

# Carbon Markets in Pakistan



Mr. Bilal Anwer

October 26, 2023

Opinions, Columns

Despite its shortcomings and weaknesses, the Clean Development Mechanism (CDM) under the Kyoto Protocol demonstrated the concept that carbon trading can make a significant contribution to achieving global carbon mitigation targets in a cost-effective manner. It also ensures flexibility within the broader system of regulatory requirements for compliance with the targets and commitments outlined in the Nationally Determined Contributions. When designed intelligently and applied robustly, **carbon markets** have the potential to offer numerous co-benefits, particularly to developing countries. Evidently, these factors are why **carbon markets** are an integral component of The Paris Climate Agreement. Article 6 of the Paris Agreement introduces the concept of Cooperative Mechanisms, encompassing both Market (Article 6.2 & 6.4) and Non-Market Mechanisms (Article 6.8). The overarching goal of Article 6 is to enable international cooperation and market-based principles for reducing greenhouse gas emissions globally. This is based on the understanding that developing countries possess the potential for cost-effective GHG

emissions reductions, which can be unlocked through private sector investments.

Like many other developing nations, Pakistan also has substantial, as of yet untapped potential for carbon investments, coupled with a few added advantages. To begin with, Pakistan, in its NDCs, has committed to reducing its overall projected emissions by 50% from the projected levels by 2030. While significant efforts are underway in various sectors such as energy, transportation, and agriculture, some sectors have remained largely untouched. The industry is one such sector where sporadic individual efforts are being made, but given its potential, much more remains to be done. The industrial sector's contributions to the overall emissions inventory amount to 25.76 MtCO<sub>2</sub>e, and estimates indicate that the major contributing sectors in the coming years will be energy, agriculture, and industry. Additionally, as per a study conducted in 2016, the industry, energy, and agriculture sectors in Pakistan exhibit low marginal abatement costs for emissions reductions compared to countries in the region. Although the study is in need of updating and alignment with new economic and industrial growth realities, it is reasonable to assume that many sectors of Pakistan's economy will fit into an attractive carbon investment profile for both domestic and international investors. NDRMF believes that Pakistan, as one of the top ten vulnerable and climatically at-risk countries, stands to benefit significantly from international **carbon markets**. Opportunities in carbon reductions can assist in achieving much-needed energy and process efficiencies in the industry, contribute to energy transition, and support the ongoing transformation of the agriculture sector. Similarly, prospects for decarbonizing the urban transport sector are substantial and largely untapped, ultimately helping Pakistan meet its NDC commitments through a combination of concessional finance and carbon-focused investments. It is also believed that the operationalization of **Carbon Markets** is a complex task, and the industry and private sector at large require support. In addition to guidance on technical and regulatory requirements, facilitating international interlinkages and establishing

cooperation is critically important. To this end, NDRMF has initiated numerous information sharing and knowledge-building events and sessions. Going forward, NDRMF will offer a suite of tailor-made technical solutions and transaction advisory services to the industry. In this context, NDRMF organized a Seminar on “Leveraging **Carbon Markets** to Enable Private Investment” to enhance the private sector’s understanding of **Carbon Markets**, explore the private sector’s potential role, and devise a roadmap to seize this opportunity promptly. The seminar brought together a significant number of participants from the private sector and experts from international organizations to discuss and share their experiences and gain a deeper understanding of the rapidly evolving carbon markets. The seminar’s overarching objective was to enhance the private sector’s understanding of **Carbon Markets**, explore their potential role, and create a roadmap for timely engagement, ultimately leading to protection against the adverse impacts of climate change. **Carbon Markets** are globally recognized mechanisms for carbon financing and cost-effective mitigation actions. Pakistan can benefit by participating in **Carbon Markets**, including voluntary emissions trading schemes, which would enable Pakistan to unlock private finance through carbon credits. Various organizations shared their initiatives and perspectives on reducing carbon emissions and leveraging **carbon markets**. Representatives from Engro Foundation, Shell, Serena Hotels, Pakistan Business Council, K-electric, iTechnologi, Daraz, National Insurance Company Ltd, Loreal Pakistan, Artistic Milliners, Baig Group, Amreli Steels Ltd., Strategic Initiative, Control Union Pakistan, Pakistan Business Council, and Utopia shared their initiatives and how they are leveraging **Carbon Markets**. Participants gained insights into Pakistan’s commitment to climate change mitigation, the role of **carbon markets**, potential sectors for carbon trading, and case studies demonstrating successful carbon projects within the country.

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