
Brazil Initiative

LEVERAGING BRAZIL'S CARBON MARKET

PRIVATE SECTOR'S KEY CONSIDER-
ATIONS ON THE BRAZILIAN EMISSIONS
TRADING SYSTEM (SBCE)

IETA Brazil Initiative

ABOUT THIS PAPER: THIS DOCUMENT HIGHLIGHTS KEY CONSIDERATIONS FOR THE NEWLY APPROVED BRAZILIAN EMISSIONS TRADING SYSTEM (SBCE) AS WELL AS TO SUGGEST APPROACHES THAT CAN EFFICIENTLY CONTRIBUTE TO THE ONGOING DEVELOPMENT OF ITS REGULATORY FRAMEWORK. IT HAS BEEN DEVELOPED IN CLOSE COLLABORATION WITH IETA BRAZIL INITIATIVE'S SPONSORS AND IETA MEMBERSHIP.

IETA BRAZIL INITIATIVE'S SPONSORS



PREPARED BY: THE INTERNATIONAL EMISSIONS TRADING ASSOCIATION (IETA).
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EXECUTIVE SUMMARY

THIS DISCUSSION PAPER FROM IETA HIGHLIGHTS KEY CONSIDERATIONS FOR BRAZIL'S NEWLY APPROVED EMISSIONS TRADING SYSTEM (SBCE), ESTABLISHED BY LAW NO. 15,042/2024. THE SBCE IS CRUCIAL FOR BRAZIL TO MEET ITS PARIS AGREEMENT COMMITMENTS, FOSTERING DE-CARBONISATION, ATTRACTING INVESTMENT, AND BOOSTING COMPETITIVENESS. THE PAPER STRESSES THE NEED FOR AN ENVIRONMENTALLY SOUND, ECONOMICALLY EFFICIENT, AND SOCIALLY JUST SYSTEM. GIVEN BRAZIL'S STRONG POSITION FOR NET-ZERO, DEVELOPING THIS REGULATORY FRAMEWORK, ESPECIALLY BEFORE COP30, IS VITAL FOR MOBILISING PRIVATE CAPITAL. THE DOCUMENT FOCUSES ON CORE ELEMENTS FOR THE SBCE'S EFFECTIVE IMPLEMENTATION, STARTING WITH ITS INTEGRATION INTO EXISTING CARBON MARKETS.

A pivotal aspect is clearly defining the connection between the Voluntary Carbon Market (VCM) and SBCE, particularly regarding “Certificado de Redução ou Remoção Verificada de Emissões” (CRVE) methodologies that would be accredited to generate CRVEs and the share of offsets that will be allowed for compliance purposes within the SBCE. Lack of clarity on these elements could limit private sector investment and its contribution to the Brazilian NDC's achievement in the short term. In this context, aligning SBCE's integrity principles with international standards like CORSIA and Article 6.4 is also essential for SBCE's credibility, market liquidity, and attracting climate investment.

Building on this, Article 6 provisions in the SBCE law lay the groundwork for Brazil's engagement with Article 6 of the Paris Agreement. Further regulations are needed to streamline ITMO authorisation and clarify roles, avoiding bureaucratic hurdles for investors. Efficient Article 6 engagement can significantly reduce global emissions reduction costs and attract foreign investment, spurring sustainable projects, job creation, and technology transfer. Establishing an SBCE registry to track CRVEs and ITMOs, alongside clear eligibility criteria, should be considered a key priority as it will be instrumental to ensure the robustness and high-integrity of the system.

Jurisdictional Programs are vital for achieving territorial-level results. While the law prevents pre-selling credits, a clear pathway for subnational governments to access upfront financing is needed. Clearly differentiating preparatory agreements from credit pre-sales is important. Despite landowners' right to opt out, flexibility in early funding and transparent revenue distribution are crucial for program viability and stakeholder engagement, supporting Brazil's deforestation targets. At the same time, other approaches, such as ARR initiatives, present complementary opportunities for advancing the country's climate goals beyond the scope of jurisdictional REDD+.

