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# LATIN AMERICA AND THE CARIBBEAN CARBON MARKET OBSERVATORY INITIATIVE - ILACC

## EDITORIAL

Carbon markets are widely regarded as a crucial instrument to combat climate change. Carbon markets encourage the reduction of greenhouse gas emissions by creating incentives to invest in clean technologies and environmentally responsible practices. However, during 2023—the hottest year ever recorded—the worldwide voluntary carbon market (VCM) contracted for the second year in a row, with activity falling by 56% compared to the previous year. Negative media coverage and a pause in purchases while buyers awaited guidance from integrity initiatives drove the contraction in investment.

While this has been a difficult year for many carbon-project developers, the VCM remains one of the best available tools to provide communities around the world with the private financing necessary to protect their natural capital. Moreover, the VCM is becoming increasingly complex and sophisticated, with some market segments showing growth and others in decline, as it continues transition toward a greater focus on project additionality, credibility, and environmental and social co-benefits. In addition, the publication of the Core Carbon Principles by the Voluntary Carbon Market Integrity Council and the launch of the Claims Code by the Voluntary Carbon Market Integrity Initiative are strengthening buyers' confidence in the quality and integrity of the market.

Meanwhile, complementary solutions such as forest offsets have increasingly faced concerns around additionality, longevity, leakages, and equity. To what extent did a given forest offset prevent deforestation? Will the forest be logged next year? Did the landowner cut down a neighboring forest instead? Who bears the cost of the offset, and who receives the payment? While climate action must focus primarily on reducing emissions, offsets can also play a key role. In addition, offsets and similar mechanisms should incorporate biodiversity credits to enhance their positive environmental impact. The World Economic Forum recently identified biodiversity credits as a valuable tool to unlock financing for nature and created a dedicated initiative to develop and promote them. The prospect of stronger disclosure rules and practices has also fostered considerable anticipation in the market.

This fifth edition of the ILAAC Newsletter presents an overview of voluntary and regulated carbon markets, both in Latin America and the Caribbean and worldwide. It explores the regulatory advances, cutting-edge technologies, new instruments and methodologies that continue to strengthen carbon markets. It highlights good practices to be expanded and adopted in new areas. And it examines the role of nature-based solutions, forest offsets, and other mechanisms designed to enhance climate integrity.

Sincerely,

**Federico Vignati**  
Principal Executive, VSP

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# VOLUNTARY CARBON MARKETS GLOBAL OVERVIEW



• Voluntary purchases continue to drive demand for carbon credits, though compliance has also become an important factor.



• After peaking in 2021, the volume and value of the voluntary carbon market (VCM) both contracted for a second consecutive year in 2023. [1]



• The value of the VCM fell from US\$1.9 billion in 2022 to US\$723 million 2023.

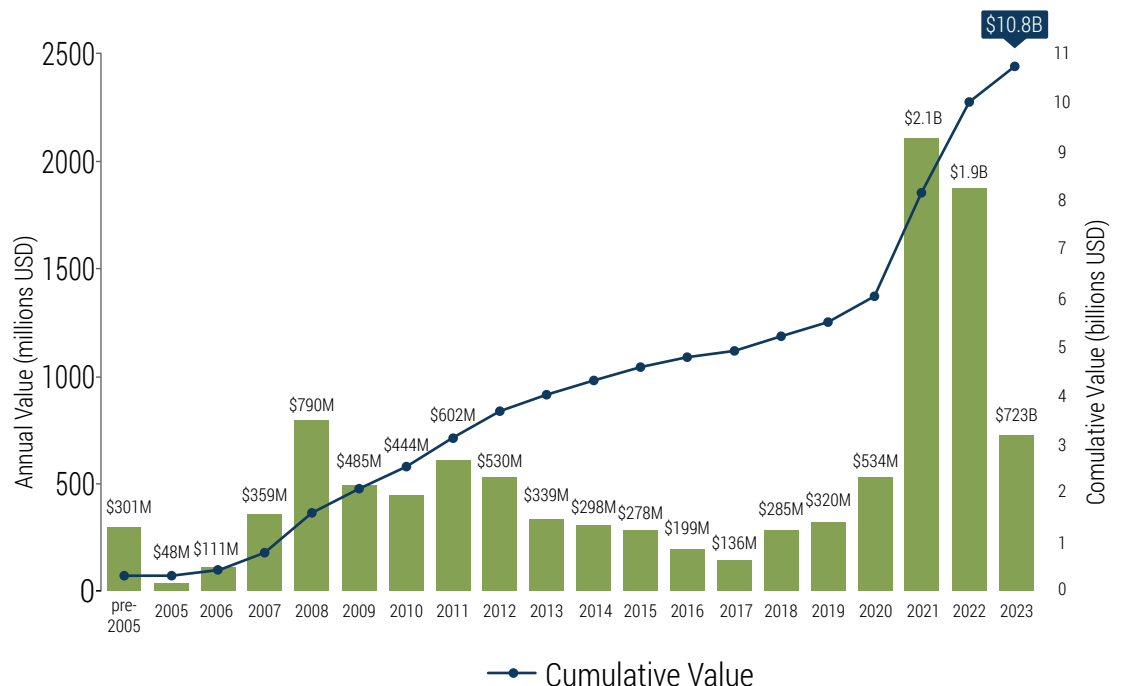


• Although market value has declined across all categories of VCM credit, different categories had different trajectories in terms of traded volumes and average prices. The largest gross drops in volume occurred among forest and land-use credits and renewable energy credits, though these remain the most popular project types. Meanwhile, the transaction volumes for energy efficiency/fuel substitution, agriculture, and home/community project credits have all increased.



