



Brazilian
Initiative

**for the Voluntary
Carbon Market**

Public Consultation about proposed appointment process to Brazilian Voluntary Carbon Market Council

April 2023



Objective of the Public Consultation

The Brazilian Initiative for the Voluntary Carbon Market proposes through its sponsors a public consultation to collect **inputs on the suggested appointment process** of the Brazilian Voluntary Carbon Market Council

Initiative's Sponsors



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Disclaimer and general instructions

Brief context on the BR VCM Initiative and the BR VCM Council

BR VCM Council's appointment process

BR VCM Council's Consultation group participation criteria



Public Consultation – Disclaimer (1/2)

Disclaimer

This document offers general information only and is not intended to provide policy, regulatory, legal, accounting, or financial advice, but only to collect inputs and feedbacks from the general public about the mechanisms proposed by the Brazilian Initiative for the Voluntary Carbon Market.

The highest levels of transparency will be ensured: all answers will be published at the end of the public consultation period (April 21, 2023), along with the identity of each respondent.

We reserve the right to disregard any answers that are unrelated to the scope of this consultation, or that use inadequate language.

The legal framework of the carbon market in Brazil is based on several pieces of legislations:

- Federal Decree No.9073/2017 - It ratified the Paris Agreement
- Brazilian NDC
- Warsaw Framework for REDD+ UNFCCC
- Brazilian National Strategy for REDD+ Projects
- National Policy on Climate Change (Federal Law No. 12,187/2009) and Decree No.9,578/2018 that regulates the Law
- Forestry Code (Federal Law No. 12,651/2012)
- Federal Decree No. 10,144/2019 (Institutes the National Commission for the REDD+ - CONAREDD+)
- CONAREDD+ Resolutions No. 01,02 and 03 / 2020
- Programs Floresta+ and Floresta+ Carbono
- National Policy of Payments for Environmental Services (Federal Law No. 14,119/2021)
- Federal Decree No. 11,075/2022 - Creates the National System for Reduction of Emissions of GHG (SINARE) and the Sectoral Plans for Climate Change Mitigation

Public Consultation – Disclaimer (2/2)

Disclaimer

On behalf of the Brazilian Initiative for the Voluntary Carbon Market, led by sponsors Ammagi, Auren, B3, Bayer, BNDES, CBA, Dow, Natura, Rabobank, Raízen, Reservas Votorantim, Vale, Votorantim Cimentos, Votorantim, Systemica, and McKinsey & Company, Inc. do Brasil Consultoria Ltda., as knowledge partner, will process the responses and data submitted in the public consultation described herein according to the terms and conditions described below.

McKinsey & Company is committed to protecting your personal information and data. McKinsey will use this information only for analyzing and improving the proposed appointment process and give responses to the feedbacks received. Your data will be handled in accordance with applicable data privacy laws, our internal policies and our [Privacy Policy](#). Because McKinsey is a global organization, your information may be stored and processed by McKinsey and its affiliates in countries other than your place of residence. However, regardless of location, we will apply the same level of care and respect for your privacy.

How to Participate in the Public Consultation

- Read through the reference material first in order to get all the details on what the Initiative is proposing for the appointment process



On specific content pages you will find a green box at the top right corner indicating how this topic will be tested in the public consultation

- To access the public consultation and give your feedback on the mechanisms, visit the [Initiative's website](#) or scan the QR code below



- ! You are not required to give feedback on all the questions - feel free to manifest only on the topics that are most relevant to you with as much detail as possible
- ! The proposals in these documents will be updated/revised in response to the feedback obtained from the public consultation