Effective Governance is paramount, requiring active private sector participation through a Consultative Technical Committee with diverse expert representation to ensure real-world grounding. The Managing Body must be technical, independent, and resilient to political shifts for long-term predictability. Establishing an Interim Managing Body promptly, leveraging COP30 momentum, is strategic, with Article 6 pilot initiatives potentially bridging implementation lead time.

Operationally, the National Allocation Plans need clear definitions for cap application (installation, facility, or economic group), impacting environmental integrity, administrative complexity, and cost efficiency. Drawing from international experiences, allocation methods should reflect industrial realities, including technological constraints, abatement costs, and historical emissions, using robust sectoral data. Transparent communication of the SBCE's contribution to Brazil's NDCs, including aimed emission reductions and its eventual price effects, is crucial for private sector readiness, given that currently many Brazilian companies have limited capacity in GHG reporting. Regarding resources, Taxation, Resource Allocation and Use of Funds must ensure revenues are reinvested into decarbonisation efforts, including R&D, capacity building, and jurisdictional programmes. Law 15,042/2024 positively directs revenues to low-carbon technological innovation. Clarifying investment channels (public vs. private entities) and defining eligible uses of funds are essential for timely allocation and strategic planning, with transparent oversight ensuring alignment with environmental goals.

Socially, IPLC-related issues offer the SBCE an opportunity to establish a unique Free, Prior and Informed Consent (FPIC) procedure tailored to Brazil, based on ILO Convention 169. FUNAI and the Public Prosecutor's Office should be empowered to develop FPIC guidelines, facilitate dialogue, and oversee compliance. Clarifying “territories” interpretation (recognised vs. claimed/traditional) for FPIC application is vital for legal certainty and effective implementation.

Finally, for enforceability, the Infringements and Penalties framework must be clearer. The SBCE regulation requires well-defined guidelines for applying penalties (warnings, fines, suspension of activities, etc.). Precise provisions for enforcement circumstances are necessary for regulated entities to plan and minimise risks. Adopting international best practices, like the EU ETS, for proportional and transparent enforcement with objective, globally aligned criteria, will provide essential legal certainty.

INTRODUCTION

IETA strongly supports the Federal Government's efforts to implement the Brazilian Emissions Trading System (SBCE), as established through the recently approved Law no. 15,042/2024. This marks a critical development towards enabling Brazil to meet its commitments under the Paris Agreement. Brazil has been a longstanding leader in international carbon market policy, playing a key role in the creation of the Kyoto Protocol's Clean Development Mechanism (CDM) and the development of Article 6 of the Paris Agreement. The country's recent developments can inspire other countries in the Global South.

An emission trading system that is environmentally robust, economically efficient, and socially just, can drive the decarbonisation of the Brazilian economy, attract investment in cleaner technologies, and enhance industrial competitiveness. It can facilitate linking, help mitigate the eventual impacts of Carbon Border Adjustment Mechanisms (CBAM) abroad and provide guiding principles for the expansion of high-integrity Voluntary Carbon Market (VCM) in the country.

With clear competitive advantages, such as the large renewable energy share in the energy matrix and significant nature-based potential, Brazil is well-positioned to move toward net zero and, in time, generate additional mitigation outcomes for international carbon trading, including under Article 6. This will require adopting smart climate strategies that recognise the complementarity of carbon market instruments, ensuring they work together to accelerate climate ambition, generate opportunities for those who most need and decrease economic impacts of transition.

The development of SBCE's regulatory framework over the coming years will be a crucial process, as it will establish the rules governing the compliance system and its interactions with both the VCM and Article 6 mechanisms. In this context, COP30 in Belém presents a unique opportunity to build and accelerate progress in this agenda, creating conditions for attracting the private sector capital to support the achievement of its Nationally Determined Contribution (NDC).