• Nature-based solutions (NBS) continue to play an increasingly important role in carbon credits, driven by their significant mitigation potential, their frequent social and environmental co-benefits, and their capacity to offer cost-efficient carbon-removal credits. [2]

Traded Value of the Voluntary Carbon Market, pre-2005 to 2023



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# VOLUNTARY CARBON MARKETS GLOBAL OVERVIEW

Volume and Average Price of Carbon Credits on the Global Voluntary Market by Category

CATEGORY	2021			2023			PERCENT CHANGE		
	Volume (MtCO <sub>2</sub> e)	Price (USD)	Amount (USD MM)	Volume (MtCO <sub>2</sub> e)	Price (USD)	Volume (USD MM)	Volume	Value	Price
<b>Forestry &amp; land use</b>	113.0	\$1.1 B	\$10.14	36.2	\$351.3 M	\$9.72	-68%	-69%	-4
<b>Renewable energy</b>	92.7	\$386.1 M	\$4.16	28.6	\$111.1 M	\$3.88	-69%	-71%	-7%
<b>Chemical processing &amp; industrial manufacturing</b>	13.3	\$68.5 M	\$5.14	12.2	\$50.2 M	\$4.10	-8%	-27%	-20%
<b>Household / Community devices</b>	9.1	\$77.6 M	\$8.55	9.9	\$76.6 M	\$7.70	+10%	-1%	-10%
<b>Energy efficiency / Fuel switching</b>	6.6	\$35.6 M	\$5.39	9.4	\$34.4 M	\$3.65	+43%	-3%	-32%
<b>Agriculture</b>	3.8	\$41.7M	\$11.02	4.7	\$30.6M	\$6.51	+24%	-26%	-41%
<b>Waste disposal</b>	6.2	\$44.9M	\$7.23	1.5	\$10.9 M	\$7.48	-77%	-76%	+3%
<b>Transportation</b>	0.18	\$770 k	\$437w	-	-	-	-	-	-

Source: State of Voluntary Carbon Market (2024)

In 2023, buyers tended to seek credits that represented the removal of emissions and that clearly demonstrated the additionality of the project. The data suggest a growing interest in high-quality projects offering social and environmental co-benefits that extend beyond carbon, such as preserving and restoring biodiversity, strengthening water security, or supporting sustainable local economies. This trend points to a potential synergy with the small but growing markets for loans to support nature and biodiversity.

The overall contraction in the VCM in 2023 masked important shifts in supply and demand across market segments. The home/community project category, led by cooking-efficiency projects, became an important source of credits that provide social co-benefits in addition to emissions reduction. Transaction volumes for

forest and land-use credits fell following discussions on REDD+ project methodologies, but an increase in project registrations and withdrawals in this category indicates that the long-term supply and demand dynamics for these credits remain robust. Meanwhile, renewable energy and transportation credits continued to lose market share to credits based on energy efficiency and chemical, industrial, and manufacturing projects.

In 2023, just ten countries accounted for nearly 90% of all carbon credits utilizing nature-based solutions. The top three countries, Colombia, Brazil, and Peru, accounted for almost two-thirds of all such credits based on the volume of emissions reduction. Colombia alone generated 30 million tons of NBS credits, driven in part by the growth of credits certified under the local standard, Cercarbono [2].

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Top Ten Suppliers of Credits Using Nature-Based Solutions, 2023



Source: Climate Focus 2023 [2]

As of September 2024, a total of 5,224 projects had been registered, with most focused on the household/community, renewable energy, or NBS sectors. The main standards under which the resulting credits were certified include ACR, ART, BioCarbom, CAR, Cercarbono, Climate Forward, GCC, GS, Plan Vivo and VCS.

Supply of Carbon Credits, September 2024

Registered Projects	5.450
Total Emissions Volume	2.061.250.464
Volume Utilized or Cancelled	1.110.260.376
Volume in Circulation	950.990.088

Source: Author's calculations based on data from the Climate Focus VCM Dashboard, accessed September 29, 2024

The publication of the VCMIC's Core Carbon Principles and the launch of the Voluntary Carbon Market Integrity Initiative (VCMII) Claims Code strengthened buyers' confidence in the quality and integrity of the market. However, the delayed implementation of these measures and a lack of guidance from the Science Based Targets Initiative (SBTI) on using carbon offsets to achieve corporate goals were cited by Ecosystem Marketplace [1] as a primary factor that kept buyers on the sidelines for much of late 2023.

Collective efforts to improve the integrity and effectiveness of carbon markets can further bolster confidence on the demand side. The announced ambitions of major carbon standards to harmonize their methodologies with the Core Carbon Principles (CCPs) developed by the Voluntary Carbon Market Integrity Council (VCMIC) signal an important move toward consolidation, as the proliferation of new standards has contributed to the fragmentation of the market on the supply side.[2] From the perspective of the ILACC Observatory, efforts

to increase the prices of carbon credits appear to be driving the push towards consolidation and harmonization. However, further methodological discussions are still expected, mainly regarding REDD+ projects. Resolving these challenges could unlock the enormous potential of the carbon market.

