



INDUSTRY'S VISION FOR COP27



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PELO FUTURO DA INDÚSTRIA

INDUSTRY'S VISION FOR COP27

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EXECUTIVE SUMMARY

In November 2022, the member countries of the United Nations Framework Convention on Climate Change (UNFCCC) will meet in Sharm El Sheikh (Egypt) for the COP27 (27th Climate Change Conference of the Parties) to continue the negotiations of COP26 aiming to materialize the progress made in Glasgow.

The key issues to be negotiated under the Paris Agreement range effective measures to limit the rise in global warming to 1.5°C, climate change adaptation measures, mobilization of resources for climate finance, and implementation of the global carbon market (Article 6).

Regarding Article 6 of the Paris Agreement, the success of this initiative will depend on how the international community will implement and build the pathways based on what was approved in Glasgow, and on how Brazil will organize its institutional framework to implement this mechanism. In addition to institutional arrangements, there are still some legal aspects that need to be regulated.

Understanding its leading role in representing the country's economic sectors, the Brazilian National Confederation of Industry (CNI) presents in this document the observations and contributions of its industrial base to subsidize the negotiations at COP27 and the internal measures that Brazil must implement to support the country's fulfillment of the Article 6 mechanism. This document also addresses specific issues related to the climate change adaptation agenda and climate finance.

ACTIONS FOR BRAZIL - ARTICLE 6

The interest of the industry refers above all to Article 6.4, which allows the private sector to invest in projects to reduce emissions and/or increase removals of Greenhouse Gases (GHG) in order to generate credits (CERs – Certified Emissions Reductions) that can be traded in the future global carbon market or cut down emission reduction targets set by each country's Nationally Determined Contributions (NDCs).

However, the instruments envisaged in Articles 6.2 and 6.4 will only be practicable if the federal government addresses critical issues central to these Articles and ensures fungibility, environmental integrity, and transparency of the market and credits.

There are challenges and opportunities for the industry that need to be known and worked on together with the government in the domestic developments. Therefore, we understand that some important actions need to be taken by the federal government, namely:

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1. The first step for the country is to define an implementation plan for the NDC, which we propose to be prepared in a transparent manner and with the involvement of all sectors, especially those most likely to be affected by the plan;
2. The establishment of a robust institutional arrangement is a sine qua non for implementing Article 6 in Brazil, as it is directly related to the implementation of the NDC. Therefore, we recommend a collegiate structure that can provide coordination between the different federal agencies most involved in implementing the Brazilian NDC.
3. Brazil must establish a national strategy for the use and implementation of activities under Article 6.2, which includes, among other things, demonstrating record keeping that encourages the implementation of appropriate adjustments; and
4. The introduction of a national emissions register that meets the established requirements for integration into the international register structure, a tool without which it will not be possible to ensure transparency and integrity and avoid double counting.

ONGOING MULTILATERAL TALKS

Regarding the ongoing negotiations, it is critical that the country monitor the ongoing multilateral talks and seek coordination with the private sector on the following matters:

- a. Definitions for baseline and additionality.
- b. Transition of CDM methodologies, projects, and credits to Article 6.4.
- c. Criteria for addressing risks and non-permanence of forest credits.
- d. Eligibility of land for forest climate credit projects.
- e. Relationship between public policy and fair additionality criteria.

ADAPTATION AND FINANCING.

The document raises two other issues that require special attention from government and industry, namely:

- Climate finance – At COP26, countries failed to reach an agreement on how to fulfill the pledge to provide \$100 billion a year to vulnerable and developing countries. The Parties decided that the conference will set a New Collective Quantified Goal on Climate Finance (NCQG) by 2025 with a minimum of \$100 billion per year, taking into account the needs and priorities of these countries. It is important that Brazil takes an active part in the talks to ensure that the working group charged with

advancing the issue defines transparent and concrete measures to increase and provide funding for climate change mitigation and adaptation measures; and

- Climate change adaptation – For Brazil, the adaptation agenda must be treated the same as the mitigation agenda, as it is a country with major vulnerabilities, such as water scarcity and agribusiness. In Egypt, it is important that Brazil follows the in-depth discussions on the global adaptation goal to respect the reality of each country. At the national level, the National Adaptation Plan can be the primary support for this process, as it is an initiative that integrates the coverage of vulnerabilities and impacts of different segments, enabling the knowledge of the best coping strategies in addition to the need for climate finance.

CONCLUSION

In view of the above, it is increasingly urgent to define a national strategy for the best use by Brazil of the new mechanism for the creation of the global carbon market, especially regarding the transition of CDM projects and methodologies to the new mechanism.

In summary, this document aims to summarize the key points related to the actions that the industry believes are necessary for the continuity of the development of the climate agenda. As we continue, we will address the actions that the industry believes are most important to the negotiation process at COP27 in Sharm El Sheikh.

It is important to point out that, as crucial as the negotiations, will be the country's ability to organize internally to define an implementation plan for the NDC and an institutional arrangement that that enables the national strategy.

1 INTRODUCTION

Climate change is undoubtedly one of the great challenges of our time. This decade will be crucial for us to respond to these challenges. The latest report from the Intergovernmental Panel on Climate Change (IPCC) highlighted the urgent need for countries, companies, and the society to take firmer and more ambitious actions to avoid even more severe impacts of climate change. At COP26, which was held in Glasgow in 2021, the Parties also emphasized that this decade is crucial for implementing the Paris Agreement and acknowledged that limiting warming to 1.5°C requires very ambitious commitments, which is an average 45% reduction in greenhouse gas emissions by 2030 compared to 2010 emissions.

