



SUMMIT OF THE THREE BASINS OF BIODIVERSITY ECOSYSTEMS AND TROPICAL FORESTS

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Summit of the 3 basins AMAZONIA - CONGO - BORNEO MEKONG SOUTHEAST ASIA

Panel 3: Climate and Biodiversity Finance Mechanisms - Sovereign Carbon Market

Organization	
Organization	Summit of the 3 basins organization team
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Theme	PANEL 3: Climate and Biodiversity Finance Mechanisms - Sovereign Carbon Market
Description	<p>CONTEXT</p> <p>The consultation launched by the United Nations Decade on Ecosystem Restoration 2021–2030 highlights that lack of funding is the first barrier to ecosystem restoration and that \$1 trillion is needed to restore 350 million hectares of terrestrial and aquatic ecosystems by 2030, in light of the Bonn Challenge.</p> <p>Every year, the COPs are an opportunity for financial mobilization announcements, but it is clear that these declarations remain in the communication stage and do not turn into disbursements. In this regard, many actors agree that an announced funding, in order to be officially recognized, must be the subject of a formal commitment with a disbursement schedule. Otherwise, the flurry of funding announcements at COPs undermines the credibility of climate and biodiversity finance as a whole.</p> <p>FAO's 2021 report on local financing mechanisms for forest and landscape restoration¹ presents a fairly comprehensive overview of all existing public and private financing tools, and details each of these mechanisms in the form of case studies.</p> <p>This publication highlights the proliferation of local initiatives, which is a very positive signal from</p>

¹ Local Financing Mechanisms for Forest and Landscape Restoration - FAO [cb3760en.pdf \(fao.org\)](https://www.fao.org/publications/cb3760en.pdf)



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local actors but also illustrates a problem of scale and the inadequacy of the resources mobilized with regard to the needs required to restore ecosystems.

The IPCC regularly reminds us that one of the prerequisites for achieving the common ambition of the Paris Agreement by 2050 is to stop uncontrolled deforestation by 2030, with the risk that the ecosystem services provided by three basins of biodiversity ecosystems and tropical forests are no longer sufficient to ensure the global regulation of the planet's carbon emissions.

The challenge, therefore, is to change the scale of public and private financial mobilization to guarantee sufficient and sustainable financing of ecosystems and how to mobilize 1,000 billion dollars by 2030 to restore carbon sinks (forests, mangroves, peatlands) of the three basins Amazonia, Congo, Borneo Mekong and Southeast Asia.

Ultimately, this consists of taking two actions:

- Recognize and accept the cost of carbon emissions emitted for the production and marketing of a manufacturing good or a public or private service with the obligation to reduce its carbon emissions, but also to offset them by financing ecosystems through a direct contribution to the financing of ecosystem restoration and preservation actions.
- Action against the world's slowness to tackle the climate crisis, behaviour that undermines our chances of limiting warming to a sustainable level, as scientists from the Intergovernmental Panel on Climate Change (IPCC) warn us in a new report, noting that only "urgent climate action can ensure a livable future for all".

The implementation of a global and sustainable financing mechanism for the three basins presupposes a binding incentive system between the States that will make up this carbon market. This mechanism will encourage public and private actors, on the one hand, to reduce their carbon emissions in proportion to the collective effort of the Paris Agreement and, on the other hand, to offset their emissions by purchasing equilibrium sovereign carbon credits, in accordance with Article 6 of the Paris Agreement, to finance the ecosystem services that they ultimately benefit from tropical forest countries.

This structured approach, which makes carbon emitters and absorbers accountable, and structures the market for carbon supply and demand, cannot be envisaged without the unique recognition of sovereign carbon credits, whose legal and accounting materiality will make it possible to cancel the carbon debt of companies, states and local authorities.

The implementation of such a system requires a legislative framework that imposes the integration of a carbon cost for commercial transactions and the free movement of goods and services. This imposed cost can be considered as an incentive or as a coercive measure by combining the two options.

The coercive approach with a carbon tax will prove to be the most effective way in the long run but will take time to implement. On the other hand, the incentive approach could be initiated without delay by granting visible recognition to companies and public bodies of the State and local



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authorities that comply with the two mandatory conditions to benefit from a carbon neutral status:

- Reducing emissions in proportion to the ambition of the Paris Agreement;
- Offsetting emissions through the purchase of equilibrium sovereign carbon credits, certified by the United Nations, and paid to the Three Basins.

Finally, forest basins are not only carbon sinks but above all reserves of animal and plant biodiversity, we speak of forests of high integrity because the ecosystem services they provide represent a significant added value that must be taken into account

The biodiversity certificates introduced at the One Planet Summit in Libreville on 2 March 2023 established the recognition of a premium value for biodiversity ecosystems. This premium value could be added to the value of sovereign carbon credits and thus enhance the value of ecosystem services in their fairest sense.

This is the reason why the carbon result of a State, recorded in its national register and allocated to its Nationally Determined Contribution, cannot be the only factor taken into consideration in the determination of an ecosystem service. It must be added its contribution to biodiversity by adding a premium value to it.

In conclusion, on the carbon supply market, not all carbon credits are the same. Some are the result of an effort to reduce emissions, with a net emitting result, some are the result of a sequestered net surplus, for countries already in a situation of net absorbers, this is the case of a dozen tropical forest states such as the Republic of Congo, Gabon, Belize or Papua New Guinea, finally some are the result of a forest with high integrity of biodiversity, with biodiversity certificates. The highest price, in the end, will reflect the densest ecosystem services with the highest impact.

