

CARBONFLOR

PSA

**Announcement regarding the public consultation on
the Payment for Environmental Services methodology –
*PSA Carbonflor.***

São Paulo, January 16, 2023.

1. Context

Reservas Votorantim and ECCON Soluções Ambientais conducted, between 09.27.2022 and 11.25.2022, a public consultation regarding PSA Carbonflor, a Payment for Environmental Services methodology (“Methodology”).

The Methodology was developed to serve as a guide for the execution of Payments for Environmental Services (“PSA”) projects, adapting national and international techniques that suit the reality of Brazilian conservationist landowners. Rules and recommendations were presented aimed at the voluntary carbon market, enabling the reduction of deforestation, the creation of sustainable forest management, the development of scientific standards for accounting of carbon credits, and the providing incentives to maintain conserved areas intact.

The aim is to recognize and value environmental services that Brazilian producers and conservationists provide, their effort to avoid the degradation of native vegetation and maintain its integrity and quality. Across the planet, there is constant deforestation which generates a loss of forest carbon stock, loss of habitat for biodiversity, threat to species of flora and fauna, lack of control in climate regulation, among others. Thus, it is necessary to encourage the conservation of native vegetation, contributing to climate change mitigation. In addition, the effects of climate change create stress in conserved areas of different characteristics (rainfall peaks, extreme droughts, excessive heat, increase in fires), impacting biodiversity, which also justifies special attention to the maintenance of these territories in the long term and the additional efforts that take place year after year toward that goal.

Technical mechanisms were created to constitute forest carbon credits that (i) meet the demand for neutralizing emissions in Brazil and worldwide; (ii) meet the required legal and methodological security demands, (iii) are able to incorporate and measure other environmental services and issues related to biodiversity and (iv) promote social benefits.

PSA Carbonflor is the first opportunity for such efforts to be compensated, through credits made available to the market, while remaining committed to maintaining conserved areas, contributing to the mitigation of climate change, and limiting the increase in global temperature by 1.5°C until the end of the century.

2. Introduction and discussion of the Methodology

To make the Methodology widely known, Reservas Votorantim and ECCON presented it in different forums in Brazil and other countries. The Methodology was formally discussed at the following events:

- Inaugural webinar with the participation of the prominent Brazilian specialists in PSA, in September 2022: <https://www.reservasvotorantim.com.br/consulta-publica-psa-mata-atlantica/>;
- Climate Week NYC, in New York (United States), in September 2022;
- 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27), in Sharm El-Sheikh (Egypt), in November 2022;

- 15th Conference of the Parties to the Convention on Biological Diversity (COP15), in Montreal (Canada), in December 2022.

In addition to these forums, Reservas Votorantim and ECCON maintained an open dialogue with specialists, academics, private and public entities, and journalists to share PSA Carbonflor with broader society.

3. Requested Comments

To foster and deepen the discussion of the Methodology, our public consultation presented the following questions:

1. Of the possible attributes related to ecosystem services addressed in the methodology, are there any other relevant measurable ecosystem topics that could be addressed? If so, can you indicate any published references besides the case?
2. Of the possible social co-benefits addressed in the proposed methodology, are there any other relevant ones that could be addressed? If so, could you indicate any published references?
3. Regarding regional issues, are there any unmentioned biodiversity attributes or social co-benefits that should be addressed?
4. Is it possible to mention any other measurable indicator that should be considered about the contemplated SDGs?
5. Regarding the proposed model for measuring forest carbon, do you identify positive and/or negative points? If possible, make a list according to relevance.
6. Do you have an opinion on the need to measure biomass and environmental services in conserved forest fragments in Brazil? If possible, substantiate your understanding.
7. Remuneration for environmental services needs a specific unit for commercial transactions to be possible. We chose the team of tCO₂e (carbon credits). Do you have an opinion as to the usefulness of this unit? Do you have suggestions for other units?
8. Are there any additional suggestions (not mentioned above) to consider?

4. Contributions received

Contributions and suggestions were received from various entities, including law firms, associations and institutions, private companies, civil society, and public agencies, as a sign of success in disseminating this public consultation.

In addition to the contributions, two formal letters of support for the Methodology were also issued, one from the law firm Pinheiro Neto Advogados and another from the Environmental Company of the State of São Paulo (CETESB).

We list below the summary content of the contributions received.

a. Ecosystem services x environmental services

It was pointed out that the remuneration is primarily for positive externalities (ecosystem services), with accessory conservation activities (middle activities), except in the case of recovery or regeneration of degraded areas, in which the main object remunerated would be environmental services (human activity). Thus, the PSA would be the payment for the environmental services rendered and not for the

existing ecosystem services; that is, it requires planning and a sequence of actions for its execution.

Regarding the topic, Reservas Votorantim and ECCON clarify that PSA Carbonflor will use the term “Environmental Services” to define remuneration.

b. Submission to an international institution

The possibility of submitting the Methodology for analysis by an international institution was questioned.