Brazil has always been a major player in the environmental agenda and a key actor in this process. Since the United Nations Conference on Environment and Development, held in Rio de Janeiro in 1992, Brazil has promoted, at the national and international levels, a series of policies and instruments that are now among the foundations and tools for combating climate change. A relevant example was the Brazilian contribution to the creation of the Clean Development Mechanism and its pioneering application in our country. Another example was the creation of the National Policy on Climate Change as a tool for the national implementation of *Nationally Appropriate Mitigation Actions* (NAMAs), as negotiated at COP15 in Copenhagen and agreed at COP16 in Cancún. Both policies have been crucial to Brazil's Low-Emission Development Strategies (LEDS) and, in the absence of rules and modalities for implementing the instruments of Article 6 of the Paris Agreement, are still relevant today.

Based on these Brazilian efforts towards low-emission development and taking into account the low carbon intensity already achieved, the Brazilian industry understands the relevance of recognizing its past efforts to mitigate climate change as well as of its role in continuously advancing this agenda, both nationally and internationally.

In order for the Brazilian industry to continue seeking to reduce greenhouse gas emissions and bring the carbon footprint in the industry to zero with the technology available to do so, it is important to recognize their past efforts based on the mechanisms agreed upon at the time. In the case of sectors with difficult abatement characteristics, it is important to create mechanisms so that Brazilian industry can pursue and finance the development and application of disruptive technologies for a zero-carbon balance. This has been a priority for several industry segments.

Understanding its leading role in representing the country's economic sectors, the Brazilian National Confederation of Industry (CNI) presents in this document the observations and contributions of its industrial base to subsidize the negotiations at COP27 and the internal measures that Brazil must implement to support the country's fulfillment of the Article 6 mechanism.

2 ASSESSMENT OF COP26

At COP26, held in Glasgow in November 2021, Brazil reaffirmed its commitment to reduce total net greenhouse gas emissions by 37% by 2025 and increased its emissions reduction target for 2030 from 43% to 50%. It also pledged to be carbon neutral by 2050, which is an important long-term vision. Among the key guidelines for the strategic emissions reduction agenda presented by the government, the following stand out:

- End illegal deforestation by 2028;
- Restore and reforest 18 million hectares of forests by 2030;
- Achieve a 45% to 50% share of renewable energy in the energy mix by 2030;
- Restore 30 million hectares of degraded pastureland; and
- Promote the expansion of the rail network.

It is also important to highlight some multilateral initiatives, such as:

- The Glasgow Leaders' Declaration on Forests and Land Use;
- The Global Methane Pledge, signed by more than 100 countries, which calls for a 30% global reduction in methane emissions by 2030; and
- The FACT (Forestry, Agriculture and Commodity Trade) Dialogue.

COP26 was seen as a great opportunity to define more ambitious actions to mitigate the impacts of climate change. However, after two weeks of negotiations, the Parties reiterated the urgency of increasing the ambition on mitigation, adaptation, and finance measures without major commitments on the table.

One of the major highlights of COP26 was the agreement on Article 6, the last item needed to complete the Paris Agreement Rulebook. In summary, it addresses the mechanisms for creating a global carbon market.

In terms of climate finance, developed countries committed to raise an additional \$100 billion in climate resources by 2025. Climate finance was a key focus at COP26, motivating the signing of several agreements endowed with funding from governments, companies, financial actors, and non-state actors. The following instruments that Brazil has signed stand out:

- The Global Forest Finance Pledge or Forest Deal: \$19 billion, among public (63%) and private (37%) contributions, to developing countries to restore degraded lands, fight forest fires, and promote the rights of Indigenous peoples and local communities. In addition to Brazil, another 100 countries are signatories; and

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- The Memorandum of Understanding between the Interstate Consortium for Sustainable Development of the Legal Amazon Region and the Lowering Emissions by Accelerating Forest Finance (LEAF, 2021) Coalition: \$1 billion for countries and States committed to scaling up ambitions to protect forests and reduce deforestation.

3 THE COP27

COP27 is expected to be marked by the implementation of the Glasgow commitments, with particular attention to climate finance, adaptation, and Global Carbon Market rules (Article 6).

It is also expected that the ambitions of countries' Nationally Determined Contributions (NDCs) will increase, as the commitments made up to COP26 have proved insufficient to limit global warming to 1.5°C, leading to a credibility gap on the commitments made, particularly on the 2030 interim targets.

The key issues to be discussed and negotiated at the convention are listed below:

- **Keeping global warming at 1.5° C.** With the goal of reviewing and raising the ambition of their NDCs, the Parties at COP27 should reach a consensus on the Mitigation Work Programme that includes concrete actions to raise countries' ambition this decade;
- **Raising ambition on the adaptation agenda. Countries will be asked to develop “National Adaptation Plans”.** This issue is expected to gain importance precisely because it is a priority issue for Egypt, the host country of COP27. In addition, the proposal of a Global Goal on Adaptation should be presented to be signed during COP27 in Egypt;
- **Progress in mobilizing climate finance.** Taking into account the needs and priorities of developing countries, a New Collective Quantified Goal (NCQG) was established with a floor of \$100 billion per year. The working group tasked with deepening the analysis to define the NCQG by 2024 will meet at COP27;
- **Developments of Article 6 adopted at Glasgow (COP26).** The expectation is that, at COP27, rules, procedures, and other issues such as the infrastructure for the global carbon market will be negotiated based on the discussions that took place during 2022 within the framework of the UN subsidiary bodies;
- **Progress in discussions on “losses and damages” as a result of the effects of climate change.** There is increasing urgency to step up action and support, including financing, technology transfer, and capacity building, to deal with losses and damages in vulnerable and developing countries. The Santiago Network, established to support highly vulnerable countries, will meet at COP27 to define fundamental issues, such as its institutional arrangement;
- **Improved transparency framework.** All countries – except the least developed and small islands – must present Biennial Transparency Reports (BTRs), which should include information on the implementation of the NDC and the country's