This discussion paper aims to highlight areas that the private sector identifies as priorities for SBCE regulatory framework development and shed light on approaches that could efficiently contribute with the work in progress. It presents the considerations related to eight key elements for the SBCE: Connection between the VCM and SBCE, Article 6, Jurisdictional Programmes, Governance, Allocation Plan, Taxation, IPLC-related issues, and Penalties.

With the goal of facilitating the achievement of concrete results by COP30, IETA plans to expand on such points through technical meetings and studies over the year to provide capacity building, build consensus and inform the regulatory development process. All interested stakeholders are invited to join us in this effort of actively contributing to make net-zero a reality for Brazil.



THIS DISCUSSION PAPER SEEKS
TO SHARE PRIVATE SECTOR
PERSPECTIVES ON KEY PRIORITIES FOR
THE SBCE REGULATORY FRAMEWORK
AND OFFER CONSTRUCTIVE
APPROACHES TO SUPPORT ITS
ONGOING DEVELOPMENT.

CONNECTION BETWEEN THE VCM AND SBCE

CARBON MARKETS ARE COMPLEMENTARY TOOLS THAT SHARE A COMMON GOAL: MOBILISING INVESTMENT TO EFFICIENTLY ADDRESS CLIMATE CHANGE. TO ACHIEVE THEIR FULL POTENTIAL, HOWEVER, THE CONNECTIONS BETWEEN SUCH MARKET-BASED INSTRUMENTS NEED TO BE CLEARLY DEFINED THROUGH COMMON CRITERIA THAT ENSURE THE HIGH-INTEGRITY OF THE CONNECTED SYSTEM. IN THE CONTEXT OF SBCE, HAVING CLARITY ON ACTIVITIES AND METHODOLOGIES FOR GENERATING CRVES, AS WELL AS THE PERCENTAGE OF EMISSIONS THAT WILL BE ALLOWED TO BE COVERED BY THEM, IS A KEY EXAMPLE OF SUCH A PROCESS AND IS PARTICULARLY IMPORTANT FOR BRAZIL'S CLIMATE COMMITMENTS.

While the full implementation of the SBCE will take several years, about three quarters of the country's emissions comes from sectors not covered by the compliance system, 60% alone from Agriculture, Land-use Change and Forestry sectors¹. Thus, establishing in advance clear guidelines on how the connection between compliance system and the voluntary crediting environment will work is vital to unlock in advance, long-term investments from the private sector, into key mitigation areas for the achievement of the near-term goals of the country's NDC.

Delays in providing such clarity, however, can also generate counterproductive impacts, with private sector stakeholders putting new investments in emission reduction and removal projects on hold until they have more clarity on how the interplay will take place, compromising ongoing climate action in the country. To avoid such a scenario, it would be crucial to at least define which integrity principles will serve as basis for assessing Crediting Programmes and methodologies considered for SBCE in a timely manner.

It is worth noting, that COP30 in Belém raises the interest of international stakeholders in high-integrity carbon projects in the country. Having such guiding principles in place would help the country to reach its full climate investment attraction potential. In this process, to ensure environmental credibility and facilitate international cooperation, it would be important that SBCE's integrity principles draw on internationally recognised integrity standards, such as those endorsed by CORSIA, principles agreed under the Paris Agreement Crediting Mechanism (PACM)² and even policies and integrity principles designed by other countries, and initiatives, as is the case of Singapore³ and those established by the Integrity Council for the Voluntary Carbon Market (ICVCM).

Such alignment would ensure the robustness of SBCE, strengthen the liquidity and fungibility of CRVEs, and support the convergence of markets towards a more efficient global market. The alignment of integrity principles shaping SBCE with international demand-channelling mechanisms such as CORSIA and Article 6.4 could also facilitate the future engagement of the country with international carbon markets and unlock significant climate-related investment opportunities for Brazil in the short-term, helping the country achieve its NDC and generating co-benefits on the way.

