INTRODUCTION

Although the Latin America and the Caribbean region is responsible for only 7% of global GHG emissions,[1] it has great potential for climate change mitigation. About 22% of global carbon credit issuances come from this region.[2] This can be explained in large part by its large endowment in Natural Climate Solutions (NCS).

Aware of this potential and the capacity of market instruments to attract resources that support NDC achievement, more and more governments are evaluating, developing, or implementing local regulations on carbon pricing instruments and project development. Indeed, eight countries are involved in bilateral agreements or memoranda of understanding to develop cooperative approaches under Article 6 of the Paris Agreement: Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Mexico, Peru, and Uruguay.

This policy brief provides an overview of the context and the main developments in the region over recent months. Although significant progress has been made, efforts must be intensified to expeditiously scale carbon pricing instruments as one of the tools to ensure the mobilization of resources for emission reductions and removals.

ARGENTINA

Argentina has a carbon tax on liquid fuels that came into force in January 2018,[3] defined within Law No. 23,966. Its implementation is progressing in a phased manner – and full coverage is expected by 2028. Currently, the tax is set at a rate of about USD 2.5 and raised USD 167 million in 2022. However, this mechanism does not currently contemplate the use of carbon credits for compensation.

In December 2021, Argentina implemented the National Registry of Climate Change Mitigation Projects (ReNaMi), approved by **Resolution No. 363 of 2021** and operated by the Secretariat of Climate Change, Sustainable Development, and Innovation. The Secretariat also fulfills the function of the Designated National Authority (DNA). 59 projects are registered – 46 under the Clean Development Mechanism (CDM), 12 under the Verified Carbon Standard (VCS), and 1 under Gold Standard. Of these, 26 have already issued carbon credits. More information can be consulted in ReNaMi through the following **link**.

[1] Source: UNFCCC

[2] Source: Trove Research

[3] More information about the carbon tax can be found in the following **technical note** prepared by Mexico2.

Since the beginning of 2022, the government of Argentina has been developing the recently launched **National Strategy for the Use of Carbon Markets** (ENUMeC), which is part of the National Plan for Adaptation and Mitigation to Climate Change. This strategy aims to promote the development of carbon markets as a tool for meeting and increasing climate ambition in the national territory. The final objective is to provide enabling conditions for developing projects that contribute to the mitigation and adaptation to climate change.

Among other aspects, ENUMeC announces the creation of a National Carbon Markets Office, consolidates an MRV system based on existing structures, and includes 9 strategic axes that can be operationalized through 63 associated actions. These axes are regulated markets, voluntary markets, non-commercial approaches, capacity development, subnational schemes, safeguards and environmental integrity, national and regional interests, climate financing, and adaptation.

Finally, the provinces of **Misiones**, **Santa Fe**, **Jujuy**, and **Córdoba** have established regulations that identify the possibility of developing regulated markets in their jurisdictions, as well as encouraging the demand and development of projects within the framework of the voluntary market for compliance with the measures and goals of local mitigation.

BAHAMAS

In July 2022, the Bahamas government enacted the **Climate Change and Carbon Market Initiative Act**, which seeks to give effect to the Paris Agreement, create and implement initiatives to offset carbon emissions, and set the rules to trade carbon credits. Some of the key points are:

- The options for participation in the carbon market in the Bahamas include bilateral or multilateral trading with other countries, trading with private party entities, or trading in the voluntary carbon market.
- Carbon credits are deemed to be the property of the Bahamas.
- So-called management companies must sign contracts with the Minister of Finance to perform activities related to project development, carbon assets management, and operating on behalf of The Bahamas in the national and international financial markets.
- The Act provides basic provisions on additionality, measurability, permanence, double counting, and social and environmental benefits, among others.
- The establishment of a National Emission Registry and their functions to be managed by a registrar appointed by the Prime Minister.
- A permit by the Prime Minister should be given to any person or entity participating in an initiative implemented in the country.

- A council will serve as a technical advisory body to a management company and provide technical advice and recommendations to the Prime Minister on the trade and management of carbon assets in The Bahamas.

BRAZIL

At the beginning of October 2023, Bill 412/2022, which regulates the cap-and-trade legislation, was unanimously approved at the Senate Environmental Commission after an agreement between the government and the representatives of the agricultural sector that excluded this sector from the regulated market. The SBCE, as the proposed system is called, will not impose obligations for primary agricultural production, as well as goods, improvements, and infrastructure within rural properties associated with it. Also, the system would not consider indirect emissions resulting from the production of inputs or agricultural raw materials.

