



Confederação Nacional da Indústria

PELO FUTURO DA INDÚSTRIA

INDUSTRY'S VISION FOR COP 26

Brasília
2021



INDUSTRY'S VISION FOR COP 26

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PRESENTATION

In November this year, in Glasgow (Scotland), the member countries of the United Nations Framework Convention on Climate Change (UNFCCC), will meet in search of a consensus on the direction the world will take. COP 26 (26th UN Conference of the Parties on Climate Change) will discuss the next steps towards the full implementation of the Paris Agreement, which is the most important milestone of international climate negotiations.

Certainly, it is one of the most expected Conferences by world leaders. According to the latest study released by the Intergovernmental Panel on Climate Change (IPCC), this will be a decisive decade for us to respond to the challenges of climate change. The report pointed to the urgent need for countries, companies and society to take firmer and more ambitious actions to avoid even more severe impacts of global warming.

Brazil has always been a major player in the environmental agenda and has enormous potential to lead this process. No less than 62% of our territory is covered by native vegetation, and we have the highest water availability in the world, with 12% of the reserves of the planet. We have an electricity matrix with 85% renewable sources and we are the second largest producer of biofuels in the world.

Although it is already responsible for a low carbon intensity, the Brazilian industry understands the relevance of its role in this international agenda. Therefore, it is acting to reduce greenhouse gas emissions and reach a zero carbon balance. This has been a priority for several industry segments.

Understanding its leading role in the representation of economic sectors in the country, the National Confederation of Industry (CNI) presents, in this document, its observations and contributions to subsidize the negotiations at COP 26. The document contemplates the main points that the Brazilian industry understands as important for the effective implementation of the Paris Agreement.

Good reading.

Robson Braga de Andrade
CNI President

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1 CONTEXTUALIZATION

With the approval of the Paris Agreement in 2015, the countries pledged to cooperate to ensure that the average global temperature increase would be limited to 2 °C above pre-industrial levels, with the promise of increasing their ambition every five years and seeking to limit temperature increase by 1.5 °C.

Brazil was the first developing country to present absolute emission reduction targets to achieve the objectives of the agreement. In 2020, the country updated its NDC, maintaining its commitment to reduce 37% of greenhouse gas emissions by 2025 and formalizing its target of 43% by 2030 (considering 2005 emissions), until then only indicative.

COP 25 (Madrid, 2019) highlighted the urgency and need to increase the ambition of Nationally Determined Contributions (NDCs) and announced that 120 countries would work to achieve climate neutrality by 2050.

At the Climate Summit this year, Brazil committed to zero illegal deforestation by 2030 and climate neutrality by 2050, a 10-year anticipation of the deadline, converging with advanced economies.

The industry considers positive the anticipation of Brazil's emissions neutrality targets for 2050 and the intention to have zero illegal deforestation by 2030. This positioning is appropriate to the conclusions of the recent study released by the Intergovernmental Panel on Climate Change (IPCC), which assesses the impact of human activities on the environment and once again highlights the urgency of climate action in order to avoid more severe impacts of global warming.

This is an important warning, indicating that this will be the decisive decade for a decisive response to the climate challenges we face today. Everyone should ask themselves how they can contribute to the conservation of the planet and the survival of those who inhabit it. However, it is necessary to build an effective action plan to ensure compliance with the established goals.

The industry has understood its role and is acting to reduce emissions and reach a zero carbon balance, which has become a priority of several sectors. Many Brazilian companies have already committed to zero emissions by 2050. The challenge is huge!

The next 10 years will be critical for the neutrality commitments to materialize. More and more firm and ambitious agreements will be needed if we are to limit the temperature increase by 1.5 °C, from effective plans for meeting the targets set in the NDC. This will mean major technological and business structure transformations, as well as substantial changes in our model of society.

2 EXPECTATIONS FOR COP

The year 2021 is critical for countries to increase their climate ambitions, within the framework of the Paris Agreement. There is a high expectation that the negotiations will be finalized, in particular the Book of Rule and Article 6, at the 26th United Nations Conference on Climate Change - COP 26.

There is currently a climate urgency, detailed in the latest IPCC climate report, that requires more ambitious measures and actions to ensure that the results in Glasgow reflect the reality of the situation the world is experiencing. The impacts of climate change are already felt, in particular by the most vulnerable, and will increase in severity and frequency.

The industry considers it essential to maintain the increase in the average temperature of the planet by up to 1.5 °C and wants to be an active part of this journey. Below, we present our view on the topics considered most relevant in this process.