Reorienting the market around stronger certification standards will take time, but activity proved resilient in 2023. Ongoing efforts to restore the reputation of the market will impact buyers, investors, and project developers. On the demand side, interest in high-quality credits and opportunities to scale investments will intensify, as buyers seek carbon credits that can contribute to corporate climate goals or be used in compliance markets. On the supply side, embracing the new standards will require adopting more rigorous approaches to project management, as promoted by initiatives such as the VCMIC's Core Carbon Principles and the activities of carbon-credit rating agencies, though more stringent requirements may reduce the volume of credits generated [2].

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

The LAC region produces a large share of the world's carbon credits, and countries across the region are stepping up their efforts to reduce emissions and implement adaptation measures. In 2023, LAC generated the second-largest amount of carbon credits after Asia. However, the ongoing debate surrounding the credibility of carbon credits, especially those based on avoided deforestation, has been reflected in the decline both in prices and transaction volumes.



• In 2023, the LAC region accounted for 26.9% of all carbon credits verified by independent standards; [1];



• The rising supply of carbon credits in Colombia underscores the key role of the national certifier, Cercarbono, which has developed methodologies that incorporate biodiversity<sup>1</sup>.



• As of September 29, 2024, Guyana had the largest number of projects utilizing NBS, followed by Colombia.

## Volume of Carbon Credits in Worldwide Circulation by Source and Country in the LAC Region

Country	Total	Global share	LAC share	NBS (avoided emissions)	NBS (carbon removal)	Renewable Energy	Other
Brazil	73.444.313	7,7%	28,0%	49.926.546	7.442.640	8.593.084	7.482.043
Colombia	71.462.707	7,5%	27,2%	49.156.227	10.153.861	10.799.154	1.353.465
Guyana	40.612.145	4,3%	15,5%	40.612.145	0	0	0
Peru	39.644.180	4,2%	15,1%	37.353.311	5.796	1.382.812	902.261
Uruguay	8.638.995	0,9%	3,3%	0	7.273.182	1.365.813	0
Mexico	7.907.429	0,8%	3,0%	0	5.075.775	892.679	1.938.975
Other (est.)	20.653.189	2,2%	7,9%	4.448.991	4.754.001	6.339.543	5.110.654
<b>Total</b>	<b>262.362.958</b>	<b>27,6%</b>	<b>100%</b>	<b>69,2%</b>	<b>13,2%</b>	<b>11,2%</b>	<b>6,4%</b>

Source: Authors' elaboration based on data from the Climate Focus VCM Dashboard (29 Sept. 2024) [2]

The LAC region still has considerable untapped potential to produce carbon credits, due largely to its vast natural reserves, extensive tropical forests, and capacity for renewable energy. However, implementing effective carbon-credit integrity initiatives, including the application of the VCMIC's Core Principles, will require regional credit providers to embrace transparency and strengthen their credibility.

As of September 2024, LAC accounted for 27.6% of all carbon credits certified by independent standards. Brazil and Peru have historically been the region's leading producers of carbon credits, but other countries, especially Colombia, are gaining market share. Brazil still has the largest volume of carbon credits currently in circulation, accounting for almost 28% of all LAC credits, followed by Colombia (26%) and Peru (16%). The largest share of credits in circulation is based on avoided emissions through prevented deforestation, mainly via REDD+<sup>2</sup>

<sup>1</sup> <https://carbon-pulse.com/241353/>

<sup>2</sup> This breakdown only includes credits certified by the main independent international standards, such as VCS, GS, CAR and ACR, Plan Vivo, GCC, ART, Cercarbono, Biocarbon, and CF.

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# REGULATED CARBON MARKETS GLOBAL OVERVIEW

## State and Trends of Carbon Pricing (worldbank.org)



To date, 75 carbon taxes and emissions-trading systems (ETS) have been established worldwide.



The European Union's Carbon Market Adjustment Mechanism requires importers of specific products to report embedded emissions.



Carbon-pricing instruments cover about 24% of global emissions.



As of April 1, 2024, the existing ETS and carbon markets covered nearly 13 gigatons of carbon dioxide equivalent, representing about 24% of global greenhouse gas (GHG) emissions.

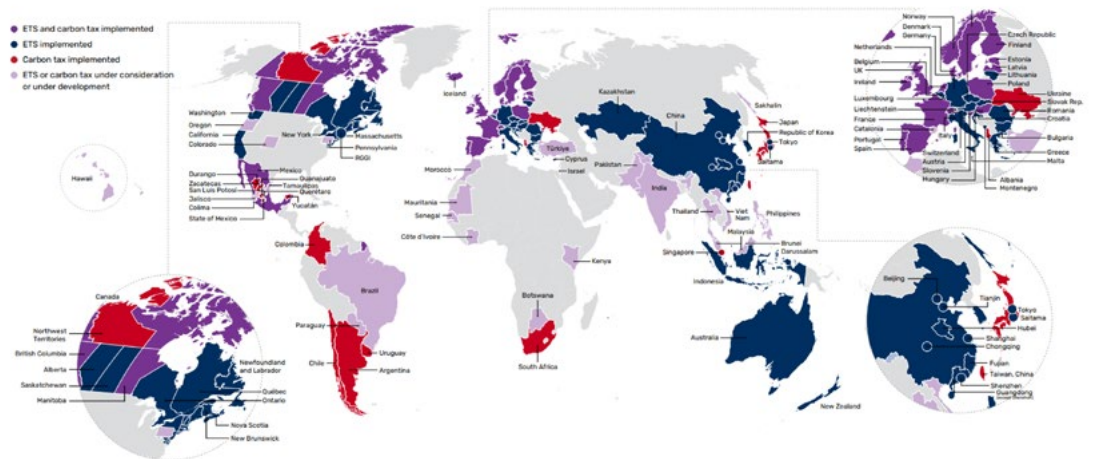


The adoption of all carbon taxes and ETS currently under consideration could increase their coverage to almost a third of global emissions, though accomplishing this will require a robust political commitment.