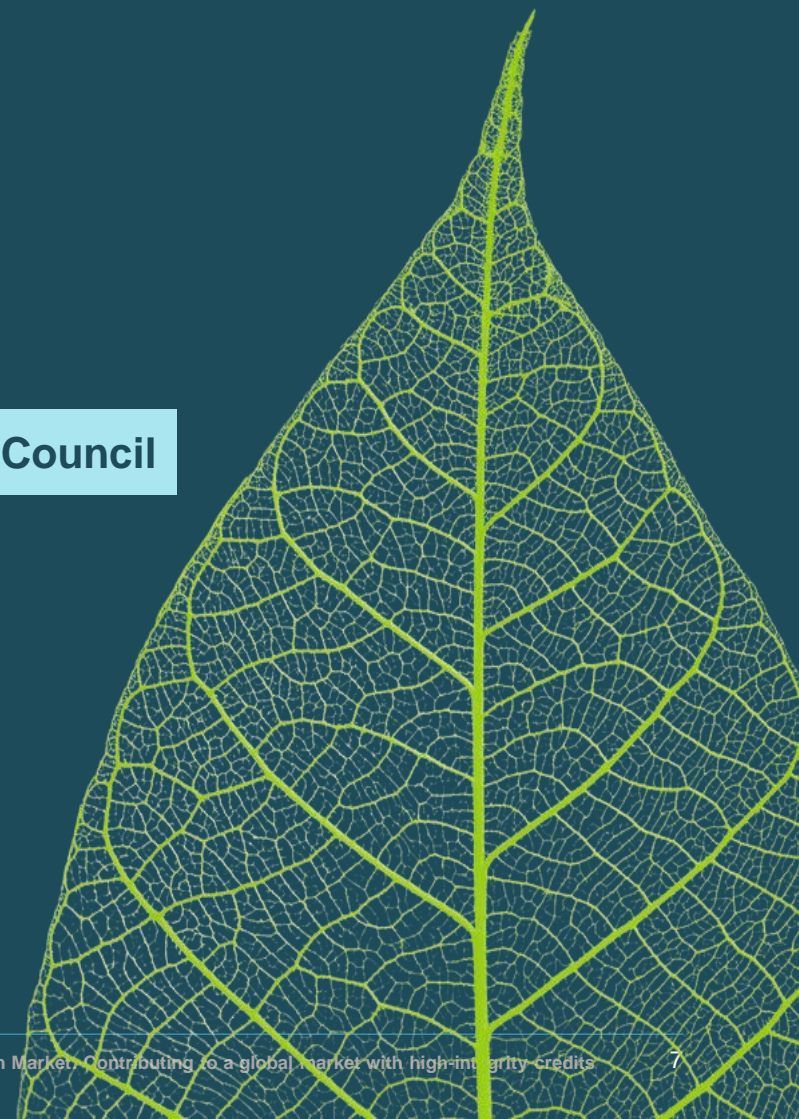
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The “Brazilian Initiative for the VCM” aims to increase the Brazilian contribution to a global VCM with high-integrity credits

Initiative Mission



Unlock Brazil’s potential to support the world in achieving the net zero target



Develop a **high-integrity Voluntary Carbon Market (VCM)** as an instrument to attract **substantial financial flows** to unravel Brazil’s climate finance potential and its co-benefits (e.g., biodiversity protection, water security, socioeconomic development)



Recognize the **primary need to decarbonize value chains/operations**, leveraging carbon credits to **compensate emissions on the journey to net zero** and then neutralize hard-to-abate emissions at the point of net zero and subsequently

Guiding Principles



Seek a **dual ambition goal**: scale the Brazilian voluntary carbon market with **high-integrity carbon credits**



Promote a **collective agenda** that can **unlock the market** by creating a **common powerful voice** (versus individual interests)



Build a **fact-based perspective** that reflects the multiple views of participants and other entities



Develop **action-driven and tactical actions** (the diagnosis is done, it’s time for action!)

The Initiative created tactical mechanisms to address roadblocks, and will continue to develop and implement mechanisms over time

 Discussed next

01 BR VCM Council



Proposed mechanism

Umbrella organization to support the BR VCM to scale with high integrity

Pain points addressed

No clear voice to independently represent BR VCM on international and local conversations

02 Project repository



National voluntary project repository with key BR-specific information to optimize diligence process

Lengthy due diligence on projects due to lack of relevant information

03 Reference Dataset



Reference dataset to streamline the baseline process for project approvals

Complexity and length of validation process
Conflicting databases without reference

04 Financial Solutions



Project finance with risk mitigators based on VCM-specific risk taxonomy

Insufficient funding for capex intensive projects
Lack of VCM-specific financial products

05 Reference Contracts



Reference contracts based on Brazilian potential and specificities

Lack of liquidity, fungibility
Lack of price transparency

06 Methodology Review



Review of key methodologies to unlock credit supply

Methodologies that do not reflect the Brazilian context



The Brazilian VCM Council's mandate is...

