[**Carbon trading prospects**](https://www.dawn.com/news/1738682/carbon-trading-prospects)

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THE world is losing the Race to Zero. Many governments and large companies that had committed to net zero are faltering. Since carbon trading is the central plank of emission-reduction policies of the EU, America, China and many other countries, carbon markets at the sub-national, national and international levels have grown phenomenally.

The agreement and approval of Art­icle 6 of the Paris Agreement at Sharm El-Sheikh at the climate summit in November 2022 has renewed optimism of making carbon markets in developing countries like Pakistan robust and credible. The UAE, the host of the next climate summit in November, has taken it upon itself to proactively shape the global carbon market.

Carbon markets are trading systems in which carbon credits are bought and sold. They can be used to finance the implementation of Nationally Determined Contributions (NDC) or encourage investments in climate-mitigation projects such as regenerating forests and mangroves. Carbon credits are generally transacted in the Carbon Compliance Market (CCM) or the Voluntary Carbon Market (VCM).

The offsets are measured in tonnes of carbon dioxide equivalent (CO2e). They aim to deliver additional benefits such as biodiversity conservation, food security and more income to communities as well as socioeconomic benefits, including education, health and livelihood options. It involves investing in projects that reduce or remove greenhouse gas emissions, such as land restoration or planting trees.

While the VCM has grown immensely in recent years, CCMs, sometimes also known as the compliance market, has gained universal acceptance. A key difference between the two is that VCM is a decentralised market where private actors voluntarily buy and sell carbon credits that represent certified emissions reductions, while the CCM is regulated by mandatory carbon reduction regimes.

Voluntary reductions can also be verified under independent certification standards, often endorsed by the International Carbon Reduction and Offset Alliance. Finally, emissions reductions in VCM are not formally counted towards NDC targets.

Building upon the experience of the 1997 Kyoto Protocol that enabled trading under the Clean Development Mechanism (CDM), the main international carbon market scheme today is the Paris Agreement. Article 6 of the agreement enables countries to use market mechanisms.

The VCM is typically self-regulated as it helps companies and individuals voluntarily purchase carbon offsets. It plays a critical role even if not legally enforced or added to NDC targets. For instance, buyers of Pakistan’s carbon credits from its Delta Blue Carbon Project that covers 350,000 hectares of degraded mangroves in Sindh included Trafigura, Climate Impact X, Respira International DBS Bank, Singapore Exchange known as the SGX Group, Microsoft and Standard Chartered Bank.

The reliance on market instruments to reduce carbon emissions will continue to grow.

The global carbon trading market has grown rapidly. Presently, it is estimated to have crossed $260 billion, representing 10.3 gigatonnes CO2e traded on compliance markets, covering both voluntary and compliance carbon markets.

The VCM is projected to increase by at least five times by 2030. This growth will be driven by more governmental policy measures such as coal phase-outs, renewable energy targets and efficiency standards with a value of $2.4 trillion in 2027. This lure has also attracted ‘Carbon Cowboys’ who are locking developing countries in long-term, uneven contracts. They are tarnishing the reputation of legitimate carbon projects.

The reliance on market instruments to reduce carbon emissions will continue to grow and will touch all sectors and geographies. Pakistan’s readiness will need to be fast-tracked to first develop the requisite ecosystem of policy instruments and guidelines at the national and provincial levels. Granting concessions in the provinces without national policy and regulatory frameworks will further weaken transparency and accountability.

Already, Pakistan has missed the benefits of CDM. Of the over 13,000 projects that were approved by the CDM Board, Pakistan secured less than one per cent of the total, compared to almost 70pc by India and China who developed dozens of projects dealing with forestry, renewable energy, urban transportation, waste-to-energy, solid waste management, methane gas capture in landfills, energy-efficient stoves, and other such activities that reduce GHG emissions. Pakistan undertook such projects mostly under loans, while China and India utilised the CDM financing window.

To benefit from carbon trading, Pakistan will now need to develop market-based climate policy instruments, including emissions trading schemes to tap into low-cost abatement opportunities and leverage low-carbon investments. Three steps are essential if we want to take advantage of the evolving carbon markets: a) draw lessons from the failure to benefit from CDM, b) encourage the private sector that is already in pursuit of carbon credits, and c) minimise the role of the bureaucracy by establishing policy and legislative cover.

The net-zero emissions debate has thus far been limited to the largest polluters, ie, the US, China, EU and India and some secondary polluters. It seems to have now reached the world’s largest oil producers and exporters in the Middle East who are committing themselves to achieving carbon neutrality and also seeking to offset their emissions.

The UAE as the host of COP28 in November has begun with some initial steps that will deeply impact the global carbon trading market and create partnership opportunities with other developing countries. It has, for example, announced the world’s first fully regulated voluntary trading exchange and clearing house.

Called the Abu Dhabi Global Market, it will allow companies to trade and finance carbon credits just like conventional financial assets. AirCarbon Exchange claims to offer customers regulated and transparent price discovery mechanisms as well as efficient trading plans in order to regulate carbon credits and offsets as emission instruments.

Finally, the UAE is proposing a framework to recognise carbon as an investment-grade commodities emissions instrument. This regulated spot and commodity derivative will promote the use of carbon offsets for businesses looking to reduce their environmental impact.

The UAE is forging long-term partnerships with several developing countries to help them trade their brown (pollution), green (forestry) and blue (mangroves) resources. Partnership opportunities in carbon trading await both the UAE and Pakistan in the run-up to COP28.

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