The demand market tends to be neglected in favour of the voluntary, unregulated market, which is strictly voluntary on the part of companies that are committed to their social and environmental responsibility.

BARRIERS AND OBJECTIVES

Barriers

Carbon market mechanisms are based on economic, financial principles that are little known to public and private actors in their technical, legal and fiscal dimensions for the financing of carbon emission credits. During the working session of the three basins in New York on the sidelines of the 78th General Assembly, the African Union recalled the importance of presentations aimed at presenting in an educational way the main ones relating to the creation and operation of a sovereign carbon market.



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The Paris Agreement, through its Articles 5 and 6 in particular, sets out the rules for achieving, accounting for and disposing of a carbon result. It focuses on the supply market that results from an effort to reduce its emissions or from a net result that reveals a net absorber situation.

On the other hand, the Paris Agreement does not address the issue of creating a structured, robust, non-volatile demand market that guarantees a stable carbon price through a mechanism to regulate supply and demand.

With this in mind, it will be useful to determine a list of countries offering the same legislative frameworks to structure and de-risk carbon supply and demand and secure the pre-financing of future transactions through call and put options.

Indeed, the question of pre-financing the production of carbon credits by financial markets is fundamental, as it is in any commodity market. It is the third component (after supply and demand markets) that ensures the large-scale deployment of the sovereign carbon market and becomes a bankable asset class in which financial markets invest massively, with confidence.

These three components are inseparable because they structure the system on which a sovereign carbon market is based.

Objectives

This panel carries the central corpus that should cement the structuring coordination of each basin and at the transversal scale of the three basins. The objectives of the panel will be to:

- Explain the principles of a sovereign carbon market in an educational way:
 - The offer,
 - The application,
 - A jurisdiction covering States that have adopted a similar legislative framework and offer the same levels of risk on the production of carbon credits, with a price regulation mechanism
 - Large-scale financing through financial markets
- Analyze the implementation conditions required by each of the components of the sovereign carbon market
- Determining the conditions of a premium value for forests with high biodiversity integrity
- Define the next steps and set COP28 as a stage for the mobilization of the pioneer states of the three basins that will form the core of the world's first sovereign carbon market.



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<p>Keynote address Panelists</p>	<p>INTRODUCTION OF THE PANEL</p> <p>Panel Chair: Keynote address</p> <p>Ms Kirsten SCHUIJT, Director General of WWF</p> <p>Panelists</p> <ul style="list-style-type: none"> • Mr Jean Richard Bruno Itoua <i>Minister of Hydrocarbons of the Republic of Congo</i> • Mr. Alvaro Leyva Duran, <i>Minister of Foreign Affairs of the Republic of Colombia</i> • Amb. Ukur YATTANI, <i>Minister of Finance and Planning of the Republic of Kenya</i> • Ms. Stéphanie Mbombo, <i>Special Climate Envoy of the President of the Democratic Republic of Congo</i> • Ms Razan Al Mubarak, <i>IUCN President and Director General of the Abu Dhabi Environment Agency (EAD) and the Mohamed bin Zayed Species Conservation Fund</i> • Monsieur Joaquin Jugo, <i>Co-head sovereign Solutions, Global Public Sector, CITIGROUP</i> • Mr. Kevin Conrad, <i>Executive Director, Forest Nations Coalition (CFRN)</i> • Ms. Paloma Escudero, <i>Director, Global Special Adviser on Climate Advocacy, UNICEF</i> • Mr. Albert Zeufack, <i>World Bank Regional Director for Angola, Burundi, Democratic Republic of Congo (DRC) and Sao Tome and Principe</i> • Mr. Robert Ondhowe, <i>Carbon Market Development Expert, UNDP</i> • Representative of the Government of Singapore (online) • Dame Amelia Fawcett, <i>Co-Chair of the International Advisory Panel on Biodiversity Credits</i> • Mr. Maixent Raoul Ominga, <i>Director General of the Société Nationale des Pétroles Congolais</i> <p>Indicative list subject to completion</p> <p>Moderator</p> <ul style="list-style-type: none"> • Mr. Patrice LEFEU, <i>EY Global Climate Finance Leader</i> <p>Rapporteur</p> <ul style="list-style-type: none"> • Ms Razan AL MUBARAK, <i>President of IUCN and Director General of the Abu Dhabi Environment Agency (EAD) and the Mohamed bin Zayed Species Conservation Fund</i>
<p>Expected results</p>	<p>5 main results are expected:</p> <ul style="list-style-type: none"> • A good understanding and appropriation of the financing mechanisms and in particular the sovereign carbon market and its four structural components: <ul style="list-style-type: none"> ○ The main principles of structuring a supply-side market ○ The conditions for creating a robust demand market ○ How can we make the new carbon market ethical, fair and sustainable? ○ The principle of setting up a reference court with a dozen pioneer countries



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	<ul style="list-style-type: none"> ○ The conditions for mobilizing financial markets ● The Announcement of a Rendezvous Clause at COP 28 to Extend Exchanges and Announce the Group of Pioneer Countries and Founding Partners
Targeted audience	Large audience