Foster the Brazilian high-integrity voluntary carbon market to enable Brazil and the world to achieve net zero

- 1 Focus on increasing the **quality and coverage** of carbon credits in Brazil
- 2 Promote actions to **unlock the supply** of high-integrity carbon credits in Brazil
- 3 Facilitate market **access and knowledge** for buyers
- 4 Become a **think tank** that actively contributes to **international discussions** and supports the **establishment of local regulations**

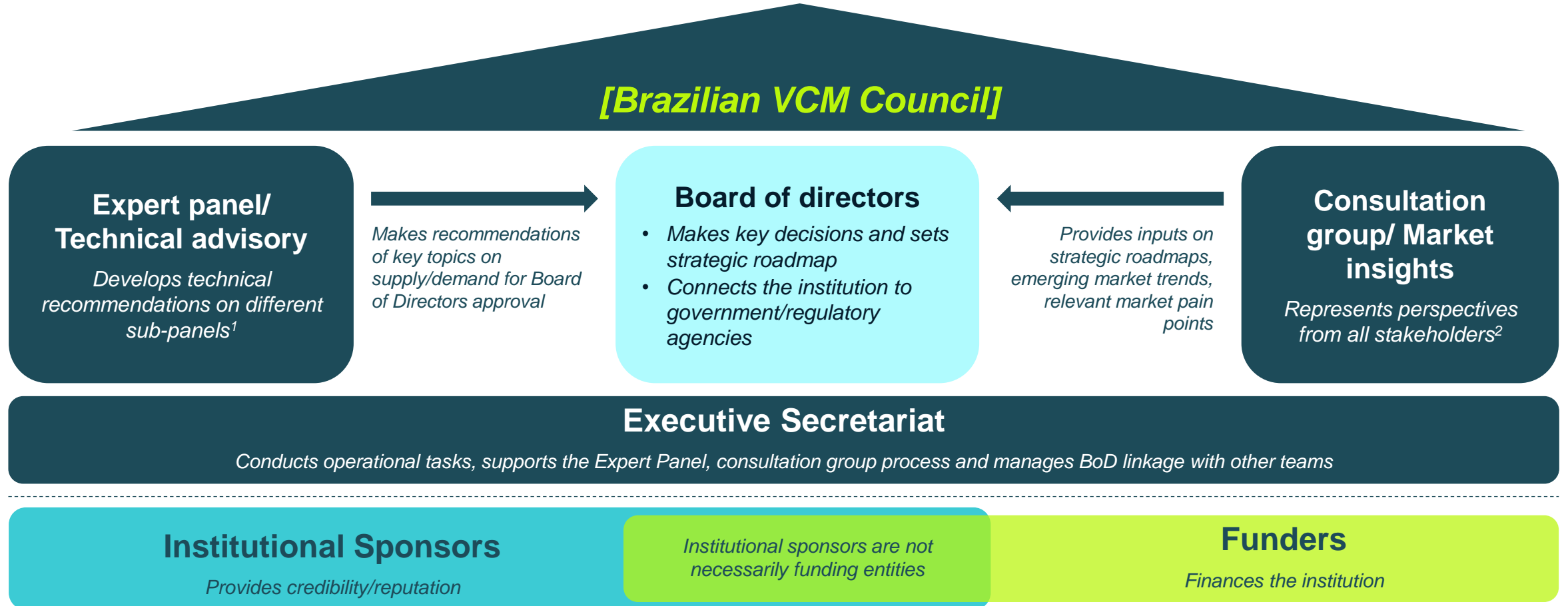


Each of the subtopics have specific goals and out-of-scope actions

	1 Focus on increasing the quality and coverage of carbon credits standards in Brazil	2 Promote actions to unlock the supply of high-integrity carbon credits in Brazil	3 Facilitate market access and knowledge for buyers	4 Become a think tank that actively contributes to international discussions and supports the establishment of local regulations
Action-driven goals 	<ul style="list-style-type: none"> Adhere to VCMI and IC high-integrity guidelines Convene workgroups to develop and/or localize methodologies to the Brazilian context Work with international efforts to foster quantification/qualification of co-benefits (e.g., water, biodiversity) Focus on nature-based solutions and technology offsets 	<ul style="list-style-type: none"> Curate databases to enable common baselines necessary for project verification/certification (e.g., land usage, GHG emission factors) Foster technologies that increase quality and streamline the certification/verification process Foster the development of funding mechanisms to finance projects 	<ul style="list-style-type: none"> Foster the development of reference financial instruments to simplify credit purchases and retirement processes Curate a repository of projects with information on Brazilian offsets (e.g., start dates, volume, certification/verification data) 	<ul style="list-style-type: none"> Establish a strong communication channel with the main VCM entities globally and locally (e.g., certifiers, IC, VCMI, SBTi, Chapter 6) Increase awareness on high-integrity BR-issued carbon credits (e.g., landownership, socio economic benefits) Provide facts and information to enable regulatory discussions around VCM (e.g., balance sheets and tax implications)
Out of scope 	<ul style="list-style-type: none"> Will NOT create a certification standard 	<ul style="list-style-type: none"> Will NOT convene financing for projects 	<ul style="list-style-type: none"> Will NOT become a trading/commercial platform for carbon credits in Brazil 	<ul style="list-style-type: none"> Will NOT propose new regulation and/or public policies