Greenhouse Gas (GHG) emissions inventory. At COP27, the Secretariat should present the progress of discussions on electronic reporting tools for the countries to be available by June 2023;

- **Technology transfer and capacity building.** These two issues, which are particularly important for developing countries, will be discussed further at COP27. The first assessment of the Technology Mechanism, which provides recommendations for aspects of technology policy for developing countries, should be completed and its recommendations should be submitted for decision-making at the COP. The Paris Committee on Capacity Building (PCCB), which aims to promote capacity building activities in developing countries, should present its annual progress report on the implementation of the work plan for the period 2021-2024; and
- **Preparation for the “Global Stocktake”.** The Global Stocktake (GST) of the Paris Agreement is a process that takes stock of the implementation of the Paris Agreement based on the assessment of the totality of countries' actions (on various issues such as mitigation, adaptation, financing, and others). At COP27, the second of the three sessions of the GST technical dialogue will take place.

In addition to these points, Brazil must show progress, especially regarding the commitments made in Glasgow, namely:

- The Climate Neutrality by 2050;
- The implementation plan for its NDC, taking into account the change in the emissions reduction target from 43% to 50% by 2030;
- The signing of “Global Methane Pledge”, in which countries commit to a 30% reduction in methane emissions;
- The signing of the “The Glasgow Leaders’ Declaration on Forests and Land Use”; and
- The anticipation of the goal of eliminating illegal deforestation by 2030 to 2028.

4 ARTICLE 6

Article 6 encompasses collaborative approaches that seek voluntary collaboration in implementing their nationally determined contributions in order to enable more ambitious mitigation and adaptation policies and promote sustainable development and environmental integrity.

Negotiations on collaborative approaches have evolved into the elaboration of three distinct articles:

- **6.2**, which allows countries to exchange emission reductions or abatements with each other, the so-called Internationally Transferred Mitigation Outcomes (ITMOs). Thus, the outcomes of emission reductions that occur in one country can be transferred to another country, which can incorporate those outcomes into its national goal;
- **6.4**, which allows a company in one country to reduce emissions nationally and have those reductions credited so that it can sell them to a company or government in another country, and defines criteria for the use of CDM carbon credits within its surrogate, the SDM; and
- **6.8**, which addresses non-commercial approaches, with a work programme established to help different countries, their institutions, and stakeholders develop collaboration in different areas, such as clean energy generation.

At COP26, a guideline on collaborative approaches was adopted in Articles 6.2, simplified, and 6.4, providing rules, modalities, and procedures for this new carbon market mechanism.

The industry understands that both Articles can offer great opportunities for the country and the Brazilian private sector. However, the interest of the industry refers above all to Article 6.4, which allows the private sector to invest in projects to reduce emissions and/or increase removals of GHG in order to generate Certified Emissions Reductions (CERs) that can be traded in the future global carbon market or cut down emission reduction targets set by each country's NDCs.

However, the success of this initiative depends on how the international community paves the way during the COP27 discussions. It also depends on how Brazil will shape its institutional framework to implement the mechanism. Besides the institutional arrangements, there are other aspects that need to be regulated.

Therefore, we present below information on the negotiations already conducted and the industry's contributions to the negotiations regarding the regulation and operationalization

of Article 6, in particular 6.4, as well as relevant connecting elements for the establishment of national policies in Brazil.

4.1 ARTICLE 6.2

Article 6.2 of the Paris Agreement is analogous to an emissions trading system, but is subject to different metrics since there is no harmonized global target. In this context, it is clear that it is an instrument aimed at transactions of aggregated mitigation results in which national governments take part according to the performance of their respective NDCs.

The collaborative approach in relation to ITMOs is that referred to in Article 6, paragraph 2, which includes the international transfer of mitigation outcomes approved under Article 6, paragraph 3, for use in an NDC, with **the following characteristics**:

- They are real, verified, and additional;
- They demonstrate emissions reductions and abatements, including the co-benefits of mitigation resulting from adaptation policies and/or economic diversification plans, or the means to achieve them, when transferred internationally;
- They are measured in metric tons of carbon dioxide equivalent (tCO₂eq) according to methods and metrics assessed by the Intergovernmental Panel on Climate Change and adopted by the Conference of the Parties to the Paris Agreement (CMA) or other non-GHG metrics determined by the participating Parties that are consistent with the parties' NDCs;
- They are generated in connection with or representing mitigation from 2021 onward;
- They are mitigation results that are approved by a Party for use also for international mitigation purposes other than the implementation of an NDC (hereinafter international mitigation purposes) or for other purposes determined by the first Party.

OBLIGATIONS OF THE PARTIES

Under the rules already established in previous negotiations, **countries have the following obligations** for participation in the mechanism under Article 6.2:

- Be signatories to the Paris Agreement;
- Have prepared, communicated, and maintained an NDC;

- Ensure that its participation contributes to the implementation of its NDC and its long-term low-carbon development strategy, if it has presented one, and the long-term goals of the Paris Agreement.
- Apply the appropriate adjustment;
- Make arrangements to allow the use of ITMOs to implement the NDCs;
- Have provisions for tracking ITMOs; and
- Submit the latest national inventory report. The submission of this report by developing countries is more flexible. Brazil reports the inventory every four years.

SYSTEMS AND REPORTS

To ensure transparency on cooperative approaches and to support the review process, the Secretariat should develop a **platform** to focus reporting and accounting information, the CARP – Centralized Accounting and Reporting Platform, where Parties will submit the reports required by the UNFCCC under “item d” above. This platform will be used to publish information submitted by Parties in accordance with their reporting obligations under Article 6.2.

The Secretariat will also implement a **database** as an integral part of the platform, where the relevant adjustments and ITMOs transferred, acquired, and canceled will be recorded in order to contribute to the overall mitigation of global emissions, among other functions.

