



MINISTRY OF ECONOMY
OF THE REPUBLIC
OF AZERBAIJAN



Regional Cooperation on Carbon Markets

Ms. Aygun Rahimova - Chief Researcher of Sustainable Development Department, Economic Scientific Research Institute, Ministry of Economy, Azerbaijan

“Scaling Carbon Markets in CAREC: Lessons, Opportunities, and Regional Cooperation”

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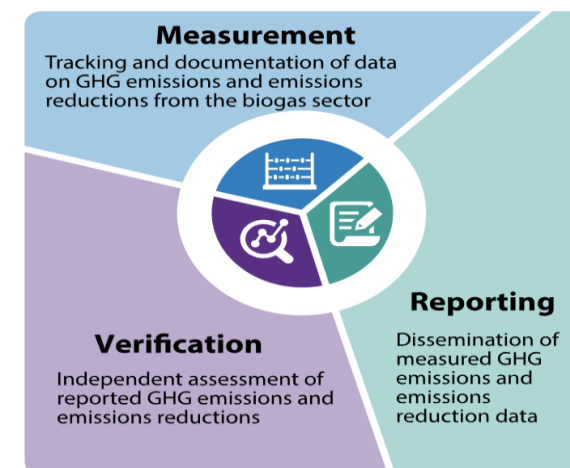
Overview of MRV System and Voluntary Carbon market in Azerbaijan



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Component	Status in Azerbaijan
Institutional lead	Ministry of Ecology & Natural Resources (with departments plus State Statistics Committee)
Emissions reporting by facilities	Yes, annual reporting by entities; companies self-monitor/estimate; verified by MENR departments
GHG Inventory System	Existing (via BURs, national communications); undergoing improvements and gap-analysis
Full legal MRV framework	Partially in place; with further legislation planned or needed
Coverage of sectors	Energy, industry, transport, waste prioritized; others less developed
Data/QA systems	Being developed; working towards a climate data hub/online MRV tool
Online / digital platform	Being developed; working towards a climate data hub/online MRV tool
Co-benefits, other gases	Planning stages; CO ₂ already, but integrating full spectrum (6 gases), co-benefits still under study

First voluntary solar project registration (“Project Area 60”): The 230-megawatt utility-scale solar photovoltaic (PV) project in the Baku and Absheron district of the Republic of Azerbaijan. Country’s first foreign investment-based independent solar project structured as a **public-private partnership**. Will reduce emissions by 200,000 tonnes per annum. Azerbaijan’s first large voluntary market solar project (230 MW AC capacity in Garadagh/Sumqayit / Baku-Absheron area) registered under **Gold Standard for the Global Goals**. It is expected to reduce ~274,074 tonnes of CO₂ annually for crediting period 2024-2029.



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Carbon Credit Achievers/Applicants:

- ❑ **SOCAR:** Successfully Implemented the project related to the methane leakage detection (Leak Detection and Repair (LDAR) program) and elimination. Reduced volumes of the leakage were sold to **German market** (stock exchange) as investments in repeated green projects.
- ❑ **AzerEnergy:** State's largest electrical power producer in Azerbaijan, in cooperation with SOCAR Trading, applied to the **Global Carbon Council (Qatar)** and **Gold Standard (Switzerland)** for carbon certificates for seven small hydropower plants in Kalbajar and Lachin districts, aiming to participate in the voluntary carbon credit market. Expected annual emissions reductions in the order of 40,000-50,000 tons CO₂.
- ❑ **AZAL:** Azerbaijan's national air carrier, AZAL, has launched a voluntary carbon offset programme for passengers in partnership with New Zealand based carbon offset provider and climate-tech firm **CarbonClick**. Upon completing their booking, passengers are getting an independent '**Track and Trace**' receipt from CarbonClick which shows which project their funds have been allocated to alongside the traditional receipt from AZAL. CarbonClick is able to instantly share the details of where the passenger's contribution has gone, providing end-to-end transparency. AZAL has chosen to invest in high-quality nature-based and renewable energy solutions with a focus on restoring biodiversity and helping the long-term management of storing and absorbing carbon: Katingan Peatland Restoration Project in Indonesia, Mangrove Restoration Project in Pakistan, Tokat Landfill Gas to Energy Project in Türkiye



Verified Carbon Standard
A VERRA STANDARD



Gold Standard
for the **Global Goals**

Key Perspectives for CAREC Regional Cooperation:

➤ Common MRV and baselines:

Agreeing on standardized methodologies for measuring and verifying emissions and carbon reductions prevents duplication and ensures consistency. Example: A shared protocol for energy-sector emissions (coordinated via the CAREC climate platform) would allow credits to be recognized across borders, especially considering energy-dependency of CAREC regions economy. By collaborating, CAREC members can spread capacity burdens and reduce transaction costs. Pooled resources (shared data, joint technical teams) mean each country spends less on MRV systems and project preparation.

➤ Linked carbon registries:

Creating a regional registry or interoperable national registries would transparently track credits and avoid double-counting. Lessons from other regions show the value of linking to global data systems: Bhutan, for instance, built a national registry and connected it to the global Climate Action Data Trust to harmonize carbon data. Considering Asia's emerging economies, the regional hubs are treated as the accelerators of the low-carbon economic development. CAREC countries could similarly adopt common digital registry standards to facilitate cross-border trading, as well as share the knowledge and experience in regional hub.