Key pillars of the Brazilian VCM Council – Composition (1/3)

Composition includes a Board of Directors supported by expert and market inputs from other groups



1. Such as carbon baselining, project financing mechanisms, financial treatment of carbon credits.

2. Such as market participants, industry associations, NGOs, experts.

Key pillars of the Brazilian VCM Council – Composition (2/3)

Appointment process discussed next

The Brazilian VCM Council will have 3 main groups in its structure:

1. **Board of Directors (BoD):** Decision maker, responsible for setting the strategic roadmap of the BR VCM and connect the institution with other VCM entities, government/regulatory agencies
2. **Expert Panel:** Divided into sub-panels with different expertise, develops technical recommendations for approval by the Board of Directors
3. **Consultation group:** Provides market inputs on strategic topics and market trends

Besides this 3 groups, the Council is supported by:

4. **Executive Secretariat:** provides operational and day-to-day back-office support for the Brazilian VCM Council
5. **Institutional Sponsors:** group of institutions that provide public endorsements, credibility, legitimacy and authority to the Brazilian VCM Council. Their representatives are included on the Board of Directors (limited rotated seats) to provide guidance and steering. The setup of the Institutional Sponsors group, as other groups, should cover a diversity of expertise (e.g., financial and carbon markets, climate change)

1. Board of Directors

The Board has 9 participants (uneven number). Board seats are distributed between **3 different groups** as follows:

- 3 **Institutional Sponsors** representatives elected from the pool of the Council's Institutional Sponsors, 3-year terms with unlimited reelection. Institutional sponsors in this group should have no market participation or conflicts of interest, and compensation for their contribution should come directly from their home institution
- 3 **Market participants** representatives elected from the pool of market participants in the consultation group by the market participants from the consultation group, with 2-year terms subject to a single reelection. The seats are staggered asynchronously so that discussions can continue during the election phase. Participants are not compensated by the Brazilian VCM Council
- 3 **Non-market participants** representatives elected from the pool of independent members in the consultation group by the independent members from the consultation group. Institutional Sponsors have veto rights and can demand another voting process if they consider the candidate to be inadequate (integrity and transparency requirements). The seats are staggered asynchronously so that discussions can continue during the election phase. Independent Board Members are compensated for their work by the Brazilian VCM Council

Key pillars of the Brazilian VCM Council – Composition (3/3)

Appointment process discussed next

2. Expert Panel

- The Expert Panel is a group of experts (e.g., academics, experts from multilateral and international organizations, former or current market participants), which are grouped into sub-panels based on the required expertise for assessments on different subjects and workgroup efforts
- Size of the expert panel is left open and to be adapted to new topics prioritized for the Brazilian VCM Council's discussions. The experts serve on an *ad-hoc* basis corresponding to the currently required expertise
- Expert Panel Members are compensated for their work if non-market participants

3. Consultation group

- The Consultation group provides market inputs to the BoD and consists of representatives of all stakeholders of the voluntary carbon market (including market participants, NGOs, experts/academics, etc.)
- Members of the consultation group are neither compensated nor required to provide funds
- Members of the consultation group have voting rights to decide BoD's seats to Market Participants and Non-market Participants

4. Executive Secretariat

- The Executive Secretariat carries out operational tasks (e.g., coordinating work, organizing meetings, managing memberships, supporting experts, operation of proposed mechanisms)
- The Executive Secretariat can be hosted by one of the Institutional sponsors during the implementation phase. After implementation, the plan is for a legally independent institution to take over and run the Executive Secretariat

5. Institutional Sponsors

- The Institutional sponsors provide public endorsements, credibility, legitimacy and authority to the Brazilian VCM Council
- Representatives from development banks and nonprofit organizations will be invited by the Brazilian Initiative for the Voluntary Carbon Market

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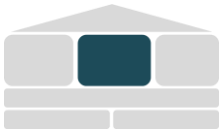
What this public consultation is...

