

Carbon and Corporate Governance

09.11.2021 3 min read

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The 26th United Nations Climate Change Conference – COP26 will be dedicated in large part to resolving issues that have been debated since the Paris Agreement was signed, and which were postponed at COP25 in 2019: regulation of the carbon market and other mechanisms for cooperation between nations provided for under Article 6 of the referred Agreement.^[1]

The Paris Agreement sets out various targets and guidelines for achieving the main goal of reducing greenhouse gas emissions in order to limit the average increase in global temperature to 2°C, in comparison with pre-industrial levels. Of particular interest are the guidelines that encourage signatory countries to recognize the importance of multidisciplinary and organizational approaches and use those approaches in fulfilling their proposed contributions to reducing carbon emissions, especially by increasing participation by the public and private sectors in achieving nationally determined contributions and providing opportunities for coordination among relevant institutional instruments and arrangements.

In this context, there arises a concern regarding governance adaptation in order to promote engagement and achievement of national contributions under the Paris Agreement. Corporate governance has a fundamental role in establishing the carbon market, which is one of the mechanisms the signing parties have chosen to ensure that emissions reductions are achieved by 2030 and to protect communities and natural habitat, being crucial to combine financial mobilization by countries and national institutions involved with collaboration and commitment between governments, organizations and civil society.^[2]

This all will only be possible if the mechanisms, processes and relationships between the parties involved are organized, transparent and efficient. The main criticisms of COP25 were exactly the lack of cooperative efforts by the countries involved in the same direction, and the absence of tangible plans on how to achieve their climate commitments.

In response to these concerns, Brazil has been working to develop regulations for the Brazilian Emissions Reduction Market (MBRE – Mercado Brasileiro de Redução de Emissões) encompassed by the National Climate Change Policy enacted by Law No. 12,187, of December 29, 2009. The Bill that will establish the MBRE, Bill No. 528, of February 23, 2021 is still under debate, but it already may be foreseen that, whether through the establishment of new administrative authorities or by using existing government structures, the market will have to be prepared to present investments that meet the best environmental, social and governance standards. The task is ambitious, as not only does investment in carbon credits have to be accessible to investors used to existing standards of information disclosure and market regulation, but it also must meet basic principles with respect to regulatory stability and institutional framework. It is also vital that to be ready to deal efficiently with financial flows and to adapt decision-making processes to this the new scenario.

Thus, it is certain that organizations that are better prepared, that is, those that have already developed strategies and means to implement such climate commitments at an institutional level and are ready to dialogue with other structures in government and civil society, will certainly be a greater contribution to faster achievement of the proposed climate goals. On the other hand, it is equally certain that investments directed to a new, low-carbon market, may attract significant social, organizational, and financial benefits for market participants.

NOTES:

^[1] <https://brasil.un.org/sites/default/files/2020-08/Acordo-de-Paris.pdf>

^[2] <https://ukcop26.org/cop26-goals/>

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