**IETA’s Comments on Brazil’s Proposed Engagement with Cooperative Approaches Involving Internationally Transferred Mitigation Outcomes (ITMOs).**

**(Confidential)**

**Introduction**

IETA welcomes the opportunity to provide informal comments to the forthcoming Resolution of the Interministerial Committee on Climate Change (CIM) that aims to structure Brazil’s engagement with Article 6.2.

Recognizing that countries are sovereign to choose the arrangement for their engagement with Article 6 and ensure the fulfilment of the rulebook requirements, we highlight that establishing reasonable conditions can promote a more efficient engagement, attract international investors and increase mitigation projects in the country at the scale needed to help the country achieve its own climate commitments.

Our vision, confirmed in peer-reviewed research[[1]](#footnote-2), is that a free and open Article 6 market could enable countries to achieve double the mitigation ambition for no additional cost. To achieve the goals of the Paris Agreement, we need countries and companies to increase their international market cooperation following the agreed Article 6 rulebook and avoid adding inefficient complications that could bring lack of confidence for investors and delay climate action.

In a global context of increasing fiscal constraints and threats to multilateralism, thorough Article 6 buyers can achieve their climate commitments at a lower cost, and sellers can channel part of the price premium paid for their Internationally Transferred Mitigation Outcomes (ITMOs) to reinvest into further mitigation domestically, creating a virtuous cycle that can more than compensate the increase in emission balance generated by the corresponding adjustments.

Brazil, with a large share of renewables in its energy matrix and a high Nature-based Solutions (NBS) potential, is particularly well-positioned to benefit from the imbalance between ITMO demand and supply through an efficient and straightforward framework based on principles such as integrity, transparency, traceability and predictability, and which can promote market confidence and attract international investments to promote further mitigation and sustainable development domestically. In that sense, we highlight below some important aspects for assessing the credibility and efficiency of the current proposal for structuring Brazil’s engagement with Article 6.

**Article 6 should be seen as a compass to high integrity**

Authorizing ITMOs is not about privatizing public goods and eventually running the risk of sharing the burden of not achieving the NDCs but acknowledging the current economic opportunity and recognizing superior projects for their high-quality and positive externalities. Such an approach based on incentives can represent a powerful tool to promote carbon market harmonization and become a reference for other countries worldwide, also helping actors to showcase and export high-integrity Brazilian mitigation solutions.

**Article 6 was designed to enable countries to meet their targets**

Adopting an indicative multi-year emissions trajectory for achieving their NDC, countries can adopt different pathways to engage with Article 6. These pathways should clarify how the indicative trajectory relates to the indicators selected to track NDC implementation, and how they ensure that participation does not result in a net increase in emissions across participating Parties. In this context, it is worth noting that some approaches—such as the Joint Crediting Mechanism(JCM)—generate reductions and/or removals that are shared between host countries and buyers. Such arrangements do not necessarily increase the host country’s emissions and may not need to be subject to restrictions. Moreover, it is important to remember that Article 6 was specifically designed to enable countries to collaborate and efficiently meet their targets cooperatively, not to create artificial ceilings on how mitigation tools may be applied.

**Article 6 Framework needs to be consistent to be credible**

To keep international credibility and promote market confidence, Brazil’s engagement with Article 6 needs to be consistent across different situations. This means that, following the proposed approach, previous failures in achieving indicative multi-year emissions trajectory targets would need to be compensated either by buying ITMOs in the same year or by exceeding emission reductions in the subsequent years. However, the current approach is not clear whether the country will buy ITMOs or restrain to authorize ITMOs to compensate for its past failures in following the adopted trajectory. If the Federal Government continues in this pathway and considers authorizing ITMOs only when achieving surpluses indicative multi-year emissions trajectory, it needs to provide clarity on how the same logic will be applied for years that targets were not achieved.