Beyond providing clarity on the high-integrity principles that will be considered for CRVEs, defining which methodologies, vintages, types of activities and offsets percentages will be allowed within the SBCE shall be one of the key priorities once the SBCE Managing Body is in place to channel private sector investments to where they are most needed while the SBCE is still under operationalisation.



ARTICLE 6

THE SBCE LAW ESTABLISHES BROADER GUIDELINES TO START STRUCTURING THE AUTHORIZATION OF ITMOS AND THE OPERATIONALISATION OF THE FUTURE ENGAGEMENT OF BRAZIL WITH ARTICLE 6 MECHANISM OF THE PARIS AGREEMENT. SUCH PROVISIONS CAN HELP THE COUNTRY BUILD ITS FRAMEWORK TO ENGAGE WITH ARTICLE 6, ENSURING ROBUST AND CENTRALISED ITMOS TRACKING AND COHERENCE WITH THE COUNTRY'S INTERNATIONAL CLIMATE COMMITMENTS. TO ADVANCE IN THIS PROCESS, FURTHER REGULATIONS SHOULD ESTABLISH A STRAIGHTFORWARD STRATEGY AND DEFINE THE ROLES AND RESPONSIBILITIES TO AVOID CREATING OVERWHELMING BUREAUCRATIC PROCEDURES THAT DETER INVESTORS.

Cooperative implementation of Nationally Determined Contributions (NDCs) through Article 6 can significantly lower the costs of achieving global emissions reductions by leveraging differences in marginal abatement costs and attracting private sector investment. Economic modelling suggests that Article 6 carbon markets could reduce mitigation costs by over \$250 billion annually by 2030, potentially increasing emissions reductions by around 5 GtCO₂e per year by 2030,⁴ redirecting capital from developed to developing countries, and generating multiple co-benefits for host countries. In addition to that, it is worth highlighting multiple domestic advantages for Brazil that could arise from attracting foreign investment, such as increased funding for sustainable projects, job creation, technology transfer, and economic diversification.

To efficiently engage with Article 6, authorise ITMOs and reduce corresponding adjustment concerns, potential host countries, as Brazil, could implement multiple early design features to equip authorities with tools that ensure international cooperation engagements under Article 6 will preserve the trajectory of achieving NDCs while maximising the cost-effectiveness of carbon projects, such as setting crediting period limits, applying corresponding adjustment fees, or defining eligibility criteria for specific methodologies, among others. In this process, the establishment of the SBCE central registry and the Brazilian regulated market infrastructure to track and control ownership, characteristics and transactions involving “*Cota Brasileira de Emissões*” (CBEs), CRVEs and ITMOs and of principles for authorising ITMOs, particularly around the eligibility criteria for methodologies, activities, and technologies that may be converted into ITMOs, would be key elements for making the private sector investment flows and scales to where it is needed. To ensure credibility and functionality of the SBCE in both the voluntary and compliance markets, it is also worth highlighting the relevance of having publicly disclosed, reliable technical information about projects through the SBCE registry. Increasingly, leveraging Article 6 to align with industrial, regional, and social policies, and involving multiple ministries beyond just those responsible for climate, is essential for maximising its impact.

Currently, as per SBCE law (Art. 8º) provisions, while the Inter-ministerial Committee on Climate Change is responsible for defining the conditions for authorisation, it is the SBCE Managing Body which is the responsible for defining methodologies allowed to generate CRVEs, making unclear whether the SBCE Managing Body would act only as a gatekeeper or as another authorisation instance. Providing clarity on the roles and responsibilities of each body and ensuring inclusivity in the regulatory development process, with meaningful engagement from private sector and key stakeholders, would be key to establish an efficient system.

Finally, ITMO authorisations can drive finance to reduce emissions in hard-to-abate sectors and projects aligned with the Federal Government's integrity criteria. They can facilitate market convergence, enhance market credibility, and mobilise greater international investments. As part of this, emerging financial instruments, developed by private banks, BNDES, and regional development institutions, may offer valuable support for early-stage project development, particularly in sectors with longer implementation horizons, such as restoration. Although the time gap between emissions data and the national inventory hampers precise estimation of Brazil's NDC trajectory, the establishment of dynamic engagement frameworks, with iterative improvements and a forward-looking pragmatic approach, could allow the country to tap into the opportunities offered by Article 6 and lead to enhanced ambition more efficiently.