A key recent amendment in the proposal is related to the legal nature of carbon credits and their definition as securities, making it mandatory for carbon market assets to be traded in capital market environments, such as exchanges, when used for compliance purposes. The emission reporting threshold for industry is currently set at 10,000 tonnes annually, and entities emitting 25,000 tonnes will have compliance obligations. The bill also considers the possibility of using emission removals and reduction credits for compliance. However, details on methodologies and standards allowed and the share that regulated entities might be able to use for such purposes will be defined in further regulation.

Finally, the bill establishes the tax treatment of assets in the system and carbon credits, penalties for non-compliance, provision of safeguards for projects in indigenous communities, and the governance of the system (composition and operating rules of each body will be defined at a later stage by an Act of the Federal Executive Branch).

If approved, the full implementation of the ETS is expected by 2028 or 2029. The bill is now in the lower congressional house, and further deliberations are expected in the coming weeks. The current administration hopes to get the legislation approved before the start of COP28.

Click here to download the latest version of the bill in **Portuguese**.

CHILE

Chile has a USD 5 carbon tax in operation since 2017, regulating approximately 31 % of total emission sources in the country. In September 2023, the Ministry of Environment approved a **Regulation No° 43.664** establishing the obligations and procedures for evaluating, verifying, and certifying emission reduction projects to offset the carbon tax in the country. Some of the key points include:

- Regulated entities can offset all or a portion of their carbon tax-covered emissions.[4]
- For offsetting, there may be a maximum of three years between the year of reduction of the emissions used to compensate and the year in which the taxed emissions are generated.
- Emissions may only be offset by implementing projects to reduce emissions of the same pollutant.
- Offset projects must be located within Chile. Entities seeking to compensate for their particulate matter emissions must invest in projects located in the same area as the emitting installation.
- Methodologies and programme standards should be approved or developed by the Ministry of Environment. Projects and VVBs should be assessed and authorized by the public entity. This information will be publicly available in a registry.
    - In the first instance, VCS, Gold Standard, and the UNFCCC mechanism will be automatically accepted.
- The Superintendence of the Environment will be the one in charge of administering the registry system.

Additionally, the **Climate Change Law**, enacted in 2022, provides the basis for the development of fiscal, financial, and market-based mechanisms, such as a regime of emissions cap or a potential ETS.

COLOMBIA

Colombia's national carbon tax was introduced in 2016. A year later, the government of Colombia regulated the compensation mechanism for the carbon tax through **Decree 926**. In 2018, it enacted **Resolution 1447**, setting out the rules for the National Reduction Emissions Registry (RENARE) and the projects MRV mechanism.

A tax reform was approved in December 2022, introducing modifications to the carbon tax and the offsetting mechanism that took effect in January 2023.[5] The government established a cap for compensation of 50% of covered emissions and new rates. For 2023, the carbon tax price is set between USD 4.6 and USD 5.8 (depending on the type of fuel) and will increase every year in line with the consumer price index plus 1 percentage point. The law also mentions that the Ministry of Environment may regulate control mechanisms and define technical criteria for the GHG mitigation results for the offsetting mechanism.

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[4] February 2024 is the deadline for taxpayers to present approved carbon credits for offsetting the carbon tax.
[5] More information about the carbon tax can be found in the following **technical note** prepared by Mexico$_2$.

Now coal is covered by the tax with a special transition regime. For 2023 and 2024, the rate is 0. From 2025 onwards, it will begin to be gradually settled as a percentage of the total rate until 2028, the year in which the full rate will be applied. Additionally, the specific destination of the resources from the carbon tax changed. 80% of the income is now directed to environmental projects and 20% to the National Illicit Crop Substitution Program.

According to Colombian business association Asocarbono, around 96 million tons of CO2e have been offset since 2017, corresponding to 39% of the total emissions covered historically by the carbon tax. During 2021 and 2022, the average emissions reductions compensated in the market were 22 million tons of CO2e, corresponding to 52% of total emissions. During the first six months of 2023, around 7 million emissions have been offset.

A new regulation is expected in Colombia related to project developments and procedures, the Article 6 institutional framework and the emissions trading system introduced by the **Law 1931/2018 on Climate Change**.

DOMINICAN REPUBLIC

In June 2022 and June 2023, accordingly, the Dominican Republic signed memoranda of understanding with Sweden and Singapore to develop cooperative approaches under Article 6 of the Paris Agreement. It also joined the programme of the Green Climate Fund (GCF) and the United Nations Environment Program (UNEP) to develop capacities in implementing Article 6 and the voluntary carbon market.