In general, the Supervisory Body (SB) will need to detail the operational procedures of the Registry, which will include the following:

- Definitions;
- The role of administrators;
- Units, including their identification;
- Account types, account maintenance procedures, account representatives, authentication procedures, and terms and conditions for account creation;
- Administrators, segregation of duties, and other controls;
- Transaction processes;
- Records management, public reporting, and confidentiality of information;
- Fee structures;
- Interoperability with other registries and systems for data exchange; and
- Technical regulations and requirements.

To register in the database, each Party must annually submit, by April 15 of the following year, the information regarding the authorization of ITMOs to be used to implement the NDCs, authorization of ITMOs for other international mitigation purposes, initial transfer, transfer, acquisition, participations, cancellation, voluntary cancellation, voluntary cancellation of mitigation outcomes, or ITMOs for general mitigation of global emissions and use for NDCs.

In addition, each Party shall include as an annex to its biennial **transparency** reports submitted under paragraph 10(b) of the Annex to Decision 18/CMA.1, **by December 31 of that year, information on** the fulfillment of its obligations to engage in collaborative approaches, past transparency reports, information on authorizations for the use of ITMOs (for NDCs and use for other international mitigation purposes), information on appropriate adjustments, among other things.

PROPOSED ACTIONS FOR BRAZIL

The first step for the country is to create an NDC implementation plan, as the commitments that have already been signaled to the Parties include showing how the country's participation in this mechanism contributes to the NDC.

Therefore, **we propose to draw up this plan in a transparent manner and with the participation of all sectors.**

In order **for the system provided for in Article 6.2 to become operational in Brazil**, the country **must also promote** the following measures:

- the establishment of domestic procedures for host country authorization and tracking of ITMOs;
- an accounting treatment that promotes the **appropriate adjustment**;
- the definition of the method used to **apply the appropriate adjustment**; and
- the submission of reports required by the UNFCCC, which must include evidence of compliance with commitments related to human rights, local communities, and others, in addition to compliance with its NDC.

4.2 ARTICLE 6.4

The mechanism established in Article 6.4 is an option for the private sector in emission reduction transactions. Brazil can take part in this mechanism and generate credits that can be traded in the international market to match the NDCs of other Parties. However, the

success of this mechanism will also depend on the negotiations at COP27 and on the actions of the Brazilian government.

According to the rules defined in Glasgow, the countries must determine how they want to implement the appropriate adjustments. With that in mind, Brazil should organize itself to explore options to provide predictability and transparency to stakeholders. The appropriate adjustment should be made in the national inventory according to the rules of the Paris Agreement. However, the country should internally assess each sector's marginal cost of reducing emissions in order to share this effort.

OBLIGATIONS OF THE PARTIES

In order to allow Brazilian projects to participate under this mechanism, the country must meet the following requirements:

- Prepare, communicate, and maintain a nationally determined contribution (NDC);
- Designate a **national authority** for the mechanism and communicate this designation to the Secretariat;
- Communicate publicly to the Supervisory Body how its participation in the mechanism contributes to sustainable development;
- Publicly indicate to the Supervisory Body the activities it would approve and how these and any associated emission reductions would contribute to meeting its NDC;
- Periodically verify compliance with its NDC; and
- Define and demonstrate the extent of social and environmental safeguards associated with the projects. The generation of projects/activities that may generate credits under Article 6.4 in the future depends on a direct liaison with the designated national authority of the Brazilian government, the official contact point with the Supervisory Body established under the UNFCCC.

Finally, it is important to clarify that the development of projects that may result in Article 6.4 credits requires the completion of several steps. Given the complexity of the new mechanism, we expect that in the short term (next 2-3 years) there will be no credit generation and trading of these units. Particular attention must therefore be paid to existing CDM credits that are already eligible for use under the new mechanism.

OPERATIONALIZATION OF ARTICLE 6.4

Supervisory Body

The mechanism under Article 6.4 will have a **Supervisory Body**, which will be responsible for regulating the rules and procedures for the operationalization of the mechanism and subsequently for overseeing the operation of the mechanism in accordance with the guidelines of the CMA – *Conference of the Parties serving as the meeting of the Parties to the Paris Agreement*.

The Supervisory Body is composed of 12 members from Parties to the Paris Agreement, with equitable geographical representation

GRULAC (group of **Latin America** and Caribbean countries) is one of the five regional groups of the United Nations, of which Brazil is a member. The following table shows the initial composition of the Supervisory Body of Article 6.4. No Brazilian experts have been selected to represent GRULAC during the discussions on the new mechanism. However, the country is expected to articulate to be part of the next compositions of the Supervisory Board and thus support the process of implementation of the mechanism.

Table 1 – Composition of the SB – Article 6.4

MEMBER	ALTERNATE MEMBER	REGION
Felipe De León Denegri (Costa Rica)	Eduardo Calvo (Peru)	GRULAC
El Hadji Mbaye Diagne (Senegal)	Tirivanhu Muhwati (Zimbabwe)	Africa
Piotr Dombrowicki – Vice-Chair (Poland)	Imre Bányász (Estonia)	Europe
Olga Gassan-zade (Ukraine)	Maia Tskhvaradze (Georgia)	Europe, Asia
Mr. Charles Hamilton	Derrick Oderson (Barbados)	
Martin Hession (European Union)	Emily Mathias (New Zealand)	Europe, Oceania
Gebru Jember (Ethiopia)	Manjeet Dhakal (Nepal)	LDCs
Maria AlJishi (United Arab Emirates)	Maosheng Duan (China)	Asia
Kazuhisa Koakutsu (Japan)	Rajasree Ray (India)	Asia
Molly Peters-Stanley (United States)	Simon Fellermeier (Switzerland)	
Kristin Qui (Chair) (Trinidad and Tobago)	Benedito Chia (Singapore)	Grulac, Asia
Mkhuthazi Steleki (South Africa)	Alick Muvundika (Zambia)	LDCs

The Supervisory Body began its work in July 2022, when it met for the first time in Bonn, Germany, between July 25 and 28. It then met again at the same location between September 19 and

22, 2022. The group will meet again in Sharm El Sheikh, Egypt, between November 3 and 5, before the start of COP27, scheduled for November 6.

