

CORPORATE PROPOSITIONS FOR
PUBLIC POLICIES FOR A
LOW-CARBON
ECONOMY
IN BRAZIL



LAND USE CHANGE AND FORESTS

AN INITIATIVE OF



1. MAPPING PRIORITY AREAS TO RECOVER NATIVE FORESTS, TAKING INTO ACCOUNT THE POTENTIAL TO PROVIDE ECOSYSTEM SERVICES AND SUITABILITY FOR OTHER LAND USES (FOR FARMING AND CATTLE RAISING, ESSENTIALLY)

Recovering native forests is a significant option to mitigate climate change and can offer many benefits (through the recovery of ecosystem services), including carbon credits, whose economic value can, eventually, be higher than the value obtained from current land use. Benefits from forest recovery are greater when the costs of the restoration project and revenues obtained from current land use are lower. A mapping that can point out the areas where both conditions are maximized is able to indicate where the best investment opportunities lay for this type of business. The State of Sao Paulo already counts with a study of this nature.

Additional differentiated credit and financing policies through economic instruments, such as PES, can make forest restoration a more attractive business for the private sector. The government could create a discussion forum along with the private sector, in order to jointly determine the mapping criteria, as well as collect available data.

2. STANDARDIZING, AT THE FEDERAL LEVEL, OF PES AND REDD+ ECONOMIC INSTRUMENTS

There is still great uncertainty about Redd+ and PES economic instruments, which inhibits investors and consequently inhibits fund raising. Federal laws defining fundamental concepts, characteristics and principles are necessary to ensure reliability and security of those economic instruments, which is critical for both of them to be effective in the financing of preservation or forest recovery projects that are able to mitigate climate change.

It is important that standardization at

the federal level does not scrutinize the characterization of projects or programs, let alone details about characteristics of the environmental services considered, agreements, audiences, or value of the benefits, because those characteristics shall be defined according to the environmental and the socioeconomic reality of the area and the target audience of those programs and projects.

In other words, eventual federal laws shall establish, conceptualize and determine, in general aspects, in order to define fundamental principles for PES and Redd+, leaving further details to regulatory ordinances and other lower level norms, particularly in case of operational parameters that need to be changed fast due to changes in local environmental and socioeconomic characteristics. In case federal laws go too deep into details, they may hinder the effectiveness of those instruments, dissociating them from the regional and local characteristics they are intended to influence. Moreover, they could end up undermining a number of pioneer municipal and state initiatives, which could damage all results and investments already made in those projects and programs. It is critical, therefore, to count with federal laws that convey legal security to the subnational initiatives and favor coordination and articulation among them, thus establishing a national program for Redd+, PES, environmental management and recovery, all associated with the Brazilian National Policy on Climate Change.

3. STANDARDIZING A POTENTIAL CARBON MARKET SHOULD NOT EXCLUDE THE POSSIBILITY OF CREDITS BASED ON REDD+

Carbon credits based on avoided deforestation and/or degradation and generated through Redd+ programs could be a significant source of financing to preserve the Brazilian forests, while working as an important instrument to allocate economic costs of climate change mitigation and to meet the Brazilian GHG

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emission reduction targets. In this sense, they shall not be excluded from an eventual carbon market in Brazil. It is also important to conduct studies to find proper models to insert Redd+ in a carbon market in Brazil. It should be noted that the use of credits generated through Redd+ shall have a maximum percentage usage, which shall be technically assessed.

Eventual limitations and feasibility of carbon credits via Redd+ shall be treated under the same technical level, by elaborating specific carbon agreements (Redd+ carbon credit) that ensure compliance with all regulations and safeguards established for Redd+ by the legislation.

In summary, after regulation requirements are met, including verification of actual preservation and safeguards, the corresponding carbon credits shall be properly recorded and authorized to be traded in the market.

4. VOIDING ITEM VI, FIRST PARAGRAPH, ARTICLE 14, FEDERAL LAW 11,284/2006, WHICH REGULATES CONCESSION OF PUBLIC FORESTS AND PROHIBITS, IN RELATION TO CONCESSION, GRANTING THE RIGHTS TO SELL CREDITS FROM AVOIDED EMISSIONS OF CARBON IN NATURAL FORESTS

Selling credits from avoided emissions in public forests under concession shall not be prohibited *a priori*, as established by the current legislation. The criteria and the conditions needed to validate the credits shall be determined by the regulation and, in case they are validated, the concessionaire shall be granted the right to trade them, since those credits can become a significant component in the economic feasibility of forest concession.

In this sense, item VI, first paragraph, article 14 of the federal law 11,284/2006 shall be voided, at the same time proper regulation shall be established about the generation of carbon credits resulting from avoided emissions in public forest concessions.

5. EXEMPTING INCOME TAX ON FINANCIAL BENEFITS RESULTING FROM DULLY REGISTERED PES AND REDD+ SYSTEMS

It is not clear whether financial benefits resulting from dully registered PES are subject to income taxes. Therefore, it is mandatory to clarify this through a federal norm, since only the federal government is entitled to rule on that matter.

Financial benefits included in PES programs shall be exempt from income tax. Charging income tax means that part of the resources reserved for PES would be offset from their original purpose (encourage more environmentally beneficial land use or management than current practices - reducing GHG emissions, or even removing atmospheric CO₂), directly to the federal government.