**Inventory limitations should not refrain the country from attracting investments**

Considering the national emissions inventory as reference for structuring the engagement with market-based instruments under Article 6 presents some critical challenges. On one hand, although the Federal Government accounts for anthropogenic removals of carbon from protected areas, the actual removals achieved by these mature forests remain a matter of debate. On the other hand, removals resulting from croplands under no-tillage (NT) and no-tillage systems (NTS), well-managed pastures, planted forests (PF), and integrated crop-livestock-forest (ICLF) systems are not reflected in the national inventories, due to the absence of an official methodology to estimate them. Yet, other countries account for them in their reports and studies indicate that in 2023 alone, soil carbon balance resulted in an estimated net removal of 191.1 million tCO₂ in Brazil.[[2]](#footnote-3) In other words, limiting ITMOs to such inventory results undermines market confidence and prevents recognition and mobilization of resources that could, in part, be directed to improving monitoring, enhancing data quality, and fostering low-emission systems, practices, and technologies. This would progressively enable a more accurate quantification of the mitigation contributions and ensure that those who contribute most to emissions reductions in the country are adequately rewarded.

**Cooperative approaches must not lead to a net increase in emissions across participating Parties**

The fact that cooperative approaches must not lead to a net increase in emissions does not mean that, eventually, there will not be a temporary increase in emissions on the authorizing side due to the application of corresponding adjustments. However, the net increases will not happen across participating parties as there will be an emission reduction accounted on the buyer side. This gives flexibility to host countries to engage with Article 6 in a way that best support them to progress towards the achievement of their NDCs. This flexibility should be considered by host country governments, as it enables the adoption of efficient strategies aimed at a future of greater climate ambition. In this context, the authorization of ITMOs at present would attract larger climate investments and allow for the maturation of reinvestments in future domestic mitigation efforts. This, in turn, enables projects to scale up and be effectively reflected in the national inventory, supporting the country in achieving its NDC targets.[[3]](#footnote-4)

**Consider a multi-year emission trajectory to track NDC progress adapted to the Brazilian context**

As countries are requested to explain the relationship of the indicative trajectory to the indicators selected to track progress towards, the Federal Government should avoid simplistic linear models and provide an indicative multi-year emissions trajectory for the NDC adapted to its economic, social and environmental context. An alternative emissions trajectory, informed by modelling studies on the impacts of different Article 6 pathways, can support more strategic investment and cost-effective mitigation measures that leverage Article 6, become self-sustaining, and accelerate progress towards the NDC. In that sense, promotion of greater Article 6 engagement with clear KPIs and timeframes for revision would be important to provide predictability for the market and confidence for the government to engage with system without running the risk of missing its NDC targets. To support this process, IETA has recently launched our [Working Paper on Carbon Market Frameworks for Brazil](https://www.ieta.org/uploads/wp-content/Resources/Reports/IETA_BR_WorkingPaper.V3.pdf), in which we discuss private sector’s perspectives on pathways for the country to consider each market instrument in light of its climate commitments and particular circumstances. This paper is currently at the stage of modelling the impacts of the different alternatives to support the regulatory development process and facilitate consensus among stakeholders on the way forward.

**Article 6 Framework needs to be simple and clear to attract investments and generate impact**

The current proposal to project national emissions trajectories and sign *Future Transfer Agreements,* where ITMOs would only be authorized and transferred once national inventory data confirms such a surplus, does not provide market certainty on ITMOs authorisation for channelling long term investments into mitigation projects at scale needed. It is always important to remember that carbon projects are costly to implement, require years to be operational and face multiple risks over its lifecycle. Having a lack of clarity on when and how much ITMOs will be provided only increases the uncertainty for interested buyers and investors and can curb the attractiveness of the country internationally.

**CORSIA should be prioritized as it is a key demand driver and critical for SAF promotion**

Brazil should consider authorizing ITMOs in support of CORSIA, not only because of the immediate commercial opportunities, [[4]](#footnote-5) but also because a strong CORSIA will stimulate long-term demand for Sustainable Aviation Fuel (SAF), an area where Brazil has clear competitive advantages. While bilateral or multilateral agreements are important, restricting the authorization of ITMOs to these channels carries the risk of marginalizing CORSIA — the largest source of short-term demand in the international carbon market. In this regard, supporting ITMOs for CORSIA generates a dual benefit: it enables airlines to meet their regulatory obligations today, while SAF is not yet available at scale, and it strengthens a market that, in turn, will drive greater demand for Brazilian SAF to be developed under initiatives such as 'Fuels of the Future' and the National Sustainable Aviation Fuel Program. In this context, overlooking this opportunity would constrain both the resources that Article 6 can bring to Brazil and the potential that SAFs may represent in the country’s future exports.