- ✓ Validation of proposed **participation criteria** of the Consultation Group
 - ✓ Validation of the proposed **appointment process** of the Council, including Consultation Group and Board of Directors
 - ✓ Assessment on **potential themes and profiles** to be invited to compose the **Expert Panel**
-

... and what it is not

- ✗ **Call for applications** for Council participants (board of directors, consultation group)
- ✗ **Definition of Council's transition and permanent structure** (proposal to be optimized with time by decision of the Board of Directors)

The call-to-application will be released soon in the Initiative's communication media



The Board of Directors will be composed by members elected from the Institutional Sponsors and Consultation group



Board of Directors Decision-making group

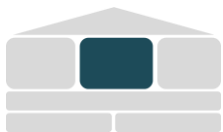


Do you have any considerations on the appointment process?

	1.1 Institutional Sponsors	1.2 Market Participants	1.3 Non-market Participants
# seats	3	3	3
Archetypes	<ol style="list-style-type: none"> Development banks Global non-profit organizations willing to support the VCM 	<ol style="list-style-type: none"> Developers Buyers Financers Others¹ 	<ol style="list-style-type: none"> Regulators Academia NGOs
Appointment process	Council's Institutional Sponsors elect representatives among themselves	Market participants from the consultation group elect representatives among themselves	Non-market participants from the consultation group elect representatives among themselves
Appointment responsible	Council's Institutional Sponsors	Market Participants from the consultation group	Non-market participants from the consultation group Institutional Sponsors have veto rights if they consider the candidate to be inadequate regarding integrity

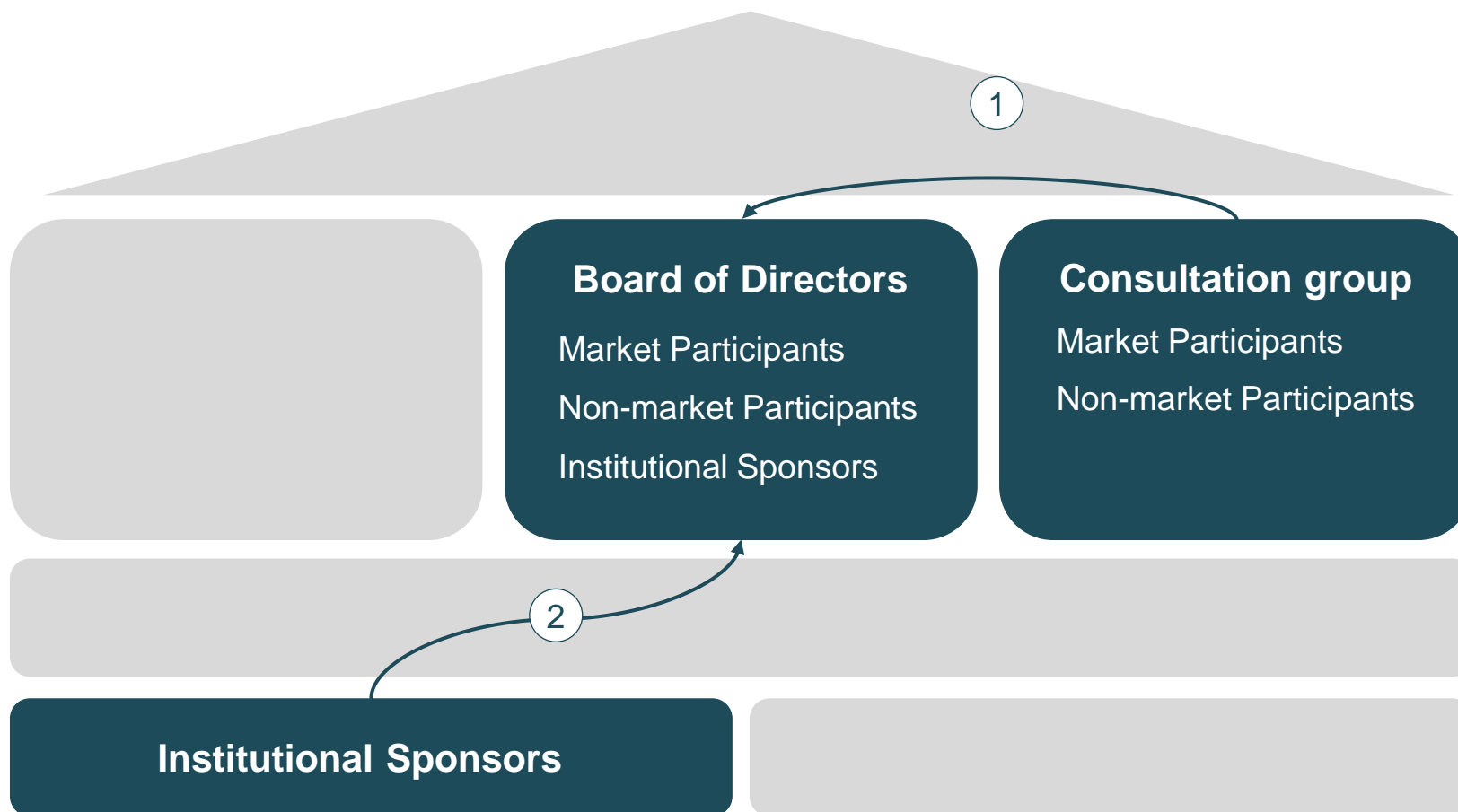
The members will be representing an institution and will act in their professional capacity