**ARTICLE 6 OFFERS BRAZIL
A KEY OPPORTUNITY—
IF THE SBCE ENSURES
CLARITY, CREDIBILITY, AND
BROAD COLLABORATION.**

JURISDICTIONAL PROGRAMMES

Jurisdictional Programmes are fundamental to achieving results at the territorial level — this is particularly relevant in Brazil's case, where implementation challenges are highly complex. Given their nature and scale, early-stage funding is critical to support robust governance, stakeholder engagement, and monitoring by subnational governments.

Art. 43, §6º of Law 15,042/2024⁵ restricts the issuance and sales of emission credits that have not yet been generated, including those from jurisdictional programs, as a safeguard to prevent double counting. While this provision is logic, it currently lacks in providing a clear pathway for subnational governments to access upfront financing for establishing their jurisdictional programmes. Thus, it is important to clearly distinguish this restriction from the possibility of preparatory agreements that do not imply the pre-sale of credits but establish commercial conditions for the eventual sale of verified credits. Such agreements could play a valuable role in supporting jurisdictions as they design their programmes with the goal of future integration into regulated or international carbon markets. In this context, strengthening the use of forward purchase contracts, particularly with public institutions or blended finance structures, may help reduce uncertainty and offer predictable revenue streams for future credit-generating activities. While not involving the transfer of unverified credits, these instruments can enhance financial viability, stabilise market expectations, and unlock capital for the early phases of programme development.

The law also acknowledges (Art. 43, §7º landowners and usufructuaries' right to opt out of jurisdictional programmes and operate independently.⁶ While this provision respects property rights, its effective implementation will depend on nesting across subnational programmes and private areas to ensure the robustness of the national accounting system. It is equally important to align these approaches with coherent nesting frameworks that maintain environmental integrity and avoid double counting. Ensuring consistency in how opt-out discounts are applied is also key, including whether they vary by project methodology or timing of the opt-out request, particularly as future projects may adopt methodologies that were not yet defined at the time of exclusion.

Another important aspect is the distribution of revenue to landowners. Transparent benefit-sharing mechanisms and adaptable implementation will be fundamental to securing stakeholder engagement, enhancing cost-effectiveness, and supporting the long-term success of jurisdictional programs, aligned with Brazil's goal of ending deforestation in the Legal Amazon by 2030.⁷ At the same time, ensuring that flexibility is leveraged with predictability and legal certainty will be key to enabling the government to provide corresponding adjustments where appropriate, thereby maintaining the environmental integrity of carbon markets and making domestic projects more attractive to investors.

Although §17º guarantees proportional revenue-sharing when emissions reductions occur on private lands, overly rigid interpretations, such as requiring the full transfer of credit value, could undermine the viability of jurisdictional programmes by restricting the financial resources available to states for implementation and monitoring.



NATIONAL ALLOCATION PLAN

National Allocation Plans should clearly define the level at which caps will be applied, whether to installations, facilities, or economic groups, as this decision has direct implications for environmental integrity, administrative complexity, and cost efficiency, and investment and mitigation decisions by the private sector. Such a decision might also have different implications to current emissions reporting systems in the country which are not necessarily harmonised due to the different purposes they serve.

International experiences provide valuable insights: the EU ETS¹⁰ and South Korea ETS initially adopted installation-level caps for precise monitoring. However, both systems later adjusted their approaches in response to challenges such as over-allocation and administrative burden. The EU transitioned to an EU-wide cap with standardised benchmarks, while South Korea incorporated more flexible mechanisms, including benchmarking and auctioning. In contrast, California¹¹ chose entity-level caps from the start, aiming to reduce administrative complexity by limiting the number of regulated entities and simplifying the MRV process. For the private sector, these decisions affect operational planning, compliance costs, and how efficiently emissions reductions can be managed across assets. As the SBCE is developed, it will be essential to strike a careful balance between accuracy, administrative feasibility, and sectoral impacts when determining the appropriate level for applying the cap.