In this regard, Reservas Votorantim and ECCON clarify that the Methodology has already been analyzed by different institutions of national and international scope within the sphere of the public consultation, and the comments are summarized in this document. In the process, we intend to present the methodology to different entities, aiming to expand the opportunities for its use.

c. Additionality

The need to demonstrate the additionality of PSA Carbonflor was pointed out.

In this regard, Reservas Votorantim and ECCON clarify that additionality, within forest carbon projects, is a requirement made for the REDD+ mechanism (Reduction of Emissions from Deforestation and Forest Degradation), whereby it is required to demonstrate that without the implementation of the REDD+ project, there would be deforestation and carbon stock would be transformed into emissions. That is, for REDD+, if it is not possible to show the effectiveness of the project, it cannot be considered additional, and, therefore, credits cannot be issued. On the other hand, PSA projects are independent of additionality as Ecosystem Services ensure environmental benefits and the performance of the private actor in maintaining and strengthening conservation. Society can and should recognize the importance of these Environmental Services, such as climate regulation, scenic beauty, carbon storage, water quality, maintenance of the local microclimate, and their benefits that are diffused to Brazilian and international society.

d. Use of the carbon credit term

The use of terminology other than “carbon credits” was suggested because PSA Carbonflor would not comply with REDD+ rules. In this sense, Reservas Votorantim and ECCON clarify that PSA Carbonflor is not a REDD+ project but rather a program that aims to create an instrument for valuing and remunerating the environmental services provided. Such benefits will be measured in carbon credits. The use of the terminology carbon credits is supported by Brazilian legislation, which defines “financial, environmental, transferable and representative asset for the reduction or removal of one ton of carbon dioxide equivalent, which has been recognized and issued as a credit voluntarily or regulated market” (Article 2, item I, of Federal Decree No. 11,075/2022). In addition, Law nº 14.119/2021, which instituted the National Payment Policy for Environmental Services, in its article 2, item II, item c, defined “regulatory services: those that contribute to maintaining the stability of ecosystem processes, such as carbon sequestration, air purification, moderation of extreme weather events, maintenance of hydrological cycle balance, minimization of floods and droughts, and control of critical processes of erosion and landslides.”

e. Mining Rights

Attention was drawn to the risk of mining rights (current or future) that could restrict specific parts of properties. Carbon in the soil must be considered, along with their ownership consideration (whether by the landowner or the Brazilian government, as with ores in general).

Regarding this point, Reservas Votorantim and ECCON clarify that the Methodology considers the need to audit carbon ownership and any legal restrictions on using the property.

f. Additional benefits

It was suggested that the methodology highlight the effects on microclimate and landscape benefits by stimulating tourism. In terms of biodiversity, creating a variable that considers endangered species was recommended.

It was pointed out that although carbon credits only reflect carbon sequestration and stock, it is essential to highlight that the carbon credits generated have added value by providing various other Environmental Services to society.

It was pointed that areas in the restoration process need to be considered, not only areas covered by native vegetation.

Regarding additional benefits, Reservas Votorantim and ECCON clarify that the Methodology suggests a complete analysis of all Ecosystem Services, also recommending an in-depth analysis of biodiversity aspects.

Concerning restoration activities, the Methodology does not yet contemplate these and is currently focused on the recognition and remuneration of Environmental Services in areas with conserved vegetation.

g. Historical rate of deforestation

It was pointed out that determining the historical rate of deforestation as a parameter to assess avoided deforestation may present distortion of the percentage of vegetation that could be legally suppressed by current legislation. It is possible to find areas with low historical deforestation rates that allow a legal possibility of suppression of relevant existing vegetation. The ordinary historical rate of deforestation in this situation reflects the immediate economic lack of interest in that area, given that such a claim can change quickly, and this does not disqualify the Environmental Services provided by the site in question. Once the economic interest arises, deforestation could occur without the PSA program acting correctly since it was delimited only according to the historical rate.

Reservas Votorantim and ECCON point out that the mention of the historical rate of deforestation can bring distortions about environmental and climate gains; therefore, the Methodology will be revised not to include such mentions.

5. About Reservas Votorantim and ECCON Soluções Ambientais

Created in 2015 and presented to the market in 2021, Reservas Votorantim is a portfolio Company of Votorantim S.A. Its focus is the development of projects for the green economy, which extract value from standing forests and reconcile environmental conservation and revenue generation with ESG strategies. The Company has approximately 80,000 hectares of land under management, in which it develops sustainable businesses by the concept of multiple-use land management. Reservas

Votorantim's primary operations are in the carbon credit, legal reserve, and biodiversity markets.

ECCON Soluções Ambientais was founded in 2014 and has since been innovating and strengthening Brazil's environmental business and consulting market. In addition to working for clients, it develops technology and services for the international community. It is part of relevant projects for renewable energy generation, reforestation, and generation of carbon credits, which places it as one of the leading institutions with a positive impact on the environmental sector.

6. Next steps

At the end of the public consultation stage of the Methodology, technical discussions will be promoted between Reservas Votorantim and ECCON, including the evaluation of practical applications in territories managed by Reservas Votorantim.