1. Others: Brokers, Exchanges, Traders, Marketplaces and API Providers, Credit Ratings, Market Research and Data Platforms, Third Party Auditors (VVBs) and Standards and Registries



BoD will be selected from the Institutional Sponsors and the Consultation Group

This is the proposed end state of the Council's formation

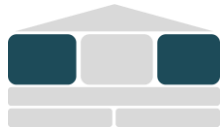


BoD is formed by:


① **Market Participants:** elected by Market participants from the **consultation group**

Non-market Participants: elected by Non-market participants from the **consultation group**

② **Institutional Sponsors:** elected by Council's **Institutional Sponsors**



For the other groups we will open a call for application aiming to form a broad pool of potential participants

 Do you have any considerations on the appointment process?

 Detailed next



Expert panel

Technical inputs



Consultation group

Market inputs

seats

No limitation

No limitation

Archetypes

Technical expertise on critical VCM themes, such as but not limited to:

- a. Methodologies
- b. Financing and intermediation
- c. Legal and accounting
- d. Integrity and risk management
- e. Project development
- f. Socioeconomic impact

Relevant participation on the VCM, e.g.:

1. Market participants

- Developers
- Buyers
- Financial institutions
- Others

2. Non-market participants

- Regulators
- Academia
- NGOs
- Local communities
- Industry associations

Appointment process

Call for application to form a pool of experts on specific topics

Call for application and direct invitations to relevant participants and filtering according to participation criteria