2.1 Completion of the Paris Agreement Book of Rules, focusing on Article 6

One of the main points on which there is still no consensus is the financial instrument established in Article 6 of the Paris Agreement. It deals with the creation of the Sustainable Development Mechanism, which establishes the global carbon market. More specifically, the Paris Agreement provides, in Article 6.4, for the implementation of the Sustainable Development Mechanism (SDM), which will allow the private sector to invest in projects to reduce greenhouse gas emissions (GGE) and generate certified emissions reductions (CERs), which can be commercialized in the future global carbon market or cut emission reduction targets, established through the Nationally Determined Contributions (NDCs) of each country.

With fair and transparent rules and, if well operated, this mechanism will provide new businesses and investments and the transfer of technology to Brazil. Thus, it can be one of the solutions based on sustainable development for the generation of employment and income in the country, especially in the post covid-19 scenario.

The initiative was defined to continue the successful experience of the Clean Development Mechanism (CDM) in the Kyoto Protocol, which generated, according to data from Ipea (Brazil, 2018), investments around US\$ 32 billion in the last 15 years in the Brazilian economy, avoiding the emission of 124 million tons of GHG emissions into the atmosphere.

In view of the legacy of the CDM and the importance of its continuity via SDM for Brazil, the industry supports the maintenance of the main recommendations presented in the document: "Industry's Contribution to the Sustainable Development Mechanism in the Paris Agreement", summarized below:

1. Any changes to the initially proposed rules that have a retroactive impact should be made in a manner that provides predictability in relation to the NDCs development and review cycle.
2. If there is any kind of restriction imposed by the NDC on the development of projects under Article 6.4, the decision should be up to each country, in accordance with the general strategy of compliance with its NDC. In line with principles already applied under the CDM, article 6.4 should be able to be used to implement national policies, plans and possible regulations, provided that it is foreseen in the policy framework. The use of the mechanism as a means of implementation should be allowed and additionality should not be automatically diminished only by the existence of a policy or regulation;

3. Any corresponding adjustments, within the scope of Article 6.4, should observe criteria that give countries freedom to establish domestic governance for the establishment of the corresponding adjustment and action plans that characterize or not the interface of specific segments with the NDCs;

4. There must be a clear relationship of transparency and single counting of referred credits;

5. Clear and objective criteria should be established for the definition of a baseline and additionality of SDM projects, which is fundamental for the environmental integrity of a market mechanism. At the same time, adequate cost-effectiveness is essential to ensure the viability of the mechanism as an incentive for further mitigation; and

6. It is necessary to ensure the institutional use and a fair transition with legal certainty between the CDM and the SDM, which enables the transfer of methodologies, projects, credits and other aspects, with similar comparative bases.

In order for the use of SDM credits to be made at any future time of the regime under the United Nations Framework Convention on Climate Change (UNFCCC), the new rules in Article 6.4 must make this point extremely clear, so that there is no credibility loss of the system. It is worth noting that in the main emission trading systems in the world, the practice of *unlimited banking*, in which previous commitment period units can be used for the fulfillment of commitments of future periods, is adopted. This same principle must be adopted in the transition to the Paris Agreement.

A fair transition from the CDM means correctly applying the principle of common but differentiated responsibilities (Article 2 of the Paris Agreement), with real effect on the economies of emerging countries. Thus, the credibility and voluntary effort from the part of economic agents are recognized – with the support of their governments – by Kyoto Protocol signatory countries (Annex 1), allowing the use of all institutional learning over the last two decades.

It is also recommended to develop a robust and complete tracking system, using project records to avoid double counting. We, from the Brazilian industry, understand that the establishment of the rules of Article 6 is essential for the sector to significantly contribute to the fulfilment of the NDC. A relevant effort must be made by the parties to have these rules, and consequently the Book of Rules, completed in Glasgow.

2.2 Mobilizing climate finance and technology transfer

The process of transitioning to a low-carbon industry poses a challenge, but it also creates opportunities for the development of more efficient processes, technological innovation and the creation of new products.

There is a range of disruptive technologies, that is, they are still in the process of maturation and have little penetration, either because of lack of evidence for large-scale replication or because they have been customized for a given environment. In addition, the challenges associated with the implementation of new technologies include the high cost of capital in Brazil, especially in long-term investments, such as infrastructure projects.

One of the essential points for the implementation of the Brazil's NDC is access to financial resources. Although it is able to excel in the environmental area, Brazil has attracted a small share of resources in climate

funds. In a publication prepared by CNI, a guide that brings the main funders of climate projects, it was found that, in recent years, Latin America and the Caribbean had only 4.5% of these resources, and Asia 38%.

For Brazil, which has positive comparative hallmarks with respect to its main international competitors, there is great potential for the generation of new businesses that can contribute to the consolidation of a low-carbon economy. For this, resources will be required. All kinds of funding will be needed, whether public or private, to enable the development of more sustainable infrastructure and the increasing adoption of low-carbon technologies.