Revenues generated from carbon pricing surpassed US\$100 billion for the first time in 2023, driven by high prices in the EU and by a one-time shift in some revenues from the German ETS from 2022 to 2023.

## Worldwide Carbon Taxes and Emissions Trading Systems



Source: WorldBank, 2024

Despite some setbacks, a steady push for carbon pricing continues at the subnational level, which accounts for half of all carbon-pricing instruments established in the last three years. In addition, while the share of global GHG emissions covered by carbon taxes and ETS has remained broadly unchanged, the volume of emissions covered increased by more than 400 million metric tons of carbon dioxide equivalent (MtCO<sub>2</sub>e) in 2023.

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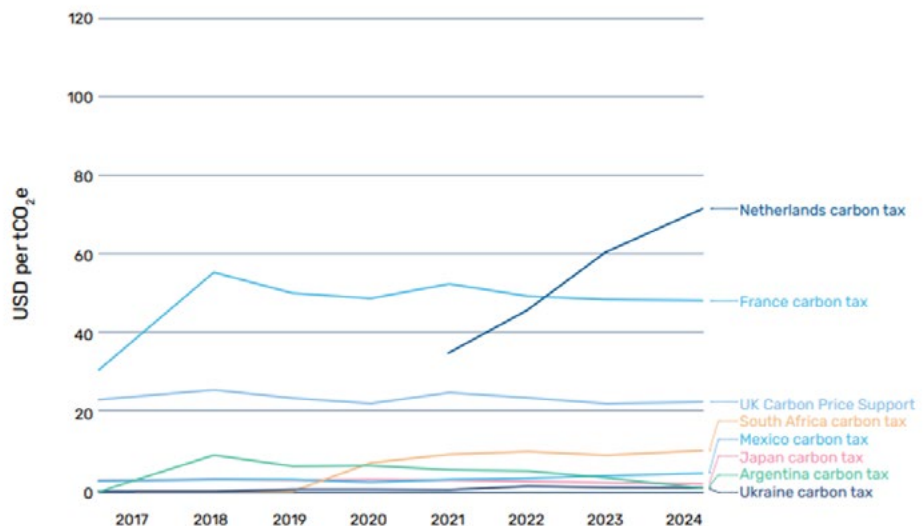
Recent trends in the global VCM have been positive. The launch of the European Union’s Carbon Border Adjustment Mechanism represents a significant shift in the global landscape of carbon pricing, and Australia, Canada, and Japan are considering adopting similar policies. The World Bank (2024) estimates that the implementation of all carbon taxes and ETS currently being considered would push the coverage of these instruments to nearly 30% of global emissions in the near term. However, this share must be increased even further to keep the increase in global temperatures to less than 1.5°C above pre-industrial levels.

Evolution of Carbon Prices under the World’s Major Carbon Taxes and ETS (US\$/tCO<sub>2</sub>e)

Emissions trading systems



Carbon taxes



Source: WorldBank, 2024

In 2024, only seven carbon-pricing instruments covering less than 1% of global GHG emissions reached price levels equal to or greater than the inflation-adjusted minimum of US\$63 per tCO<sub>2</sub>e in 2024 dollars. Moreover, all existing carbon prices are below the lower bound defined by the IPCC, underscoring the need for more ambitious efforts to bring carbon prices in line with the environmental cost of GHG emissions.

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

LAC countries have made significant progress in developing carbon-pricing instruments, and Mexico, Colombia, and Chile are at the forefront of this effort. These three countries have integrated carbon-pricing instruments into broader fiscal policies and structural reform agendas. All three have established national voluntary carbon markets and implemented carbon taxes both at the central and subnational levels, and Colombia and Mexico are developing carbon-credit mechanisms that can offset national taxes on emissions. Argentina and Uruguay also have carbon taxes in place.



To date, Mexico is the only LAC country to have fully established an ETS. The Mexican ETS began with a two-stage pilot program launched in 2020, which was followed by an ongoing transition phase that began in 2022. In addition to its national carbon tax, the country also has five subnational carbon-taxation systems, and the total is expected to reach nine by the end of 2024. The transition phase of the ETS has been hindered by delays in establishing operational guidelines and rules, including the formal definition of the covered sectors, eligibility criteria, and compliance periods. Prices are also subject to uncertainty due to disparities between different subnational mechanisms, which must be harmonized with the national ETS.

Colombia is currently in the process of implementing its own ETS based on an approved law. Colombia's ETS is authorized by the Climate Action Law, which calls for the implementation of a "National Program of Tradable Greenhouse Gas Emission Quotas," a regulated carbon market that can be integrated with existing carbon taxes. In Brazil, a similar draft law is at an advanced stage of the legislative process.

Brazil has shown a consistent political interest in moving forward with regulated carbon pricing.