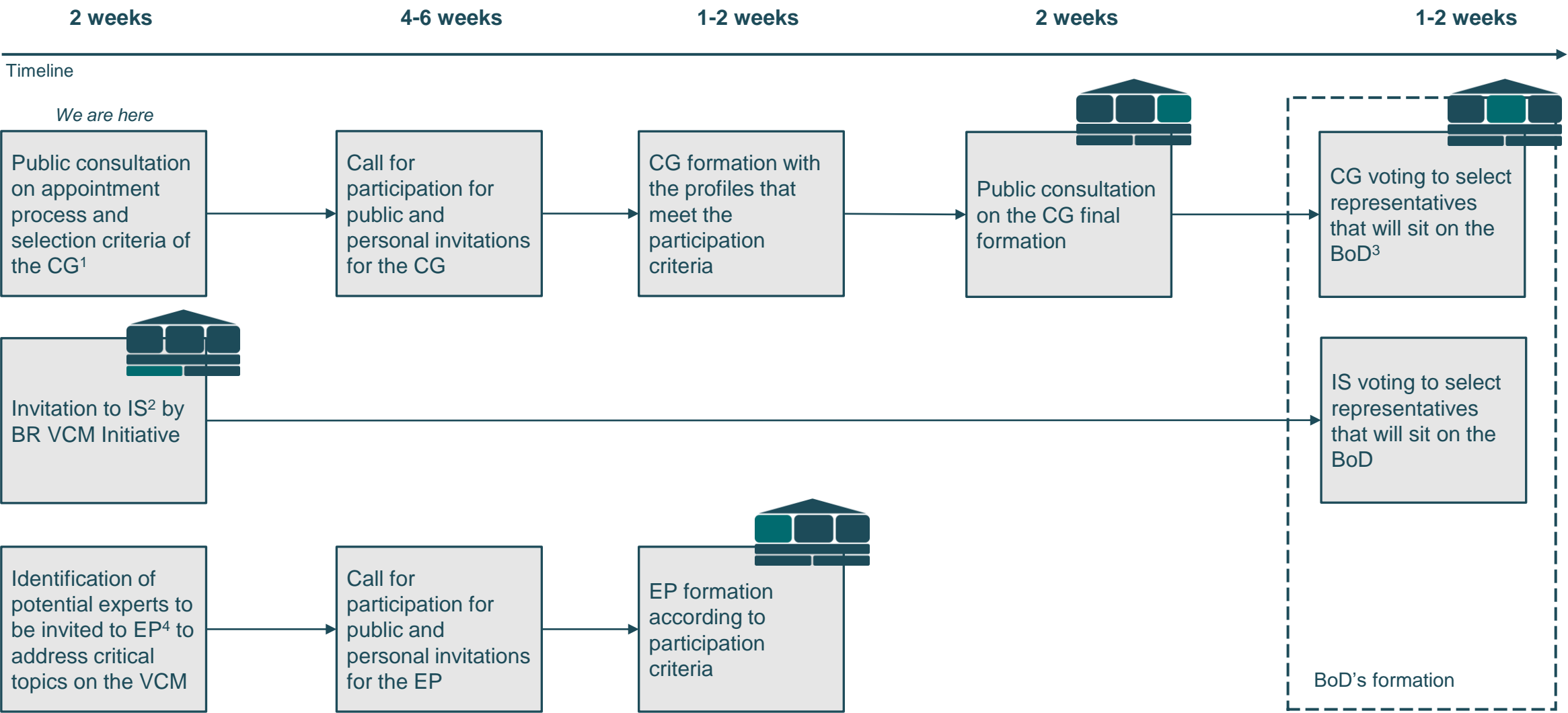
Appointment responsible

Board of Directors will call experts *ad-hoc* according to expertise needed

Executive Secretariat will select the applicants that meet the participation criteria to go to public consultation

The members will be representing an institution and will act in their professional capacity

The appointment process timeline was designed according to interdependency between activities and responsible for each one



1. CG: Consultation group
 2. IS: Institutional sponsors
 3. BoD: Board of Directors
 4. EP: Expert Panel

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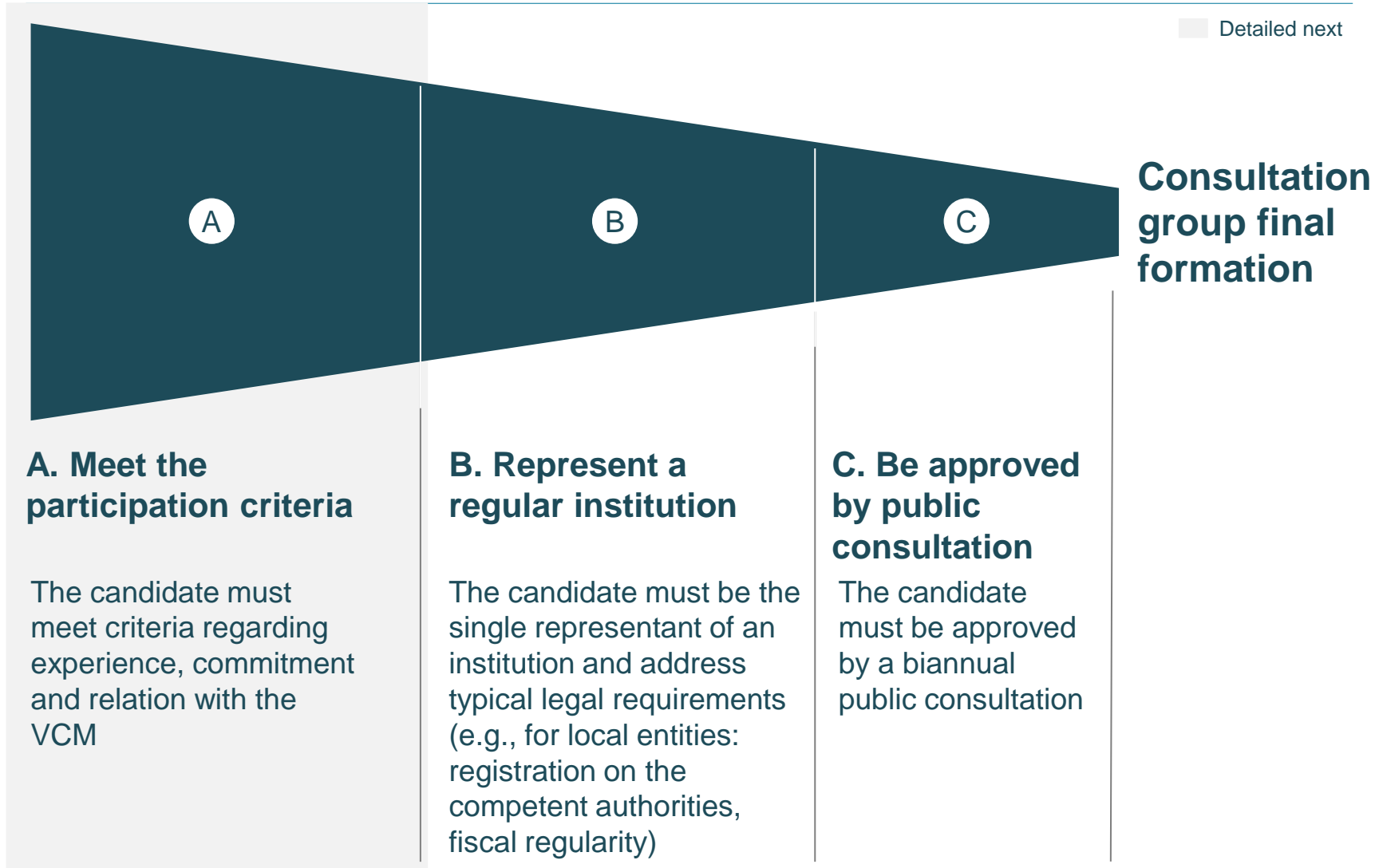
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To be part of the consultation group, the applicant needs to overcome three qualification steps