Thus, charging income tax on financial benefits would reduce PES system effectiveness, since for the same amount invested in the system, the amount of benefits actually assigned for environmental service providers would be lower. That loss of effectiveness is likely to inhibit funds raised by the system, particularly from private investors.

So, a federal law shall establish income tax exemption for financial benefits resulting from PES. Entitlement for exemption may be subject for the PES system to meet the criteria of a norm that defines and characterizes that type of economic instrument, according to the terms in proposition #2, as previously mentioned.

6. ENHANCING LULUCF ACCOUNTING, AS WELL AS MEASUREMENT, REPORTING AND VERIFICATION METHODS

A major technical barrier for a more effective GHG management in LULUCF is the uncertainty regarding emissions measurement and accounting methods, as well as GHG removals adopted by consensus.

Greater coordination efforts and investments are needed for the methodological improvement required.

Government participation in such effort is critical, since all results obtained with those methods shall be acknowledged by public authorities, whether for future public policies and regulations, or as input or validation for accounting for national emissions.

This is particularly important in the process of verifying incorporation of carbon removals from production forests.

7. STRENGTHENING LAND TENURE REGULARIZATION EFFORTS, AND FIGHTING LAND INVASION

Land invasions are often followed by deforestation and/or land use practices that seek short-term financial return, and are invariably intensive in GHG emissions. This happens because invaders have no certainty whether they will be able to use the land in the future, since their settlement is illegal and precarious.

Land tenure regularization and the fight against land invasions are, therefore, essential to make forest preservation, recovery or management through long-term sustainable practices and with low-GHG emission levels attractive. The feasibility of those options, in many cases, will also depend on the support through command and control instruments and/or economic incentives (i.e.; via PES). However, the effectiveness of those instruments will also depend on the determination and assurance of rights over the land (public or private lands), since both are targeted at legal owners of the lands, that is, those who are entitled legal rights to plan for the land use in the future.

Public agencies in charge of promoting land tenure regularization and fight land invasion shall be empowered in order to better develop their activities. Priority areas for land tenure

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regularization efforts and fight against land invasions shall be determined according to priority areas for recovery of native forests (Proposition #1), and eligible areas to extend production forests; and goals for land tenure regularization shall be established.

8. FOSTERING ACTIVITIES THAT VALUE FOREST ECONOMIC POTENTIAL

Valuing the economic potential of Brazilian forests is a critical step to reduce deforestation emissions, and also a significant factor to foster reforestation efforts, with consequent removal of atmospheric carbon. That valuation depends on a number of public policies, though.

a - Sustainability in the Exploration of Timber and Non-Timber Products

In order to ensure the continuous supply of timber and non-timber products, the legislation shall demand a management plan based on sustainable exploration principles (to be determined by regulation) for all activities involving exploration of timber or non-timber products in all Brazilian forests, both public and private.

Clear and non-bureaucratic rules shall be established to elaborate management plans based on sustainable exploration criteria for timber and non-timber products.

The record of forest management projects that meet previously determined sustainable exploration criteria shall be included in a federal record, yet to be defined.

Public procurement shall prioritize timber and non-timber products from projects included in the above mentioned federal record.

Incentive packages shall be created for timber and non-timber products included in the federal record.



b - Add Value to Forest Products

Timber and non-timber products from Brazilian forests have often been exported as raw materials. Processing industries shall be encouraged for those products, in order to reach new markets and add value to exports. It is worth noting that the incentive to that type of industry also benefits local communities, since it represents a new source of labor.

c - Foster Tourism

The touristic potential of Brazilian forests is underexploited, since a significant portion of the Brazilian conservation units (CU) does not have proper infrastructure for visitation. Investments needed to extend ecological tourism are relatively low, and the return tends to be worth it.

Besides direct financial resources, ecological tourism drives local economies, because it boosts the trade and creates jobs.



The Amazon Forest, specifically, still has great potential to develop food tourism, since products from the Amazon have been grabbing the attention of the *haute cuisine*, both at the national and international levels.

**d - Foster Research on Biodiversity:
Prospection of New Business**

Large diversity is a natural characteristic of Brazilian forests. However, the economic power associated with such biodiversity is far from being acknowledged, and there is great expectation concerning new discoveries in the medical and pharmacological areas (including cosmetics). In this sense, it is important to invest in the prospection of new products, which necessarily requires research efforts on (a) biodiversity characterization, (b) properties of economic interest and (c) their ecology. Knowledge about the ecology of the species of economic interest is critical to elaborate sustainable management plans for economic exploitation.

9. COORDINATING TAX AND CREDIT POLICIES IN ORDER TO GET A LOW-CARBON ECONOMY

Tax and credit policies shall be coordinated in order to privilege incentives to a low-carbon economy. That will strengthen initiatives that foster innovation in low-carbon technologies and will imply the reduction of tax or credit incentives for activities that involve higher GHG emission levels whenever more effective technologies are available (lower GHG emission levels).

Particularly in the forest context, incentives shall privilege conservation (reduction of emissions due to deforestation and/or degradation) and restoration (removal of atmospheric carbon). At the same time, perverse (harmful) incentives shall be mapped and, whenever possible, eliminated. Perverse incentives are those that somehow, even though indirectly, encourage deforestation or forest degradation (i.e.; limited credit for agricultural activities in areas predefined as priority for forest conservation).