To support industrial competitiveness, allocation methods should reflect inputs from regulated companies, including technological constraints, abatement costs, and historical emissions. California's Cap-and-Trade Program¹² offers a strong example, using actual production data, sector-specific benchmarks, and emissions leakage risk factors to align allocation with industrial realities – while still relying on official emission inventories. Incorporating sectoral data during the design and review phases helps fine-tune allocation strategies.

In this process, the government could also benefit from international best practices, engaging with multilateral entities, alongside regulated agents, to help structure and effective data-sharing process. The cement sector, which has developed robust practices in monitoring and reporting GHG emissions, could serve as a valuable pilot case to promote cross-sector dialogue and continuous improvement. Brazil's GHG Protocol, currently the most widely used tool for emissions reporting in the country, could also offer a relevant reference. It would also be beneficial for the regulation clearly differentiates between existing and new entrants, clarify compliance periods, and include provisions for periodic review of allocation methodologies.

Finally, the SBCE's contribution to Brazil's NDC targets must be clearly communicated, including expected annual reductions, ambition trajectories, and effects on carbon prices. Early guidance is key to private sector readiness. As there is currently no legal requirement for most companies in Brazil to report their greenhouse gas emissions, many still lack internal monitoring structures. This may lead to a shortage of service providers and digital tools, delaying the adoption of emissions reporting practices across sectors.

CLARITY IN CAP-SETTING AND
THOUGHTFUL DESIGN OF
ALLOCATION METHODS WILL BE
CENTRAL TO BALANCING INTEGRITY,
FEASIBILITY, AND INDUSTRIAL
COMPETITIVENESS IN BRAZIL'S ETS



GOVERNANCE

Given the potential impact of the SBCE on regulated sectors, and the valuable technical knowledge these sectors possess regarding their own decarbonisation pathways, it will be essential to ensure their active participation in formal spaces during the implementation phase. As part of the interim governance structure, establishing a Consultative Technical Committee with meaningful representation from the private sector along with experts in areas like economics, project and corporate finance, and industry policy would help ground the system considering on-the-ground realities. Involving a variety of experts from sectors, such as energy, industry, and agriculture, among others, can help ensure a well-rounded perspective, including both covered and non-covered sectors. Public calls for the selection of sectoral representatives and a robust communication and engagement plan that guarantees broad, transparent, and inclusive stakeholder participation from the outset, increasing the efficiency and legitimacy of the system.

A second key governance aspect involves the establishment of the Managing Body that is (i) technical, (ii) functionally and financially independent, and (iii) resilient to political shifts, thereby promoting institutional memory and ensuring long-term predictability of the system. This entity will be central to maintaining the integrity and operational stability of the SBCE. Given its critical role, the creation of robust governance mechanisms and institutions

should be treated as a top priority. In this context, establishing the Interim Managing Body during this pivotal year, accelerating the SBCE implementation timeline, would be a strategic move, capitalising on the growing momentum surrounding COP30 and key political developments in Brazil. While ambitious, this timeline would reflect the urgency of climate action and the growing interest from the private sector in participating in compliance markets.

In this regard, the ongoing development of the SBCE presents an opportunity to engage the private sector early and draw on existing practical experience in high-integrity carbon crediting. As the governance framework is finalised, it will be essential to ensure that the system builds upon, rather than overlooks, the robust voluntary market initiatives already underway. Aligning current practices with emerging compliance requirements can help reinforce continuity, foster stakeholder confidence, and lay the groundwork for a credible and efficient market system.