**Article 6 is key to promote the VCM demand, high-integrity and harmonization**

Although we welcome the promotion of high-integrity carbon credits without corresponding adjustments for multiple use cases and to increase overall climate ambition, we highlight that most countries have the largest share of emissions in sectors traditionally covered by compliance systems. As under the Paris Agreement all countries have obligations and need to report back on their progress to the UNFCCC, big emitters tend to be increasingly under compliance systems, eventually requiring ITMOs with corresponding adjustments to fulfil their obligations. Considering that, in Brazil, SBCE will only cover a smaller part of the country’s total emission, the best way to promote the VCM demand at the scale needed for the country to achieve its full mitigation potential is using ITMO authorizations as a policy tool that generate incentives to drive investment, improve market practices and change behaviours towards further mitigation aligned with the integrity principles endorsed by the Federal Government.

**Integrity principles and the infrastructure for Article 6 engagement should be a priority**

While the SBCE is in its structuring and implementation phase, recognizing the limitations and potential of each market instrument is fundamental to designing a system that provides signals and predictability to unlock long-term private investments, at scale and aligned with the achievement of Brazil’s NDC. In light of the stringent short-term climate commitments, such as restoring 12 million hectares of native vegetation and ending illegal deforestation by 2030, and considering that the SBCE, even once operational, will be insufficient to provide the demand and price signal required to meet these challenges, it is essential that the country advance Article 6 and the VCM, recognizing their interaction as mentioned above, particularly between 2025 and 2030. In this context, issuing guidelines on integrity principles for methodologies to be accredited under the SBCE, and developing the infrastructure for Brazil’s engagement with Article 6, should be considered, alongside the CIM resolution on Article 6, as part of a priority package to enable Brazil to fully realize its mitigation potential and avoid repeating past mistakes. In this process, to ensure credibility, transparency, and build trust among international stakeholders, Brazil should, in addition to recognizing internationally acknowledged integrity initiatives, also promote the disclosure of project-level information (i.e., information on project details including additionality, carbon accounting, co-benefits, and validation/verification reports).

IETA will continue to support the Federal Government’s efforts in developing an efficient framework for the country’s carbon market - one that considers the dynamics among different market instruments, promotes greater ambition and integrity, is built on broad stakeholder engagement, is grounded in best practices, and is informed by robust quantitative data.

1. EDMONDS, J., YU, S., MCJEON, H., FORRISTER, D., ALDY, J., HULTMAN, N., CUI, R., WALDHOFF, S., CLARKE, L., DE CLARA, S., & MUNNINGS, C. (2021). HOW MUCH COULD ARTICLE 6 ENHANCE NATIONALLY DETERMINED CONTRIBUTION AMBITION TOWARD PARIS AGREEMENT GOALS THROUGH ECONOMIC EFFICIENCY? Climate Change Economics, 12(2), 1–18. https://www.jstor.org/stable/27130680 [↑](#footnote-ref-2)
2. https://seeg.eco.br/wp-content/uploads/2024/11/SEEG-RELATORIO-ANALITICO-12.pdf [↑](#footnote-ref-3)
3. While corresponding adjustments increase the host country’s emissions balance, the mitigation benefits generated through reinvestments—enabled by the sale of ITMOs at a premium price—are not symmetrically reflected. These reinvestments often require time to mature and scale before they reach a level significant enough to be captured by national inventories or other accounting metrics at the jurisdictional scale. [↑](#footnote-ref-4)
4. Sylvera estimated three scenarios for Phase 1 with unit price ranging from $25 - $60/tonCO2e, depending on ITMO supply and airlines compliance. [↑](#footnote-ref-5)