitting over 25,000 tons of CO_2e annually must also submit an annual reconciliation report to the managing body, making these operators subject to the ETS. Specific activities and operators will be defined in the law's implementing regulations. Exemptions include primary agricultural production and other activities linked to the rural sector. SBCE obligations will only apply to activities for which consolidated methodologies for measuring and verifying emissions have been established by the managing body. Emission levels under the SBCE may be adjusted based on a cost-benefit analysis of the regulations and Brazil's compliance with its climate goals under the United Nations Framework Convention on Climate Change.

Within the SBCE, the following assets will be traded:

- **Brazilian Emission Allowances (CBEs)**: A fungible and tradable asset representing the right to emit one ton of CO2e, granted by the SBCE's managing body, either free of charge or for a fee, to regulated facilities or sources.
- **Verified Emission Reduction or Removal Certificates (CRVEs):** A fungible and tradable asset representing the verified reduction of one ton of CO_2e, based on an accredited methodology and registered under the SBCE framework according to the rules established by the managing body.

Within the regulated market, entities subject to the system will be required to acquire CBEs or trade CRVEs to offset their emissions. These assets may be traded on formal financial markets, bilaterally, or through public auctions convened by the SBCE's managing body. Transactions on financial markets will be regulated and supervised by the Brazilian Securities Commission.

The law encompasses both regulated and voluntary carbon markets and establishes specific rules to enable the SBCE to operate in concert with other markets. This interoperability will depend on the use of verified methodologies to prevent double counting and ensure the quality and legitimacy of carbon credits. Carbon credits generated from projects or programs involving emissions reductions or removals can be offered initially on the voluntary market by any credit holder, whether an individual project developer or a public entity managing jurisdictional programs or public carbon-credit projects in accordance with the law. If carbon credits are intended to fulfill SBCE regulatory obligations, they must be converted into CRVEs following the methodologies and processes established by the managing body.

The approved legislation includes various formats for REDD+ programs, such as state-level non-market programs, jurisdictional market-based programs, and public and private

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REDD+ carbon-credit generation projects. For example, the law allows state governments to create jurisdictional REDD+ programs to receive payments through the sale of carbon credits generated by deforestation control. While the pre-sale of carbon credits is prohibited, contracts specifying commercial terms for selling credits generated from verified outcomes are allowed. The government of Pará has already established a jurisdictional system and signed an agreement to sell carbon credits for deforestation reduction valued at almost 1 million Brazilian reais.

The approval of the SBCE goes beyond the establishment of a carbon price. The system is essential to internalize the social costs of emissions and to generate additional resources to support climate initiatives and clean technologies in alignment with Brazil's NDC and its commitment to an equitable energy transition. The revenues generated by the system aim to address potential distortions caused by carbon pricing through fiscal transfers, tax incentives, and investments in clean technologies, adjusted to reflect regional priorities. Effective and efficient use of these funds is crucial to ensure a sustainable and transformative impact.

The approval of the law is only the beginning of an extensive policy process. Detailed regulations have yet to be developed covering operational aspects, the establishment of the National Allocation Plan as the foundation for sectoral plans and strategies, governance structures, penalties, and specific operational rules. In addition, it is critical to define how the SBCE will interact with the voluntary market and international dynamics under Article 6 of the Paris Agreement.

The SBCE's implementation will occur in five phases over several years. In the first phase, regulations must be drafted within 12 months, though this deadline may be extended for an additional year. The second phase allocates one year for operators to establish the necessary tools for emissions reporting. During the third phase, operators will focus solely on monitoring, reporting, and verification obligations for two years, including submitting monitoring plans and emissions inventories to the SBCE's managing body. The fourth phase will introduce the first National Allocation Plan, enabling the free distribution of CBEs and the activation of the SBCE asset market. In the final phase, the system will be comprehensively implemented. In an optimistic scenario, the SBCE could be fully operational within four to five years, providing a robust framework for advancing Brazil's climate goals while fostering innovation and economic transformation.

Sources:

[1] https://www.camara.leg.br/proposicoesWeb/prop_mostrarintegra?codteor=2825882&filename=Tramitacao-PL%20182/2024%20(N%C2%BA%20Anterior:%20PL%202148/2015)

[2] https://www.camara.leg.br/noticias/1112521-camara-aprova-projeto-que-regulamenta-o-mercado-de-carbono-no-brasil-texto-segue-para-sancao

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ILACC – BRIEF PRESENTATION

The objective of the Latin American and Caribbean Initiative for the Development of the Carbon Market (ILACC) is to promote the global competitiveness of carbon credits generated in the Latin America and Caribbean (LAC) region, strengthening the conditions for future voluntary and regulated markets, and expanding their impact on job creation, income generation, new technologies, green business clusters and poverty alleviation.

EVENTS

Fourth Meeting of the Board of the Fund for responding to Loss and Damage:
December 2–5, 2024, Pasay, Philippines.

Asia Investment Fórum:
Asia Investment Forum: November 28–29, 2024, Seoul, Republic of Korea.

ILACC FOCAL POINTS

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For more information and to access ILACC content:

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