Since 2021, the National Congress has been discussing bills to establish a national ETS as well as an emissions measurement, reporting, and verification system and a national carbon-credit certification standard backed by a registration system. Multiple draft bills have been discussed in the Federal Senate and the Chamber of Deputies, and the current version of the legislation, PL 182/2024, is currently seeking approval by both chambers.

Other countries in the region are developing voluntary carbon-footprint measurement and offsetting programs as a first step towards the adoption of carbon-pricing mechanisms. The governments of Argentina and Chile have each initiated efforts to create an ETS. Ecuador has adopted a zero-carbon program through which companies voluntarily measure and reduce their carbon footprints. Panama, Costa Rica, and Peru have launched similar initiatives.

The further development of carbon markets in LAC could generate substantial fiscal revenue while increasing global competition on the supply side. Carbon-pricing regulations in LAC continue to evolve, and further progress is expected over the medium term. However, the process entails unique challenges and opportunities for each country.

[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](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://climatefocus.com/wp-content/uploads/2024/01/VCM-2023-Review-Report.pdf>)

[3] 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>)

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



## NEWS: WORLD

# CLIMATE INTEGRITY AND VOLUNTARY CARBON MARKETS WORLDWIDE



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Efforts to ensure the environmental integrity of carbon credits continue to move forward. Integrity initiatives are expanding and strengthening, both on the supply and demand sides, as stakeholders aim to establish reliable and consistent criteria for ensuring transparency and accountability.

As described above, a far-reaching reliability crisis has sent the market tumbling in recent months. Avoided-deforestation credits, the most common form of carbon credits in Brazil, have been particularly affected. Operation Greenwashing revealed a huge scheme involving corruption and illegal land grabs in the Amazon linked to the generation of carbon credits. The illegal activities identified included logging and cattle ranching in protected areas, the breeding of “ghost cattle” in areas with environmental restrictions, the sale of virtual timber credits, and the acquisition of fraudulent environmental licenses. [1]

In July 2024, more than 80 international NGOs, including Greenpeace, Amnesty International, and Oxfam, published a joint letter calling for an end to the use of carbon credits as a compensation for greenhouse gas emissions. The organizations argue that the carbon credit system is structurally flawed and unreliable, reflecting deep underlying problems that have persisted for more than two decades. In particular, the letter’s signatories cite the

challenge of non-guaranteed additionality—as many emissions-removal projects would likely have taken place regardless of the carbon credits associated with them—and concerns around the exploitation of indigenous populations. [2]

By contrast, a group of indigenous-led organizations with a presence in more than 40 countries across the Global South published an open letter in defense of REDD+. These organizations highlight the fact that REDD+ is currently one of the few ways for indigenous peoples and traditional communities to directly access climate finance, which enables them to continue to protect and manage their territories via traditional methods, establish and maintain sustainable nature-based economies, and secure land rights in line with their cultural values. [3]

However, REDD+ also has its flaws. For the credits generated to have a real impact, they must meet the highest standards of integrity, with transparent and verifiable results. In this context, new carbon-credit integrity guidelines have been created to bolster market confidence. The publication of the VCMIC Core Carbon Principles [4] and the launch of the VCMI Claims Code [5] have improved buyer sentiment, and the Science Based Targets Initiative (SBTi) is expected to produce a clearer definition of the appropriate use of carbon offsets. Permission

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for the use of offsets will ultimately require that companies submit a robust decarbonization plan, and a renewed commitment by the private sector is expected to advance decarbonization goals and promote the responsible use of offsets. [6]

The most recent *Ecosystem Marketplace* report [7] identified a significant shift in voluntary carbon markets, with demand increasingly focusing on high-integrity, high-quality credits that offer social and environmental co-benefits that go beyond mitigating GHG emissions. In parallel, the types of credits traded continue to diversify. Although an intense debate around the methodologies of REDD+ projects continues, an increase in registrations and withdrawals of forests and land-use credits suggests that long-term supply and demand remain strong. Meanwhile, the volume of transactions in other categories, including energy efficiency and fuel

substitution, agriculture, and home and community projects, has also grown significantly.

Voluntary carbon markets represent a crucial source of financing for climate action. However, identifying credits that generate a real, verifiable climate impact remains challenging, requiring buyers to undertake considerable diligence. However, ongoing reforms are striving to reduce that burden. To improve the quality and integrity of carbon credits, measurement rules and corporate climate goals must become more robust, scientific, ambitious, equitable, credible, and transparent. Improved methodologies and verification systems will increase revenue mobilization and accelerate progress on climate goals. Carbon markets continue to hold enormous opportunities, but strong quality-assurance mechanisms are essential to establish the confidence necessary to realize their potential.