Thus, there is a high expectation that developed countries will present, at COP 26, their commitments to raise at least US\$ 100 billion a year in climate resources, to support developing countries in this process. The industry presents the following recommendations:

1. More efforts on the part of the COP presidency to ensure this financial commitment, from developed countries, through the continuous coordination of the political leaders necessary to move forward on this issue;
2. Effective allocation of financial resources from developed countries, including the predictability of climate finance, aiming at R&D and implementation of lower carbon-intensive technologies;
3. Incentive and funding mechanisms that allow the gain of scale for new technologies;
4. Differentiated access to technologies that enable the reduction of greenhouse gas emissions and actions that promote the expansion, maintenance and restoration of carbon stocks and incentive programs for the use and development of renewable energies in their energy and electrical matrices;
5. Provision of training, by UN agencies, for the implementation and dissemination of new technologies;
6. Allocation of financial resources from carbon pricing for investments in R&D actions aimed at mitigating GHG emissions and adaptation to climate change;
7. Allocation of part of the R&D resources for the development of digital technologies and artificial intelligence that support the mechanisms of MRV (Measurement, Reporting and Verification), ensuring maximum completeness and transparency in the project performance communication;
8. Economic instruments to direct and assure resources for low carbon investments;
9. Scaling private funding towards Net Zero, in particular for Nature-Based Solutions (NBS); and
10. Governance Definition of the climate finance fund.

2.3 Adaptation to climate change

Article 7 of the Paris Agreement establishes adaptation as a global challenge faced by all on the local, subnational, national, regional and international dimensions. In this article, the importance of international cooperation to adaptation efforts is recognized, taking into account the needs of developing countries, especially those who are particularly vulnerable to the negative effects of climate change.

The Paris Agreement establishes the relevance of sharing information, good practices, experiences and lessons learned between the parties, as well as strengthening institutional arrangements. Scientific knowledge about climate – including surveys, climate system observation and early warning systems to inform climate services and support decision-making – it is also one of the approaches of the article.

Recognizing the need to raise the importance of adaptation policies within the UNFCCC discussions, some ministers of State have been emphasizing, during previous ministerial meetings, the urgency of this agenda to gain more attention at COP 26, in more parity with the mitigation agenda.

Among the main points mentioned by the ministers are the need to improve the understanding of the parties on the *Goal on Adaptation* (GGA), including with the establishment of a roadmap or work plan in order to facilitate its implementation. The global adaptation target, set out in Article 7 of the Paris Agreement, presents three main components: increasing adaptive capacity, strengthening resilience and reducing vulnerability to climate change, all within the context of limiting global temperature rise to as close as possible to 1.5 °C above pre-industrial levels.

Another issue that has been debated is the need to increase financing for adaptation and ensure that it is more accessible and predictable. There is also a discussion about the accessibility and eligibility of financing, such as when mentioning the relationship between vulnerability and GDP. Some existing funding mechanisms, such as *Green Climate Fund* (GCF) or even the Adaptation Fund, were also mentioned by ministers, provided that the requirements and procedures were revised. The participation in the resources coming from Article 6 for adaptation has also been discussed, as well as the percentage of financing share for mitigation and adaptation.

National adaptation plans have also been treated as fundamental tools to guide the actions of countries and communicate locally and nationally the priorities and needs of each party.

Some points are essential to leverage the adaptability of countries and, consequently, industry:

1. Increase funding for adaptation and ensure that it is predictable and more accessible. However, the industry understands that the priority is still mitigation, that is to say, the increase in the overall amount of adaptation funding should be additional and not at the expense of mitigation funding;

2. Reinforce the importance of using National Adaptation Plans as tools to guide initiatives for the management and reduction of climate risk in the long term, including being implementable instruments to attract local and international funding. The industry understands that the NAP, in addition to addressing guidelines, must define effective actions to mitigate major physical climate risks by regions. Extreme weather events, such as changes in rain patterns, can lead to floods, droughts, and cold and heat waves. In the case of Brazil, there is an additional risk associated with the dependence of the electric matrix on hydroelectricity, subject to the effects of droughts;

1. Increase the Information sharing, good practices, experiences and lessons learned among parties, including by strengthening institutional arrangements, to support the summary of relevant information and knowledge, as well as the provision of technical support and guidance to parties;

4. Encourage the strengthening of scientific knowledge on climate, including research, climate system observation and early warning systems, in order to inform climate services and support decision-making; and

5. Encourage the identification of effective adaptation practices – needs, priorities, support provided and received for measures and efforts –, challenges and gaps, so as to encourage good practice.



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