➤ Knowledge exchange and training

Sharing expertise through workshops, trainings, and peer networks builds capacity. Such events enable officials to learn from each other's experiences (e.g. how to design crediting rules) and apply best practices. Joint training reduces reliance on expensive external consultants and spreads expertise efficiently. *Azerbaijan's own climate experts have already taken part in UNFCCC IPCC training to build MRV skills, an effort that could expand regionally.*



➤ **Joint project preparation:**

Develop regional project pipelines (for example in renewable energy, methane capture, or forestry) to bundle opportunities. The CAREC Climate & Sustainability Fund is explicitly designed to prepare “bankable regional projects that support joint initiatives and develop regional carbon trading mechanisms”. By collaborating on project design (e.g. across trade/transport corridors or transboundary watersheds), countries can lower individual transaction costs and create economies of scale.

Azerbaijan keeps the portfolio of green projects: it has abundant wind and solar potential (exploitable for green hydrogen and clean power). SOCAR Green recently mentioned about its portfolio of renewable energy with capacity of 1.7 gigawatts. Those assets can feed into regional carbon projects. In sum, Azerbaijan contributes institutional **know-how** (transition to MRV systems) and project supply (renewable and low-carbon opportunities) that, through CAREC cooperation, can catalyze a robust regional carbon market.

➤ **Fragmented regulations and standards:** CAREC countries currently use different carbon pricing instruments and legal frameworks (ranging from taxes to voluntary programs). For example, only Kazakhstan currently has an operational emissions trading scheme, while *Azerbaijan is only beginning a “zero-emissions” strategy and carbon-tax discussions*. Other members range from raw planning to almost none. This regulatory patchwork makes linking difficult: credits issued under one regime may not meet another’s rules.

➤ **Data and institutional gaps:** Many CAREC countries have underdeveloped GHG inventories and weak MRV systems, due to limited technical capacity. Without reliable data on emissions or credit projects, neither regulators nor buyers can trust the results. ***Institutional preparedness is uneven:*** some countries lack carbon market laws or authorities to manage international trades.



- **Trust and quality concerns:** International buyers demand high-integrity credits. They favour schemes with strong MRV, transparency, and third-party oversight. Fragmented, opaque national standards risk poor credibility. Poor data and different accounting would undermine confidence.

To overcome these challenges, CAREC nations could build mutual trust through **harmonization and transparency**. Possible measures include:

- ✓ Capacity can be built by leveraging the CAREC Climate Working Group and the new CAREC Climate Platform: ADB and partners can fund training and MRV system development across the region.
- ✓ Over time, regular regional workshops and pilot projects (e.g. joint Article 6 pilots) will also cement relationships and mutual understanding. By aligning national frameworks (through, e.g., model legislation or shared guidelines) and building cross-border institutions, CAREC can resolve trust issues and coordinate a stable carbon-market framework
- ✓ Transparent governance and clear targets: In practice, Azerbaijan (as COP29 host) and CAREC partners could publish clear carbon market roadmaps, set up joint oversight (via CAREC Senior Officials or working groups), and regularly report progress. This transparency reassures investors and neighbour countries alike
- ✓ Independent Verification: Engaging third-party auditors, accreditation companies or rating firms can validate that credits meet high standards. Regional cooperation can help subsidize these services or agree on common auditors, so even smaller countries can afford credible verification.
- ✓ Pilot projects and data sharing: Starting with a few well-monitored cross-border projects (with open-access data) would demonstrate integrity and build trust. CAREC's WGCC could facilitate data-sharing agreements and joint MRV audits to validate such pilots. Over time, the track record of transparent projects will reduce skepticism and promote broader buy-in.



COP29
Baku
Azerbaijan



- By coordinating Article 6 strategies and aggregating credit supply, CAREC can become a more attractive partner to buyer countries and investors. For instance, numerous Asia-Pacific countries have already struck bilateral Article 6.2 deals to transfer mitigation outcomes and mobilize finance. CAREC members could pursue similar agreements: negotiating template ITMO transfer rules together would streamline transactions and give buyers confidence that multiple countries share oversight.
- The CAREC Climate and Sustainability Project Preparatory Fund (CSPPF) will help turn concepts (e.g. a green hydrogen pipeline or cross-border renewable energy project) into investable proposals. Azerbaijan can channel national projects (like its planned offshore wind or hydrogen plants) into CSPPF pipelines, attracting co-financing from ADB, the Green Climate Fund, or multilateral banks. By sharing a project pipeline, CAREC members increase the region's power with investors and guarantee larger-scale financing.
- In the voluntary market, regional cooperation ensures a steady supply of high-quality credits. By aligning their schemes with international norms (e.g. linking to the Paris crediting mechanism, adopting Core Carbon Principles), CAREC countries enhance credit credibility. An illustrative example is Bhutan's approach: it linked its national registry to the global CAD Trust and trained officials to engage with international buyers. CAREC could promote such practices by organizing region-wide registry training and by encouraging mutual recognition of standards. This way, credits generated in Azerbaijan would be recognized by global platforms and buyers.
- Multilateral banks (ADB, World Bank, etc.) and initiatives like the Financing Asia's Transition Partnership are looking to mobilize carbon finance; a unified CAREC approach can leverage these channels. By collectively designing projects that meet both climate and development goals, CAREC countries increase their eligibility for blended finance and technical assistance.





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THANK YOU!

155 Heydar Aliyev Avenue,
Baku, AZ1029, Azerbaijan
Tel.: (+994 12) 310 28 00
E-mail: office@economy.gov.az
www.economy.gov.az