The first reporting period of the Payment Agreement for Reducing Emissions from Forest Degradation and Deforestation (REDD+) was completed with the Forest Carbon Partnership Facility (FCPF) of the World Bank, focused on benefit-sharing agreements with coffee and cocoa producers in the buffer zones of protected areas.

Currently, the government is focused on:

- Establish the legal and institutional framework that defines the GHG emissions reduction quotas and creates the enabling framework for the private sector's incursion into carbon markets.
- Define the elements necessary for the operation of the National Carbon Registry.
- Establish a mechanism for monitoring, regulating, and authorizing mitigation initiatives under the voluntary carbon market and Article 6.
- Ensure the inclusion of human rights and social and environmental safeguards.
- Define the right to carbon ownership.

ECUADOR

Through **Ministerial Agreement No. MAATE-2023-053**, the Ministry of the Environment, Water and Ecological Transition (MAATE) released the "National Greenhouse Gas Emissions Offsetting Scheme" in June 2023. It sets out the rules for project development and issuance of Carbon Equivalent Units (UCEs), the name given to carbon credits in Ecuador's offsetting scheme. This instrument complements the previously launched Ecuador Zero Carbon Program (PECC) and promotes a retributive approach so that companies that have measured and reduced their carbon footprint can offset their residual emissions by acquiring UCEs.

Financial compensation, which does not necessarily correspond to UCE's purchase, is made directly between the companies that reduced its carbon footprint and those who own the mitigation projects. Secondary market is not allowed. The end user can retire these UCEs to make various claims, such as impact on emissions reduction and removals, offsetting or carbon neutrality, support to Ecuador's NDC, and support to SDG. In this initial stage, these efforts are counted towards Ecuador's NDC. At a later stage, UCE may be sold as ITMOs.

In terms of the operation of Ecuador's Offsetting Scheme, the logic is similar to that of crediting mechanisms in the carbon market, following standards that must receive approval from the MAATE, an entity acting as a supervisory body; being audited by Validation and Verification Bodies (VVB), which the Ecuadorian Accreditation Service should approve; and using infrastructure as the National Offsetting Registry, which is legally created and managed by the MAATE. In terms of pricing, although price will not be regulated, each project proponent must present a cost structure and justify the price it seeks for the UCEs.

MEXICO

Mexico's ETS[6] began its pilot phase in January 2020. Sectors covered include facilities with annual direct emissions greater than 100,000 tCO_2 from the energy[7] and industrial sectors.[8] Approximately 300 entities were covered by the transitional phase in 2022, representing ~37% of national emissions. Offsets from non-ETS sectors are limited to 10% of the compliance obligation during the pilot and transitional phase.

The fully operational phase was intended to start in January 2023. However, the main market rules for this phase have yet to be published. The Mexican regulator announced that the operational rules for this phase will be defined in 2024 or 2025.

[6] More information about the ETS can be found in the following **technical note** prepared by Mexico2.

[7] Energy sector includes electricity generation and fossil-fuel extraction and production.

[8] Industrial sector includes: cement, chemicals, automobiles, glass, steel, metallurgical, mining, petrochemicals, pulp, and paper subsector, among other industrial subsectors that generate direct emissions from stationary sources.

There have been significant advances in subnational entities implementing carbon taxes within their jurisdictions. Currently, multiple instruments are in force in the states of Zacatecas, Durango, Querétaro, Yucatán, Estado de México, and Guanajuato. Several other states, such as Tamaulipas, Colima, and Jalisco, are developing subnational carbon pricing instruments and flexibility mechanisms. The taxes currently in force follow a uniform scheme that focuses on downstream regulation and is limited to direct emissions from fixed sources. Prices range from USD 2.5 to USD 40 per tonne. In some cases, such as Querétaro and Guanajuato, they incorporate flexibility mechanisms such as tax incentives and offsets to enable obligated entities to reduce direct emissions. For example, 341.619 carbon credits were used in Querétaro towards the 2022 carbon tax obligations.