International experience shows that early institutional engagement with the private sector plays an important role in building market confidence and facilitating effective implementation. For example, the development of the EU ETS was strengthened by multi-year stakeholder consultations through technical working groups and public forums, which facilitated smoother adoption and continuous system improvement.^{8,9}

TAXATION, RESOURCE ALLOCATION AND USE OF FUNDS

It is important that the revenues generated through the system are reinvested in decarbonisation efforts. This includes not only R&D but also institutional capacity building and support for jurisdictional programmes, among other initiatives.



Law 15,042/2024 sets a positive precedent by establishing that a share of revenues must be directed to technological innovation focused on low-carbon solutions for regulated activities¹³. To maximise the effectiveness of this provision, it is important to clarify how these investments should be channelled—whether primarily through publicly accredited institutions or directly through private entities. Clear guidance on eligible uses of funds, including the types of projects and activities that may receive support, is essential to prevent delays in allocation and to enable companies to plan and invest strategically. Transparent oversight mechanisms will further ensure that the financial flows of the SBCE align with its environmental goals and provide participants with greater confidence and predictability.

IPLC RELATED ISSUES

As Indigenous Peoples and Local Communities (IPLCs) are understood to be fundamental in achieving our climate goals, the SBCE brings the opportunity to harmonise and define a unique procedure for Free, Prior and Informed Consent (FPIC) activities. Although FPIC procedures are already established under ILO Convention 169¹⁴, their application still lacks specific operational guidance adapted to Brazil's institutional and legal context. Developing national guidelines that translate international principles into Brazil's reality, offering clear procedures, timelines, and safeguards to support meaningful consultations, would be valuable. Such guidelines could help standardise the FPIC process and clarify the requirements for its validity. It is important to note, however, that the responsibility to regulate the Convention primarily rests with the Brazilian government. For instance, the CONAREDD+ Working Group has advanced a Resolution on REDD+ safeguards, and further guidance from other government bodies may be necessary to ensure effective regulation under the Convention.

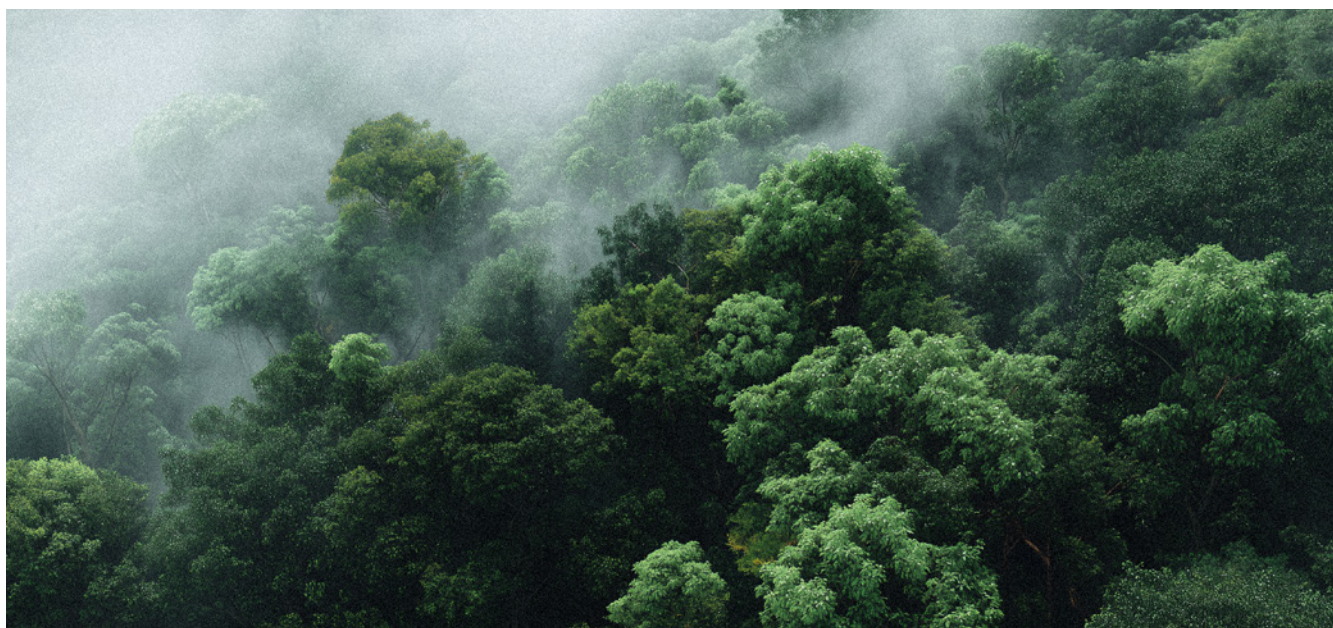
Law 15,042/2024 appropriately identifies FUNAI and the Public Prosecutor's Office as key actors¹⁵. During implementation, these institutions should be explicitly mandated to develop FPIC guidelines, facilitate dialogue between project developers and IPLCs, and oversee compliance. Their active role is essential, particularly in remote or vulnerable areas, to ensure legitimacy and functionality. Furthermore, encouraging project proponents to share evidence supporting co-benefit claims, such as biodiversity outcomes or socio-economic improvements, can help build trust and reinforce the credibility of carbon projects. In particular, promoting greater transparency around actions taken to safeguard and engage Indigenous Peoples and Local Communities (IPLCs) may enhance the legitimacy and inclusiveness of projects.