Given the complexity of the issue and the decisions that will have to be made based on the work of the SB, it is important for Brazil to follow the discussions in the workshops of the group, where the rules to make the mechanism operational will be detailed.

SCHEDULE OF ACTIVITIES AND INITIAL NEGOTIATIONS/APPROVALS REGARDING ARTICLE 6.4

According to the following schedule, the Supervisory Body should present a set of recommendations for approval at COP27 in November 2022. In addition, the Subsidiary Body for Scientific and Technological Advice (SBSTA) should approve issues of major importance to Brazil, in particular issues related to the transition to the CDM.

Table 2 – Topics of Article 6.4 that require additional regulation by other bodies

TOPIC	PARAGRAPH	RESPONSIBLE BODY	DEADLINE
Methodology, DOE accreditation, SD tool, engagement	Paragraph 5 ⁷⁹	SB	2023
Rules of procedure, SoP, removals	Paragraph 6 ⁸⁰	SB	Nov/22
National arrangements, transition to CDM, use of NDC1 CERs, registration, SoP Adaptation, and administrative expenses	Paragraph 7 ⁸¹	SBSTA	Nov/22
SoP evaluation every 5 years	Paragraph 8 ⁸²	SB	2026
Implementation and delivery (OMGE)	Paragraph 9 ⁸³	SB	2026
Review of rules	Paragraph 10	CMA	2028/30
Recommendations for review (paragraph 10)	Paragraph 11	SBSTA	2028/30
Support for response measures	Paragraph 12	SB	Not defined
Develop the capacity to set baselines	Paragraph 14	Secretariat	Not defined

PROPOSED ACTIONS FOR BRAZIL

The instruments envisaged in Articles 6.2 and 6.4 will only be practicable if the Brazilian government – and not the private sector – addresses critical issues central to these Articles and ensures fungibility, environmental integrity, and transparency of the market and credits.

In this sense, it is of the utmost importance that Brazil:

- legislates the issue in order to give legal certainty and legitimacy to the entire process;
- establishes a robust institutional arrangement that fulfills the obligation to the United Nations as “Designated National Authority” (DNA) for matters related to Article 6. Given its complexity, the new mechanism requires the establishment of a new structure. Therefore, we recommend a collegiate structure that can provide coordination between the different ministries and sectors most involved in implementing the Brazilian NDC;
- implements the regulated market by introducing a cap-and-trade system through the definition of market objectives and rules for the regulated sectors, in accordance with a clear governance, transparency, and integrity structure, which must count on the industry’s participation to avoid the loss of competitiveness;
- defines the criteria for **appropriate adjustments under Article 6.4**. Noting that the Glasgow negotiations left it up to each country to approve and define the interface between Article 6.4 project activities and its NDC, we propose that the government promptly establish these criteria to reduce uncertainty and provide predictability to companies wishing to develop carbon credit projects, optimizing the country's mitigation potential and, in particular, private sector mobilization; and
- implements a national emissions register that meets the established requirements for integration into the international register structure, a tool without which it will not be possible to ensure transparency and integrity and avoid double counting.

It should be noted that the Secretariat should set up an **international register** for Parties who may or may not have access to a register. Considering that the international register is still under discussion and the format is being defined, it should be noted that Parties whose national registers may be in preparation **must ensure that their structure is compatible with the future Article 6 register**. The international register must be included in the accounting and reporting in the centralized accounting and reporting platform mentioned earlier.

4.3 NEGOTIATIONS UNDERWAY

Some negotiations will take place during COP27 to establish rules and procedures for operationalizing the global carbon market.

Therefore, we present below the private sector defense bases for such negotiations:

Definitions for baseline and additionality

The determination of the baseline has become considerably more stringent, limiting the quantitative potential for credits compared to previous approaches. The definitions of the methods for determining the baseline are of utmost importance for the feasibility and continuity of the projects and should be specified precisely.

In the modalities and procedures adopted at COP26 (Decision 3/CMA.3), the definition of baseline in paragraph 36 of said Decision provides for three alternatives:

“36. Each mechanism methodology shall require the application of one of the approach(es) below to setting the baseline, while taking into account any guidance by the Supervisory Body, and with justification for the appropriateness of the choices, including information on how the proposed baseline approach is consistent with paragraphs 33 and 35 above and recognizing that a host Party may determine a more ambitious level at its discretion: A performance-based approach, taking into account:

- (i) Best available technologies that represent an economically feasible and environmentally sound course of action, where appropriate;*
- (ii) An ambitious benchmark approach where the baseline is set at least at the average emission level of the best performing comparable activities providing similar outputs and services in a defined scope in similar social, economic, environmental and technological circumstances; and*
- (iii) An approach based on existing actual or historical emissions, adjusted downwards to ensure alignment with paragraph 33 above”.*

We **highlight option iii**, which has greater potential for use initially, depending on the interpretation of the term *adjusted downwards*. In addition, the application does not appear to have been designed with land use and forestry sector projects in mind.

We suggest developing specific definitions for baseline and for additionality in the case of forestry activities, as was done in the regulation of the market mechanism previously in force (CDM).

Transition of CDM methodologies to Article 6.4.