PANAMA

Through Executive Decrees **No. 100 of 2020** and **No. 142 of 2021**, the Ministry of the Environment created the following components that lay the foundations for the development of a voluntary mechanism called the National Carbon Market of Panama (MNCP):

- Reduce Your Footprint National Programme – It creates demand by allowing the generation and collection of information related to GHG emissions reported to the ministry at different levels. Currently, around 158 organizations are registered, and 27 have committed to carbon neutrality by 2050.
- National GHG Compensation System – It creates supply from project owners or developers who wish to generate National Emission Reduction Units (UNRE) at the national level. To do this, they must be governed by the MRV system established by the government and receive approval from the Ministry of Environment. Here are some points to consider:
  - The following are the prioritized sectors for project development: forestry, agroforestry and silvopasture, livestock, blue carbon, and energy.
  - The Ministry of Environment will issue a list of entities approved for the issuance of carbon credits. Currently, the prioritized accreditation standards are Climate Action Reserve, Verra, American Carbon Registry, Gold Standard, and Plan Vivo.
  - The National Registry of Mitigation Actions (ReNAM) is under development and will be part of the National Climate Transparency Platform.
- The Panamanian Carbon Exchange was established as the online platform that will connect the supply and demand of UNRE. By ministerial resolution, **LATINEX**, the Latin American Stock Exchange, was appointed as the institution in charge of managing this platform.

In January 2023, the Ministry of Environment officially launched the roadmap and began the pilot stage of the MNCP.

PARAGUAY

The Paraguayan Congress approved in October 2023 the **Law No° 7190** on Carbon Credits. The law provides general definitions and aims to encourage and facilitate the participation of public and private sectors in carbon markets. Some of the key points include:

- The establishment of the ownership regime for carbon credits.
- The establishment of a formal registry for carbon credits accounting and transactions recording managed by the Ministry of Environment.
- Project owners must retain and not transfer a percentage of the generated credits between 3% and 10% to be determined by the Ministry of Environment.
- Carbon credit transactions will not be subject to VAT.

PERU

In 2022, Peru **put out to public consultation the Supreme Decree** that seeks to operationalize the National Registry of Mitigation Measures (RENAMI), which continues in the process of socialization and consultation with indigenous communities. The registration process for mitigation initiatives includes review and approval by the Ministry of the Environment, seeking to ensure compliance with crucial elements such as safeguards and environmental integrity criteria. Carbon standards and methodologies must pass through a review process before receiving approval from the Ministry of Environment.

This Supreme Decree seeks to promote efforts to mitigate climate change by complementing programs such as **Huella Carbono Perú**, a voluntary programme that aims to measure and compensate GHG emissions in the business sector, which had nearly 200 organizations in 2022.

CARBON PRICING IN THE AMERICAS

The Carbon Pricing in the Americas (CPA) is a cooperation, information-sharing, knowledge-building and networking platform that arose from the Paris Declaration on Carbon Pricing in the Americas endorsed by several national and subnational governments in the Americas in December 2017. In 2021, a renewed **Declaration on Carbon Pricing in the Americas** was adopted at COP26 in Glasgow. In endorsing the Glasgow Declaration, members commit to the following:

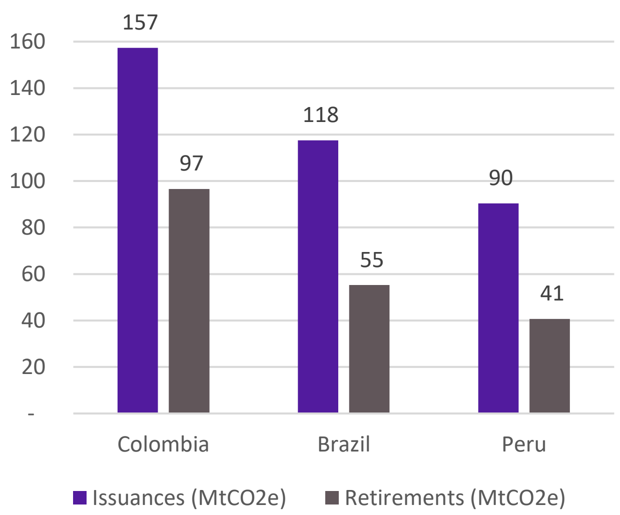
- Implementing or pursuing the implementation of carbon pricing as a central economic and environmental policy instrument for ambitious climate change action and as a key component of a green recovery from the COVID-19 pandemic.

- Working towards applying a cost of carbon to their public investment decisions, and encouraging private companies to do the same through internal carbon pricing.
- Regularly increasing the level of carbon pricing in their economies to better reflect the ever-increasing cost of abatement action and the social cost of carbon to ensure that strong price signals are sent throughout their economies at the pace and scale required for transformational change.
- Pursuing the implementation of the CPA by:
  - strengthening regional and international cooperation in an effort to share information, expertise, lessons learned and experiences;
  - identifying opportunities to increase the alignment and linking of carbon pricing instruments and carbon markets.
- Encouraging synergies and coordination among the existing carbon pricing initiatives and forums that are active in the Americas.