A second point concerns the interpretation of "territories." While the law refers to "indigenous and quilombola territories," it is unclear whether this includes only officially recognised areas or also those under claim or traditional occupation. Clarifying whether areas undergoing demarcation or titling are subject to FPIC procedures will be crucial for legal certainty and effective implementation.

Another critical issue worth highlighting is the lack of adequate funding and technical capacity for conducting FPIC. Many Indigenous Peoples and Traditional Communities lack access to appropriate information and do not receive the technical or legal support necessary to fully understand the implications of carbon projects and to engage in the process in an autonomous and informed manner. Likewise, public institutions often face shortages in both human and financial resources, limiting their ability to effectively monitor and oversee FPIC proceedings, particularly in remote or underserved regions. To address these challenges, it is worth considering the establishment of dedicated funding mechanisms for FPIC, as well as continuous training programs for public officials and community leaders.



**WELL-DEFINED, LOCALLY
ADAPTED FPIC GUIDELINES CAN
HELP BUILD TRUST AND SUPPORT
MORE INCLUSIVE, CREDIBLE
CARBON PROJECTS IN BRAZIL.**



INFRINGEMENTS AND PENALTIES

The SBCE regulation should provide clear guidelines for applying penalties outlined in Article 37 of the law, including warnings, fines, publication of the condemnation decision, suspension of activities, and restrictions on rights, such as the suspension or cancellation of licenses, loss of fiscal incentives, and prohibition from contracting with public authorities for up to three years.

To ensure the effectiveness and fairness of the system, the regulation must bring precise provisions of the circumstances under which each of these penalties would be enforced. This clarity will allow regulated entities to plan their operations to avoid violations, thus minimising uncertainty and associated risks. Furthermore, the penalty framework can draw on international best practices, such as those of the EU ETS, ensuring proportional and transparent enforcement. The establishment of objective and transparent criteria for applying penalties, aligned with global standards, will help and provide legal certainty for the operators within the system.



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Headquarters
Grand-Rue 11
CH-1204 Genève
Switzerland
+41 22 737 05 00

Brussels
Rue du Commerce
Handelsstraat 123
1000 Brussels
Belgium
+32 2 893 02 39

Washington
1001 Pennsylvania Ave. NW
Suite 7117
Washington, DC 20004
+1 470 222 IETA (4382)

Toronto
180 John Street
Toronto, ON
M5T 1X5

Singapore
62 Ubi Road 1 #04-24
Oxley Bizhub 2
Singapore 408734

IETA also has
representation in:
Beijing, Brazil, Colombia,
London, and Tokyo.