**An increase in registrations and withdrawals of forests and land-use credits suggests that long-term supply and demand remain strong.**



**Voluntary carbon markets represent a crucial source of financing for climate action.**

- [1] <https://capitalreset.uol.com.br/carbono/creditos-de-carbono/ongs-internacionais-pedem-fim-de-creditos-de-carbono/>
- [2] <https://www.fscindigenousfoundation.org/pt-br/vozes-do-hemisferio-sul-em-apoio-ao-redd/>
- [3] <https://www.gov.br/pf/pt-br/assuntos/noticias/2024/06/pf-deflagra-operacao-greenwashing-para-investigar-venda-irregular-de-creditos-de-carbono>
- [4] <https://icvcm.org/core-carbon-principles/>
- [5] <https://vcminegrity.org/vcmi-claims-code-of-practice/>
- [6] <https://sciencebasedtargets.org/resources/files/Evidence-Synthesis-Report-Part-1-Carbon-Credits.pdf>
- [7] [https://3298623.fs1.hubspotusercontent-na1.net/hubfs/3298623/SOVCM%202024/State\\_of\\_the\\_Voluntary\\_Carbon\\_Markets\\_20240529%201.pdf](https://3298623.fs1.hubspotusercontent-na1.net/hubfs/3298623/SOVCM%202024/State_of_the_Voluntary_Carbon_Markets_20240529%201.pdf)

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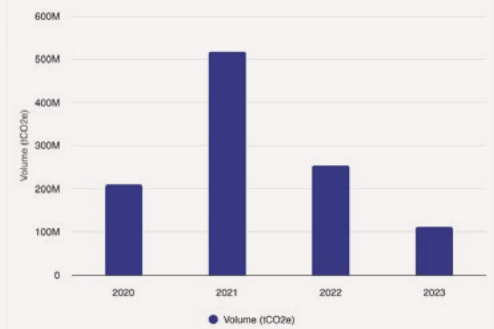
ECOSYSTEM MARKETPLACE LAUNCHES A NEW VOLUNTARY CARBON MARKETS TRANSACTION DATA PLATFORM

Just in time for New York Climate Week, *Ecosystem Marketplace* launched the [Global Carbon Markets Hub](#), Hub, which offers access to the world's largest database of VCM transactions. Charlotte Barber, Associate Director of Ecosystem Marketplace, highlighted the Hub's goal of enhancing the transparency of the global VCM by providing equitable access to market information. Despite the significant growth of the VCM over the past five years, concerns about project integrity and the possibility of greenwashing have discouraged buyers and slowed market activity. The charts below underscore how this reliability crisis has affected the volume (tCO<sub>2</sub>e) and price (USD/tCO<sub>2</sub>e) of VCM transactions.

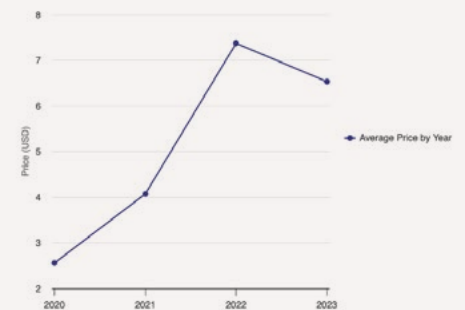
The new platform features interactive visualizations that analyze transaction data from more than 200 market participants spanning more than 20,000 carbon projects. These visualizations offer a comprehensive view of the VCM's evolution, enabling project developers and investors to make informed decisions. Experts such as María Alejandra Cantuarias, Director of Carbon Business at Bosques Amazónicos, have highlighted the importance of disseminating reliable and transparent data to increase awareness of NBS and their crucial role in the fight against climate change.

Total Volume and Average Price of Credits Traded on the Voluntary Carbon Market, 2020-2023

Total Volume (tCO<sub>2</sub>e) by Year

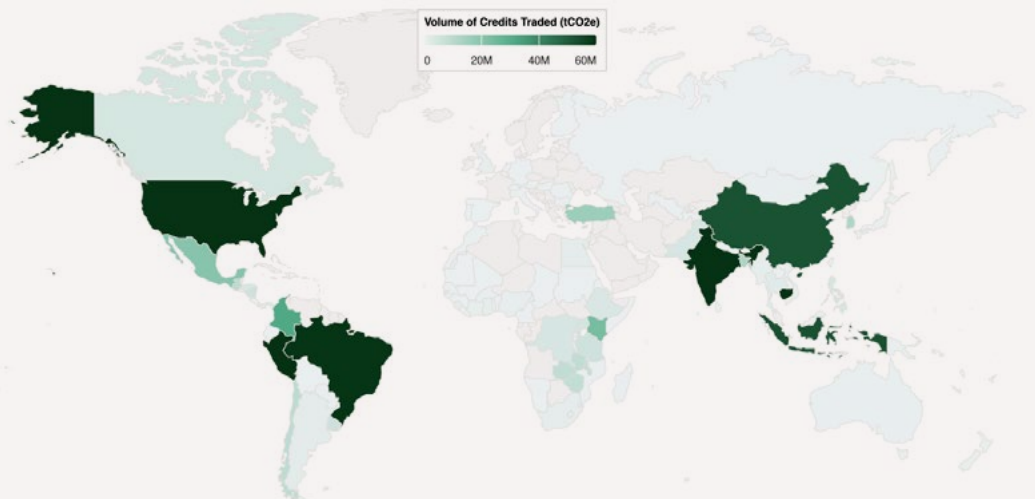


Price by Year (USD/tCO<sub>2</sub>e)



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Evolution of Carbon Prices under the World's Major Carbon Taxes and ETS (US\$/tCO<sub>2</sub>e)



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Although initiatives such as the VCMIC have made progress in promoting market integrity, significant challenges remain. The lack of a unified regulatory framework and concerns about greenwashing continue to threaten confidence in the global VCM. Michael

Jenkins, CEO of Forest Trends, has emphasized that unfettered access to information is essential to unlock the potential of carbon finance and ensure that the communities that manage these critical projects adequately benefit from them.