As of today, governments that have endorsed this Declaration are British Columbia, California, Canada, Chile, Dominican Republic, Federal District (Brazil), Jalisco, Mexico, Nova Scotia, Panamá, Paraguay, Pernambuco, Québec, Querétaro, Rio de Janeiro, Sonora, and Yucatán. Colombia and Guanajuato are observers. Several CPA member governments already operate a carbon pricing mechanism or aim to upgrade it, while others are planning its implementation.

VOLUNTARY CARBON MARKET (VCM)

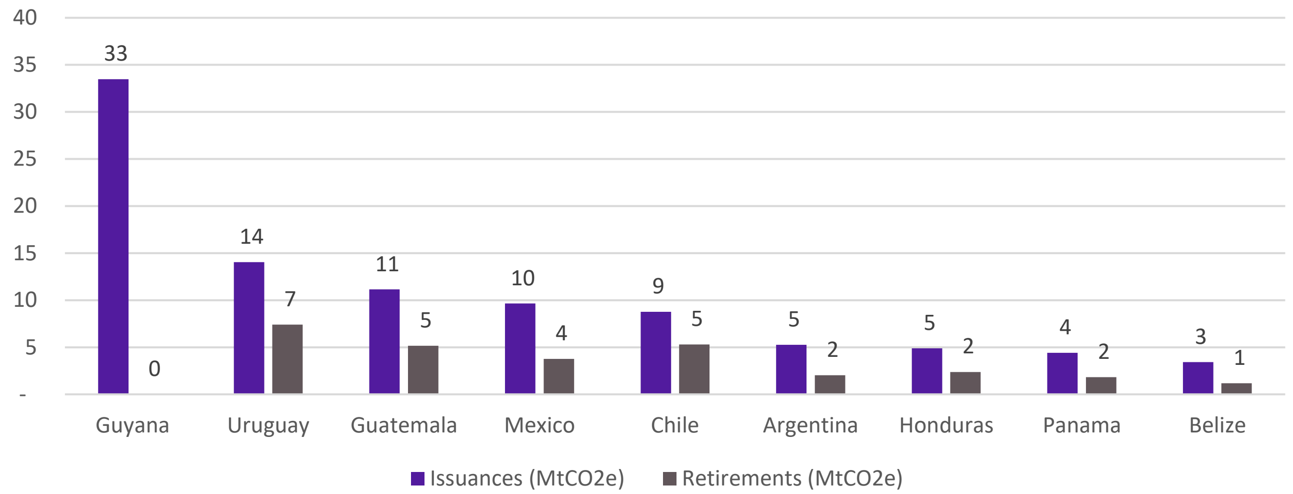
There are countries with different levels of development in terms of implementation in the LAC region. Below is a series of graphs showing the historical amount of issuances and retirements of carbon credits, including percentages by type of project, using information from the registries of the leading certification standards in the market.



