VdA VIEIRA DE ALMEIDA

CLIMATE

Voluntary Carbon Market in Portugal

VdA EXPERTISE

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**Published on January 5, 2024, Decree-Law No. 4/2024
is already in force, establishing in Portugal a voluntary carbon
market and defining the rules for its operation.**

Context

This legislation aims to regulate an increasingly relevant market from an ESG perspective, which, although voluntary, strives to be transparent and scrutinized through certified carbon credit transactions to instill confidence in investors. Projects that promote both environmental and socioeconomic co-benefits will be valued.

The regulation comes at a time when a European regulation is being prepared to establish a Union certification framework for carbon removals to prevent greenwashing. Therefore, the national Decree-Law, although broader in scope, incorporates the fundamental principles considered by the EU, especially regarding additionality, monitoring, reporting, and verification.

Anyone interested in offsetting its carbon footprint or contributing to climate action can acquire carbon credits trough this voluntary carbon market.

Admissible Projects in the Voluntary Carbon Market

The voluntary carbon market (VCM) encompasses projects developed nationally for reducing greenhouse gas emissions or carbon sequestration, including both technological and nature-based solutions.

The Decree-Law outlines two categories of carbon credits: carbon credits and carbon credits +, the latter corresponding to projects that incorporate additional benefits in terms of biodiversity and natural capital. It also allows for the trading of already verified credits and future credits, in this case accounting for 20% of the total credits previewed.

In the initial phase, priority is given to carbon sequestration projects in pre-determined areas that contribute to natural capital conservation and the creation of a more adapted and resilient landscape, including reducing vulnerability to wildfires.

Insurance and Guarantee Fund for Reversal Risk Coverage

Considering the exposure of carbon sequestration projects to risks, the possibility of insurance coverage for unintentional emission reversals caused by natural phenomena such as floods, droughts, fires, and other *force majeure* situations is foreseen.

The promoter can choose insurance, contribute to a public Guarantee Fund created under this regime, or opt for a mixed regime combining insurance with the Guarantee Fund. In any case, the goal is to generate market confidence, strengthen the system, and make it resilient.

Regarding intentional emission reversals, in addition to penalties through the replacement of credits at double their value, they will be subject to the general regime for project non-compliance, including the possibility of suspension of the agent on the platform and a five-year market participation ban.

Registration Platform and Sector-Specific Methodologies

The VCM operates through a public online registration platform where all market participants, their projects, and respective verified or future credits, as well as all transactions, are recorded. Projects must follow methodologies that set specific rules for each typology, to be developed by a technical committee led by the Portuguese Environment Agency (APA). Project proponents can also propose methodologies for project typologies not yet provided by the APA.

Next Steps

In addition to a set of complementary regulations, including those related to independent verifiers, the full operation of the regime instituted by this Decree-Law presupposes the creation and operationalization of the digital platform.

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