NEWS: LATIN AMERICA AND THE CARIBBEAN

NATURE-BASED SOLUTIONS, CARBON NEUTRALITY, AND ISO 14068-1



Climate change is among the most pressing concerns of our time. To avoid the worst effects and limit the rise in global temperatures to no more than 1.5°C, the Intergovernmental Panel on Climate Change (IPCC) has determined that global GHG emissions must decline by 40% this decade and reach net-zero by 2050. Achieving the goal of net-zero emissions has proven to be an immense challenge, but high-quality carbon credits can help corporations, states, and subnational jurisdictions achieve carbon neutrality. When properly managed and utilized efficiently, high-quality carbon credits can produce additional and measurable GHG reductions while generating substantial financial resources for governments and local communities.

In 2023, the International Standards Organization (ISO) published ISO 14068-1, a new set of requirements for organizations that aim to achieve carbon neutrality. ISO 14086-1 defines evaluation methodologies for goods, services, or events that are aligned both with ISO's own quantification standards and other equivalent protocols. ISO 14086-1 can be used by any organization in any industry or sector to measure all GHGs across a value chain or project cycle.

Despite its laudable objectives, ISO 14068-1 has faced significant criticism, especially regarding its interaction with the VCM. The standards instruct organizations seeking carbon-neutral certification to initially use carbon credits in any category, including

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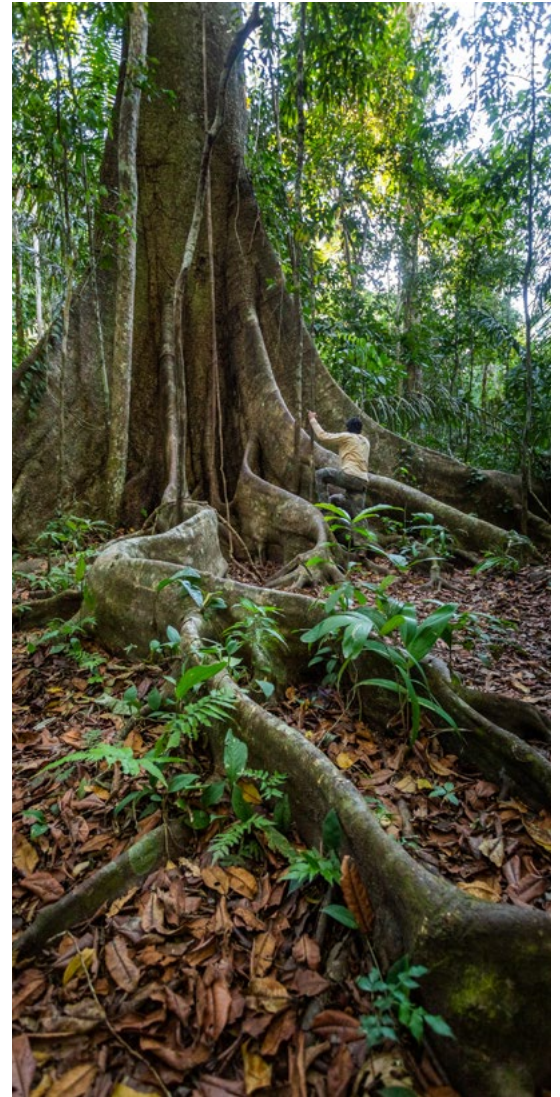
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emissions reduction, avoided emissions, and atmospheric carbon capture. However, once a baseline has been established and an action plan is in place, organizations are instructed to use credits exclusively based on atmospheric carbon capture and ignore other categories. The LAC region has immense potential for credits based on emissions reduction through investment in low-carbon energy, as well as avoided emissions through REDD+ and other land- and forest-based projects. There is no clear justification for limiting such projects in the ISO 14068-1 [guidelines](#), and doing so may inhibit the emergence of LAC as a “solution region” for climate change.

Indeed, carbon credits based on protecting environmental quality, improving agricultural land management, and restoring all types of terrestrial and coastal ecosystems—collectively known as NBS—are becoming increasingly prominent. According to Conservation International, NBS carbon credits can provide about 30% of the emissions reduction needed to limit global warming to 1.5°C by 2030. They also offer many socioeconomic and environmental co-benefits, such as the preservation and restoration of biodiversity, the enhanced provision of ecosystem services, and support for sustainable livelihoods. Yet despite their vast potential, especially in LAC, NBS carbon credits have attracted very little public and private investment.

One key advantage of NBS projects is their ability to mitigate climate change swiftly and effectively. *Nature Communications* recently published an analysis of the five fundamental principles of NBS based on a review of the scientific literature and global best practices. The analysis found that adhering to these five principles—which are that a project be nature-based, sustainable, climate-additional, measurable, and equitable—can enable the rapid and scalable action necessary to reduce GHG emissions in the near term.

Over the past six years, interest in NBS [has increased dramatically](#). Mentions of NBS in climate-related social media traffic have increased from less than 2% to more than 6%, while funding commitments have doubled. The IPCC emphasizes that the rapid development of NBS is essential to achieve net-zero emissions and avoid catastrophic warming. Given the high and rising expectations for NBS, ILACC will continue to monitor the evolution of NBS carbon credits.