The criteria for the transition and use of CDM methodologies still need to be regulated, but we believe it is important to use them, with the necessary adjustments and adaptations due to the new mechanism. We cannot forget that the methods used on the CDM have matured over the years and have reached a level of excellence and credibility that should not be wasted, mainly regarding scopes 1 (energy industries, renewable and non-renewable

sources), 13 (waste handling and disposal), and 4 (manufacturing industries), considering the significant effort and global legitimacy built up at the multilateral level over the last 20 years.

In Brazil, it is therefore essential that the following methods are incorporated and used in the transition:

- Afforestation and reforestation of lands except wetlands (AR-ACM0003 – v. 2);
- Use of charcoal from planted renewable biomass in a new iron ore reduction system (AM0082 – v. 2);
- Reduction of emissions from charcoal production by improved kiln design and/or abatement of methane (ACM0021 – v. 1);
- Renewable electricity generation for captive use and mini-grid (AMS-I.F – v.4);
- Thermal energy production with or without electricity (AMS-I.C – v. 22);
- Avoidance of methane production in wastewater treatment through replacement of anaerobic systems by aerobic systems (AMS-III.I – v.8);
- Grid-connected electricity generation from renewable sources (ACM0002) *(for renewable generation sources that are still much more expensive and less widespread in Brazil, such as offshore wind, concentrated solar power, use of biogas, or biomass pyrolysis)*;
- Large-Scale Consolidated Methodology - Grid-connected electricity generation from renewable sources (ACM0002 – v. 20.0);
- Electricity and heat generation from biomass (ACM0006 – v. 16.0);
- Waste energy recovery (ACM0012 – v. 6.0);
- Treatment of wastewater (ACM0014 – v. 8.0);
- Flaring or use of landfill gas (ACM0001 – v. 19.0; and
- Small-Scale Methodology III.E: Avoidance of methane production from biomass decay through controlled combustion.

Transition of projects

As decided at COP26, there is a possibility for CDM projects to transition to Article 6.4, provided, among other things, that the host country requests the transition by the end of 2023. In this context, it is crucial that Brazil develops a strategy to transfer the significant efforts and results achieved under the PNMC, which resulted from the combination of national efforts developed as NAMAS, with the CDM as the international counterpart. As these are projects developed based on the concept of international cooperation, where

Brazilian agents finance part of the mitigation costs and the sale of carbon credits certified under the CDM finances another, it is important to recognize these projects in accordance with Article 6.4.

There are also projects that have already been started and validated by a third-party audit under the CDM and are in the phase of approval by the Designated National Authority (DNA). In this regard, we propose that the government work towards providing more clarity on the operationalization of the transition process as part of the multilateral negotiations, since the final assessment of the approval of any project under Article 6.4 will only take place once the project has been adapted to the new rules.

This offers Brazil the opportunity to take the lead on Article 6.4 as well, as with CDM. Finally, it should be noted that the use of precedents and legal bases for this category of projects when developing new rules under Article 6.4 is as important as the transition of projects.

Transition of CDM credits to Article 6.4

COP26 defined that only CDM credits generated by projects registered after 2013 can be used in NDCs. We propose to define the criteria for operationalizing the decision to provide predictability to the market.

Temporary and complementary use of post-2020 CDM for later transfer to Article 6.4.

In the absence of clear rules and modalities for the use of Article 6 mechanisms or for transferring CDM projects to them as defined in Decision 2/CMA.3 (Annex), paragraph 73, the CDM remains the only mechanism for structuring and validating reduction and emission projects. Since the mechanisms defined in the Paris Agreement do not yet exist, the CDM has been and continues to be used to structure and validate emission reduction projects.

Unfortunately, the registration of projects started from January 1, 2021 and the review and issuance of credits generated after this date are still suspended, pending a decision on the transfer of the CDM.

This situation, where neither the newly announced mechanisms nor the existing mechanisms cannot be used, poses a risk and an obstacle to mitigation investments. In order to solve this problem, it is important that the Brazilian government works on an interim solution that will allow the CDM to be used, at least for domestic use.

Criteria for addressing risks and non-permanence of forest credits

In the modalities and procedures adopted at COP26 (Decision 3/CMA.3), there was no definition of specific criteria for addressing the risk of non-permanence, i.e., the risk that carbon removed by forestry projects returns to the atmosphere for some reason, ultimately leading to the loss of credits.

This is a sectoral scope where Brazil has a high potential. In this context, we propose more options for dealing with the risk of non-permanence and that project proponents can choose the most appropriate approach for each case, depending on their risk management capacity.

Therefore, in addition to the current options under the regime (tCERs and ICERs), we propose to make other options available, such as: (i) the introduction of buffers, i.e., an additional reserve (which, for example, is already practiced and accepted in the voluntary market); (ii) the introduction of systems that correlate the decay time of greenhouse gases in the atmosphere with the effective duration of the project (see GYLVAN, MARQUES, 2019); and (iii) insurance and other approaches yet to be discussed, among others. Of course, it will be important to deepen the technical discussion about each alternative.

Eligibility of land for forest climate credit projects

In the modalities and procedures adopted at COP26 (Decision 3/CMA.3), there was no definition of specific criteria for the eligibility of areas that can be used for the development of forestry projects. In the experience of the transitional regime (CDM), the criterion for land eligibility was the absence of any type of forest in the project area on December 31, 1989 (see definition below). Furthermore, there was some confusion in the definition of reforestation that besides physical criteria, for example, what constitutes the activity (e.g., planting trees and anthropic promotion of natural seed sources), included the temporal element (no forests on December 31, 1989) in the definition and did not consider it a specific criterion.

“Reforestation is the direct human-induced conversion of non-forested land to forested land through planting, seeding and/or the human-induced promotion of natural seed sources, on land that was forested but that has been converted to non-forested land. For the first commitment period, reforestation activities will be limited to reforestation occurring on those lands that did not contain forest on 31 December 1989” (Decision 16/CMP.1).