Do you have any suggestions for other requirements that should be made for an institution to be considered regular?





As the Consultation group has voting rights to elect the Board of Directors representants, the participants must be qualified on the VCM perspective and publicly approved

Consultation group: participation criteria by archetype (1/2)

 Do you have any considerations on the participation criteria?

Market participants – representing an institution/ organization

	Buyers	Developers	Financial institutions	Others ²
 <p>Experience on VCM</p>	<ul style="list-style-type: none"> Have bought carbon credits within the last 3 years 	<ul style="list-style-type: none"> Have certified/ verified carbon credits projects within the last 3 years in an ICROA accredited body 	<ul style="list-style-type: none"> Demonstrate prior familiarity with buying or financing of carbon credits or express a genuine inclination to engage in such activities 	<ul style="list-style-type: none"> Have recognized participation in the VCM value chain
 <p>Commitment with VCM</p>	<ul style="list-style-type: none"> Be associated with VCM related entities (e.g., Integrity Council, VCMI, NBS Alliance, Iniciativa Brasileira para o MVC) Have a sustainability commitment (e.g., carbon neutral, net zero, SBTi) Be involved with the VCM (e.g., have intention to buy or buys carbon credits, have a long or short-term neutrality target¹) 	<ul style="list-style-type: none"> Be associated with VCM related entities (e.g., Integrity Council, VCMI, NBS Alliance, Iniciativa Brasileira para o MVC) 	<ul style="list-style-type: none"> Be associated with VCM related entities (e.g.: Integrity Council, VCMI, NBS Alliance, Iniciativa Brasileira para o MVC) Have proved overall sustainability commitment (e.g., Net Zero Banking Alliance) 	<ul style="list-style-type: none"> Be associated with VCM related entities (e.g., Integrity Council, VCMI, NBS Alliance, Iniciativa Brasileira para o MVC)


1. Long term target means: no target set yet or carbon neutrality after 2030; short term means neutrality before 2030
 2. Others: Brokers, Exchanges, Traders, Marketplaces and API Providers, Credit Ratings, Market Research and Data Platforms, Third Party Auditors (VVBs) and Standards and Registries

Consultation group: participation criteria by archetype (2/2)

Non-market participants – representing an institution/ organization



Do you have any considerations on the participation criteria?

	Academia	NGOs ¹	Local communities' representatives	Others
 Relation with VCM	<ul style="list-style-type: none">• Have a documented track record of VCM/climate experience, such as contributing to scientific articles• E.g., national and international universities that develop researches regarding the climate theme	<ul style="list-style-type: none">• Be related to the climate concern theme or be associated with communities affected by VCM projects	<ul style="list-style-type: none">• Have been, currently be, or potentially be subject to socioeconomic impacts resulting from VCM projects	<ul style="list-style-type: none">• Have experience and/or have engagement with the VCM market in one's current role• E.g., regulator and industry association

1. For NGOs it will be required for the participant to have Physical address, CNPJ, social status, operation license and registration in the FGTS for the employees