**The LAC region has immense potential for credits based on emissions reduction through investment in low-carbon energy, as well as avoided emissions through REDD+ and other land- and forest-based projects.**

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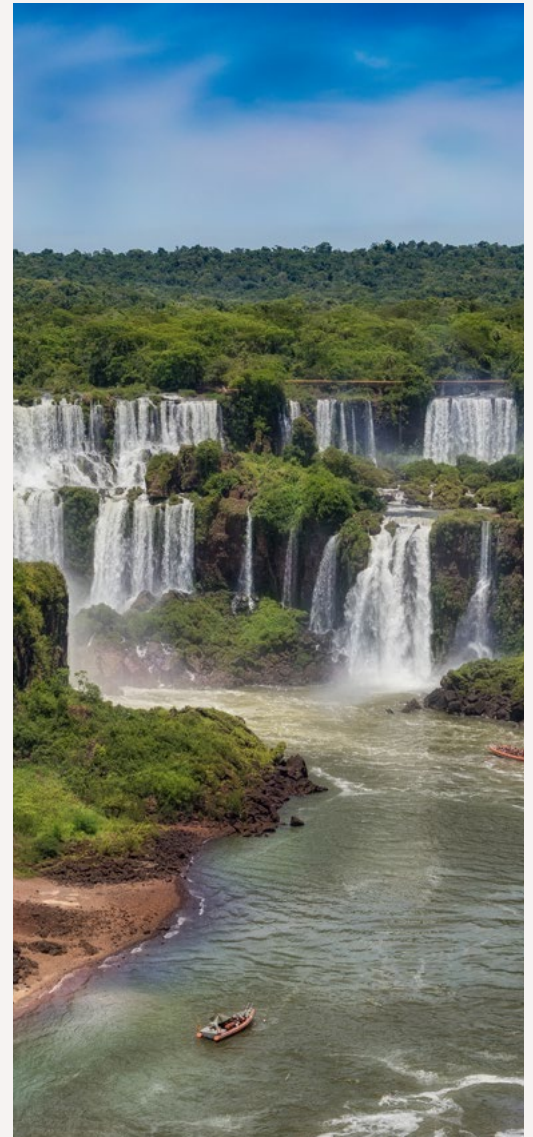
BOX 2

REGULATORY CLARITY AROUND REDD+ IN BRAZIL AND LATIN AMERICA

The Brazilian Climate, Forests, and Agriculture Coalition (*Coalizão Brasil Clima, Florestas e Agricultura*) has expressed a favorable view of recent legislative progress, including the issuance of implementing regulations for Law No. 11,284/2006 and the enactment of [Decree N° 12.046/2024](#). The country's enhanced legal framework represents a significant step toward building the robust governance arrangements necessary to ensure the sustainable use of Brazil's natural resources and affirm the country's commitment to forest conservation and climate-change mitigation. However, the Coalition has also raised concerns that will need to be addressed to ensure the effectiveness of climate-change mitigation policies.

In particular, the inclusion of afforestation, reforestation, and revegetation (ARR) activities within the scope of REDD+ has raised questions about potential regulatory confusion, which could compromise the effectiveness and financing of projects based on avoided deforestation. The Coalition emphasizes the importance of maintaining a clear distinction between these approaches, which include their own distinct methodologies and objectives, as conflating them can devalue restoration credits and negatively affect the attractiveness of these projects for investors.

The absence of robust guidance in this critical area could undermine efforts to combat deforestation, weakening climate-change mitigation. REDD+ focuses on reducing GHG emissions from deforestation and forest degradation, while ARR activities seek to remove carbon from the atmosphere. Although REDD+ includes scope for related activities like ARR, these cannot be the main focus of REDD+ projects. Without clear definitions, projects based on avoided deforestation will be subject to considerable uncertainty, discouraging investors and hindering their integration into carbon markets. In Brazil, the lack of clear distinctions between REDD+ and ARR is a particularly serious concern, especially as the National Commission for REDD+ ([CONAREDD](#)) is still not operational.



Overall, strengthening the regulation of carbon markets, both in Brazil and across the region, remains a crucial objective. A lack of clear guidelines and uncertainty about market dynamics have generated mistrust among investors and made it difficult to mobilize financial resources. For VCMs to thrive in the region, a [robust institutional framework](#) must clearly define the roles of all institutions involved and monitor the implementation of standardized regulations and best practices.

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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

**Carbon Forward Conference**  
8-10 de octubre, Londres (RU).

**CMI's Annual Australasian Emissions Reduction (AER) Summit**  
29-30 de octubre, Melbourne (Australia).

**2024 High-level ministerial dialogue on the new collective quantified goal on climate finance**  
9 de noviembre, Bakú (Azerbaiyán).

**Boosting Forests: Empowering developing countries to raise climate ambition with REDD+**  
18 de noviembre, 18:30h - 20:00h GST/UTC+4, Side event 9, Bakú (Azerbaiyán).

**Conferencia de las Naciones Unidas sobre el Cambio Climático de 2024 (COP 29):**  
11-22 de noviembre, Bakú (Azerbaiyán).



**Carbon Forward Events**



**HIGH-LEVEL MINISTERIAL DIALOGUE ON THE NEW COLLECTIVE QUANTIFIED GOAL ON CLIMATE FINANCE: A POLICY UPDATE**

11-12 October 2024  
18:30h - 20:00h GST/UTC+4  
Baku, Azerbaijan

tfoscar@bankofamericainfo.com



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

CAF-development bank of Latin America and the Caribbean

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