Brazil, in coordination between the federal government and the private forest sector, took the lead on proposals to adjust the eligibility criteria, which were not implemented after several years of discussions and negotiations.

The current criteria prohibit areas with planted forests that would be cut down anyway and, naturally, do not constitute deforestation, which is the main risk for the reduction of eligibility. The country proposed that areas with planted forests should be eligible and reused for new forestry investments provided additionality criteria are met (see Forests in exhaustion item on the agenda).

Taking into account previous experience and the current context in which it is necessary to define forest elements within the framework of Article 6.4, we propose using as eligibility criterion for areas the absence of native forest cover for at least 10 years prior to project implementation, which will avoid any perverse incentive to deforestation and allow the use of already anthropized areas. Of course, technical complements will be needed, to which the sector will contribute.

Share of Proceeds (SoP)

We propose that SoP collection be done only at the time of credit issuance. The possibility of charging at the time of project registration may lead to a disbursement by the applicant without the forecast of generation of credits for that project, which is detrimental to the development of new projects.

Overall Mitigation of Global Emissions (OMGE)

The Glasgow text sets a minimum of 2% for the OMGE and leaves the setting of higher percentages open. Considering the other fees already foreseen, such as the SoP, we believe that values above 2% could discourage and hinder the development of Article 6.4 projects. We propose to defend the idea of limiting the value to 2%.

Relationship between public policies and additionality

A condition that the mitigation goes beyond what is required by law has been added to the definition of additionality in Article 6.4 (see original definition below).

38. ...Each mechanism methodology shall specify the approach to demonstrating the additionality of the activity. Additionality shall be demonstrated using a robust assessment that shows the activity would not have occurred in the absence of the incentives from the mechanism, taking into account all relevant national policies, including legislation, and representing mitigation that exceeds any mitigation that is required by law or regulation, and taking a conservative approach that avoids locking in levels of emissions, technologies or carbon-intensive practices...

Under this understanding, there would be no additionality in energy projects as they currently reach economic feasibility. However, this did not correspond to the market reality of the projects carried out in the 1990s and 2000s. The efforts of the agents who implemented their projects during these decades and worked hard to register them in the CDM by December 2012 – the limit date for the first period of Kyoto Protocol commitments.

It should be noted that 75.1% of the projects registered in this first period of the Protocol are in the energy sector, and disregarding such efforts leads not only to legal uncertainty in the system but also to a breach of trust in the mechanisms as a whole.

Of course, any law must be enforced. In fact, the law shows that a carbon project is not additional in several situations. However, in a country like Brazil, the automatic additionality limitations set by any law or regulation do not necessarily reflect the reality in all situations. For example, the Brazilian Forest Code (*Código Florestal Brasileiro – CFB*), a unique instrument in the world, foresees the use of carbon market instruments as one of its means of implementation, as it establishes a series of costly measures for rural landowners. An example of this is the restoration of protected areas with no economic consideration or additional income, i.e., carbon market instruments can support the implementation of the legal framework and further differentiate the country by determining that significant parts of rural areas must be reserved for forest conservation (between 20% and 80% depending on the biome).

Moreover, if the same reasoning applies to new laws or regulations, there is the possibility of creating a perverse incentive, i.e., countries may prefer not to pass more ambitious legislation so as not to miss the opportunity to receive funding for projects that would play the very role of increasing ambition. This is particularly relevant for developing countries and for countries that have difficulty enforcing laws.

It should be noted that the definition cited above does not specify whether the requirement applies to new or existing laws. In this regard, we propose that Brazil take into account the rules already established in the market mechanism when adopting new legislation, in order to avoid new restrictions in Brazil for participation in this new market. We propose considering the mechanism as a means of implementation, as has been done at other times.

A good example of this situation is Brazil's approach to the implementation of Proinfa (renewable energy promotion policy, which was based on the CDM at the time) and the definition of its forest code in order to avoid compromising the potential additionality of the restoration measures to be carried out:

Article 41, item III, paragraph 4 of Law 12,651/2012: Activities to maintain Permanent Preservation Areas, Legal Reserves, and restricted use areas are eligible for payments or incentives for environmental services, thereby configuring additionality for the purposes of domestic and international markets for certified reductions in greenhouse gas emissions.

Finally, it is important to point out that this issue requires special attention in the coordination between multilateral negotiations and the drafting of new laws or national policies, since the full use of this possibility requires an explicit reference to the content of said laws or policies.

We recommend that the Brazilian government start the discussion on this issue so that the additionality criteria take into account laws that differ from those of other countries in that they are much more restrictive.

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5 CLIMATE FINANCE

At the 16th Conference of the Parties (COP16) held in Cancún in 2010, the developed countries collectively pledged to mobilize \$100 billion annually until 2020 for climate action in developing countries. In 2015, during COP21, this target was changed to 2025.

In 2021, at COP26, the NDCs were updated and new climate action initiatives and coalitions were formed as the promise to channel \$100 billion per year to developing countries was not met. The Parties agreed that the conference will establish an NCQG before 2025 with a floor of \$100 billion per year, taking into account the needs and priorities of developing countries. A working group has been set up to advance discussions on this topic.

Other actions aimed to close this gap in climate finance:

- Developed countries doubled their collective funding for adaptation measures from 2019 to 2025 to achieve a balance between adaptation and mitigation;
- Public and private institutions from 110 countries signed an agreement to invest \$19.2 billion in forest restoration worldwide by 2030;
- The private sector has launched the “Glasgow Financial Alliance for Net Zero” (GFANZ), bringing together financial sector initiatives and coalitions to speed up the transition to a low-carbon economy. The GFANZ focuses on net-zero transition planning and capital mobilization for developing countries, as well as promoting ambitious policies and regulation.