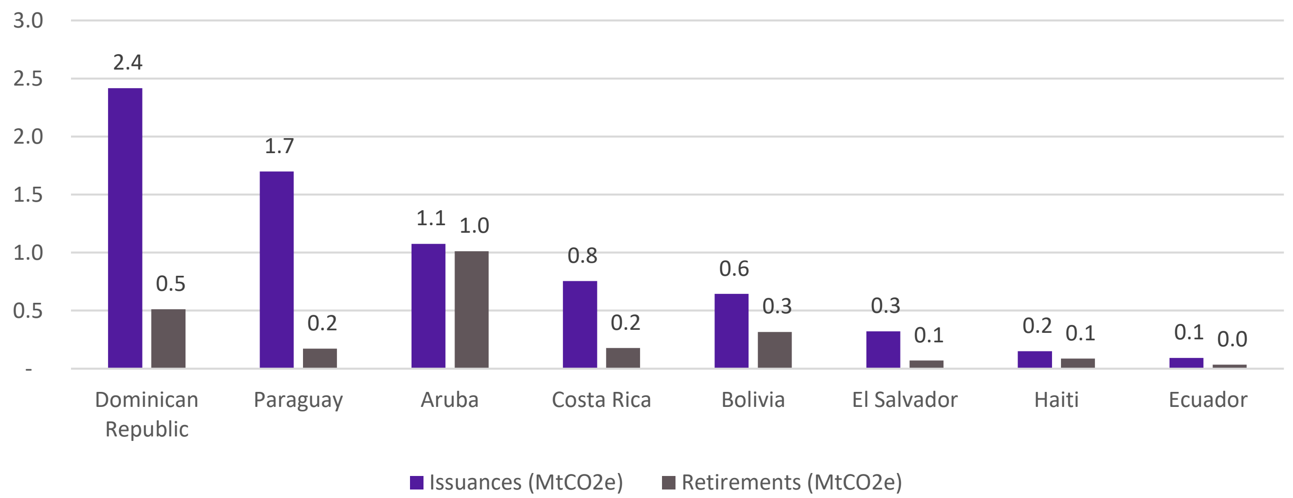
Source: Trove Research

It is noteworthy that Colombia, with an area 8 times smaller than Brazil, ranks first in terms of credits issued and retired. This can be explained, in large part, by the carbon tax offsetting mechanism implemented in the country since 2017. However, Brazil is the country with the highest number of registered projects (184), followed by Colombia (154) and Mexico (152).

Peru, with only 39 registered projects, is far behind Brazil, Colombia, and Mexico. However, it is the third country in terms of credits issued, reflecting prevalence in the number of REDD+ projects implemented. Mexico has almost the same number of registered projects as Colombia but only 6% of issuances and 4% of credit retirements. This is because recent regulations in the Central American country have encouraged the development of initiatives, but certification of emissions reductions and removals has not yet materialized. Likewise, Guyana, with only one registered project, has generated 33 million carbon credits, more than 16 countries in the region.

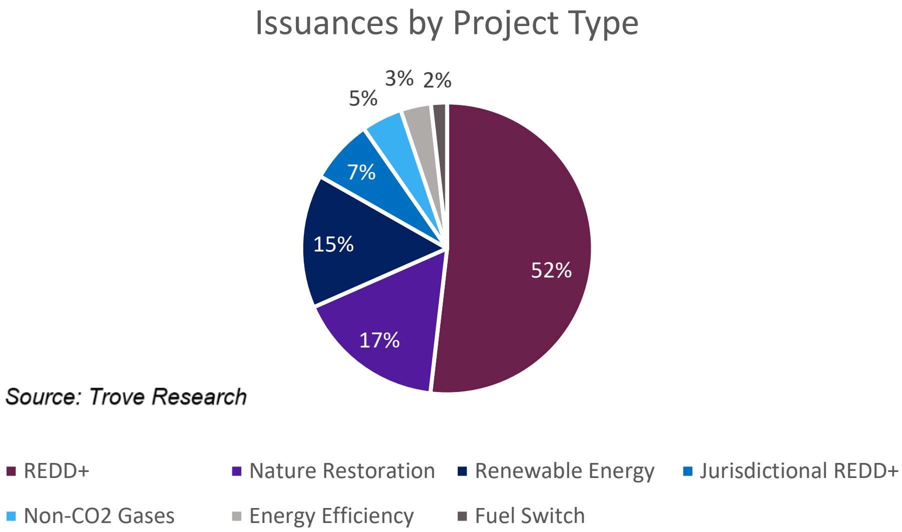


Source: Trove Research



Source: Trove Research

In total, the region has 723 registered projects in 20 countries. 10 in South America and 10 in Central America and the Caribbean. These projects have emitted 536 million carbon credits, of which 227 million have been retired. As expected, nature-based solutions dominate the spectrum regarding credits issued, led by REDD+ initiatives and natural restoration solutions. Next on the podium are renewable energy projects.



Source: Trove Research

As previously noted, LAC plays a preponderant role in the supply of carbon credits for the global market. The implementation of carbon pricing instruments and voluntary programs in the region, allowing the use of flexibility mechanisms, as well as the consolidation of Article 6 of the Paris Agreement, is expected to strengthen demand and consolidate clear rules for the development and scaling up of projects in each of the jurisdictions.

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ABOUT IETA

IETA is a non-profit business association with a membership of over 300 leading international organisations operating in compliance and voluntary carbon markets. Since its foundation in 1999, IETA has been the leading voice of business on ambitious market-based solutions to climate change. We are a trusted adviser to governments to support them in developing international policy and market frameworks to reduce greenhouse gases at lowest cost, increase climate ambition, and build a credible path to net zero emissions. See **www.ieta.org** for more information.

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