The commitments made have the potential to mobilize capital for low-carbon ventures. For the industry, which relies heavily on fixed capital investment to remain competitive, this resource mobilization deserves special attention because of the change in the cost of capital.

Directing resources to low emission technologies offers industry the opportunity to modernize with lower costs. These resources become even more necessary in a scenario of reduced global liquidity when interest rates tend to rise globally.

In addition, these companies tend to be better protected from climate change transition risks, especially in the context of regulatory and technological changes. Therefore, climate finance can benefit the domestic industry by making companies more competitive and resilient in a scenario of transition to a low-carbon economy.

We know that besides the existing pledges, new discussions about mobilizing more climate finance are needed, given that the conclusions of the latest IPCC report stress that climate change mitigation funding needs to be increased by three to six times by 2030 in order to

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limit global warming to 2°C. This gap is likely to be even larger as it has already been signaled that 2°C will not be enough and the aim is now to limit the temperature to 1.5°C. The industry therefore makes the following recommendations:

- Further efforts by Brazil to ensure that the working group charged with the analysis to determine the NCQG sets transparent and concrete actions to increase funding for climate change mitigation and adaptation; and
- Greater Brazilian engagement with developed countries and with the COP Presidency to ensure the financial commitment of developed countries, through the continued mobilization of political leadership necessary to move forward on this issue.

6 ADAPTATION TO CLIMATE CHANGE

Although the Parties are aware that adaptation is a global challenge that requires increasing attention, this issue should gain prominence during COP27 precisely because it is a priority issue for Egypt.

Within the UN climate change regime, the Parties are carrying out adaptation-related activities on several fronts, through work programs and in specialized groups and committees.

During COP27, the Adaptation Committee, with the participation of Working Group II of the Intergovernmental Panel on Climate Change, should present complementary guidelines for communications on adaptation by the countries. These communications take into account the primary needs of each country on this agenda. For Brazil, an effective National Adaptation Plan that defines concrete measures can provide important subsidies for the process.

The content of the Global Goal on Adaptation set out in Article 7 of the Paris Agreement will be reviewed during the conference. The goal has three key components: enhancing adaptive capacity, strengthening resilience, and reducing vulnerability to climate change, all within the framework of limiting global temperature rise to 1.5°C above pre-industrial levels. This topic is on the negotiating agenda of the opening plenary session. Methods, metrics, and funding needs are expected to be addressed, among other topics. This discussion is directly related to the negotiations on financing and the Global Stocktake.

For Brazil, the adaptation agenda must be treated the same as the mitigation agenda, as it is a country with major vulnerabilities. Working Group II for the Sixth Assessment Report of IPCC (Intergovernmental Panel on Climate Change) – Impacts, Adaptation and Vulnerability brought the main impacts of climate change on ecosystems, biodiversity, and human communities at global and regional scales. In addition, the vulnerability and adaptability of natural and social/urban ecosystems to climate change were also analyzed.

In South America, especially in Brazil, the effects of climate change can already be observed. Our agribusiness economy highly depends on climatic factors, and according to the 2021 Brazilian Energy Balance, 62% of energy comes from hydroelectric power plants. If we think about the relationship between water, energy production, and food, climate change could be a concern for Brazil.

With this in mind, here are some recommendations:

- Additional efforts by Brazil to ensure that communication on adaptation needs is consistent with the country's reality. **The National Adaptation Plan** can be the primary support for this process, as it is an initiative that integrates the coverage of

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vulnerabilities and impacts of different segments, enabling the knowledge of the best coping strategies for the country in addition to the need for climate finance.

- Greater engagement of the country with the COP Presidency to ensure concrete actions to increase adaptation finance for developing countries, as promised at COP26.

CONCLUSION

Against this backdrop, it is increasingly urgent to define a **national strategy** for the best use of the new mechanism of the global carbon market by Brazil. It is important that the country pays attention to the negotiations at COP27, especially regarding the transition of CDM projects and methodologies to the new mechanism.

Just as crucial as the negotiations in Sharm El Sheikh will be the country's ability to organize internally to define an implementation plan for the NDC and to establish an institutional arrangement that will make this new mechanism possible.

In addition, it is important that Brazil resume work on the development of the National Adaptation Plan, as it is a domestic management tool that will help identify key funding needs for this agenda.

Finally, considering that the current climate finance is insufficient to meet the pledges and targets of the Paris Agreement, It is crucial that the country remains engaged in the talks and negotiations on climate finance, striving to implement the commitments already made and resolving the pending issues of the last conference.

The document “**Industry’s Vision for COP27**” was prepared in dialogue and collaboration with the CNI Working Group (WG) on Article 6 and validated by the Brazilian Research Network on Climate Change (Rede Clima), comprising more than 70 institutions, including federations of industries, trade associations, and companies.

Composition of the WG – Article 6

Federation of Industries of the State of São Paulo (FIESP)

Federation of Industries of the State of Santa Catarina (FIESC)

Brazilian Chemical Industry Association (ABIQUIM)

Environment Forum of the Electric Sector (FMASE)

Brazilian Tree Industry (IBÁ)

Brazilian Mining Institute (IBRAM)

Brazilian Biogas Association (Abiogás)

CNI

Robson Braga de Andrade

President

INSTITUTIONAL RELATIONS – DRI

Mônica Messenberg Guimarães

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Davi Bomtempo

Environment and Sustainability Executive Manager

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Juliana Falcão

Climate and Energy Manager

Rafaela Aloise

Technical Team

CORPORATE SERVICES – DSC

Fernando Augusto Trivellato

Director of Corporate Services

Superintendence of Administration - SUPAD

Maurício Vasconcelos de Carvalho

Administrative Superintendent

Alberto Nemoto Yamaguti

Standardization
