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Opportunities and Challenges in CAREC for Regional Cooperation on Carbon Markets

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Agenda

Opportunities

- Examples of regional cooperation in carbon markets
- Coordination of transboundary programmatic approaches to emissions reduction
- Regional coordination towards buyers

Challenges

- Knowledge on carbon markets
- Monitoring, Reporting and Verification system
- Readiness for carbon pricing instruments



Regional collaboration

- Carbon Markets are moving at a high pace with increased market complexity
- Bilateral agreements are signed between countries to reduce emissions (JCM, Art 6.2)
- There is rising demand for integrity, transparency and scaling on the carbon market
- Together you can share transaction costs and are able to develop a programme of activities.

Why Now

Examples of regional cooperation in carbon markets

West African Alliance on Carbon Markets and Climate Finance was founded in 2017 and currently includes 16 west African countries. It aims to:

- **Promote access to market mechanisms** and climate finance opportunities on the national and sub-regional levels.
- **Foster active participation by West African delegates in the UNFCCC negotiations on market mechanisms**, transparency and climate finance.
- **Support Article 6 pilot experiences in the sub-region** while sharing implementation knowledge in the negotiations.
- **Improve their access to result-based climate finance** for implementing their National Determined Contributions (NDCs).

They keep focus through four thematic working groups:

- Carbon markets and pricing
- Climate finance
- Transparency
- Technology transfer

The Caribbean Alliance on Carbon markets and Climate Finance was founded in 2022. It is still in development. Its preliminary objectives are:

- **Enhance understanding of carbon markets** and climate finance mobilisation and access in the region as it relates to the implementation of member countries' NDC;
- **Provide technical support and capacity building to member countries** through South-South peer exchanges and **production of knowledge resources for Article 6 readiness and pilot activities in the region**;
- **Identify and address specific country and regional needs** considering the specific circumstances of OECS MS, including further cooperation with other SIDS

The Caribbean region has potential to achieve bankable emission reduction through:

- Renewable energy
- Energy efficiency
- E-mobility
- Waste

- Creating an alliance can be done in many ways:
 - Capacity building
 - Strategic: collaboration to build economies of scale in including and beyond carbon markets ([Pacific Alliance](#): Chile, Colombia, Mexico and Peru)
 - Financing: Collaborating as one block and strengthen your attractiveness for (carbon and climate) finance
 - Technical: Collaborating to work together in one platform, for example for MRV, carbon accounting and carbon reporting.

Coordination of transboundary programmatic approaches to emissions reduction

The Central Asia Region and Azerbaijan, Armenia and Georgia can work together on shared emission reduction activities. For example:

- Increased interconnecting power grids with the aim to reduce emissions.
 - Kazakhstan is still heavily dependent on coal
 - Uzbekistan and Turkmenistan on gas
 - Tajikistan and Kyrgyzstan have significant (undeveloped) hydropower
 - ➔ Can be integrated with Article 6 of the Paris Agreement

➤ South African Power Pool

- There are **four important gains from increased regional power sector integration through renewable energies**:
 - **Savings** in generation and transmission costs,
 - **Better management** of variable renewable energy and seasonal imbalances,
 - **Supporting decarbonization** and resilience of the regional grids, and
 - **Increasing grid densification** to support and complement electricity access programs and the digital agenda.

- Oil and gas sector:
 - SOCAR (Azerbaijan Oil Company) has been able to create credits by limiting methane emissions, through less flaring or by using Leak Detection and Repair (LDAR) project activities
 - ➔ Both CDM methodologies are currently adjusted to become Article 6.4 approved.
- Renewable energy
- Energy efficiency
- Building retrofits
- E-mobility developing in line with a greener electricity grid
- Agriculture
- Etc!
 - ➔ Common denominator: Robust and standardized baseline and monitoring methodologies.

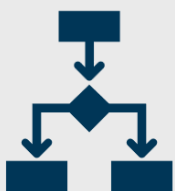
Regional coordination towards buyers

Japan establishes and implements the JCM in order both to **appropriately evaluate contributions from Japan to GHG emission reductions or removals** in a quantitative manner achieved through diffusion of decarbonizing technologies, products, systems, services, and infrastructure **as well as implementation of mitigation actions in developing and other countries**, and to **use them to achieve Japan's emission reduction target**.

Currently, Japan has bilateral agreements with 31 countries including:

- Azerbaijan, Georgia, Uzbekistan, Kyrgyzstan and Kazakhstan.
 - Only 2 projects are in instalment phase: 1 RE project in Georgia and 1 EE project in Kyrgyzstan.
- ➔ Potential for countries to join forces and propose joint Programme of Activities for common project types

Article 6.2 – Cooperative approach



Readiness for participating in ITMO cooperation

- Article 6 Strategy
- National arrangements for authorising and tracking ITMOs
- national legislation (and bilateral cooperation agreements)



Authorisations and first transfers of ITMOs

- Authorisation of ITMOs, cooperative approaches and entities by host (and using) country
- First transfers of ITMOs (authorisation, issuance, first international transfer, use or voluntary cancellation)



Tracking, reporting and review

- Registry for recording and tracking ITMO-related information
- Application of corresponding adjustments to national emissions balance for authorised and first-transferred ITMOs (by host country) and for used ITMOs (by using country)

Article 6.2 is not a mechanism/ carbon crediting programme - it is an accounting and reporting framework.

Could apply same approach as for JCM, however, main challenge is readiness for Art 6 in the region.

Possibilities are available with Switzerland, Sweden, Singapore, etc

Challenges

Engaging in international carbon markets and accessing international climate finance requires **strengthening institutional capacities both of governments** to regulate and incentivise carbon market activities **and of private sector actors** to engage in such activities.

Alliances are well placed to **facilitate peer exchanges to discuss views, experiences and best practices** among their member states, either through national experience or **by engaging with technical partners** / carbon consultants.

Alliances help **shape multilateral rules** by providing inputs on global processes based on their regional experiences. When rules are in place, this can **attract financing and practical initiatives to help countries achieve conditional NDC targets** and enhance their overall ambition

Monitoring, reporting and verification

- Lack of carbon accounting MRV system
 - The lack of MRV directly hits competitiveness: it forces firms to pay more than necessary or even prices them out of the market.
- Lack of monitoring infrastructure:
 - Accurate emissions tracking requires hardware and data systems.
 - Shortages of tools due to financial and technological constraints.
 - No local auditing body to perform verification, dependent on expensive foreign auditing firms

Robust quantification of emission reduction will represent real, transparent, (additional), permanent and no double counted emission reductions. This can be achieved by:

1. Carbon accounting methodology
2. Proper monitoring equipment

Readiness for carbon pricing instruments

Only Kazakhstan has implemented an ETS, all other countries in the region have no carbon pricing instrument.

Readiness assessment criteria from the recent study by [CAREC and Eurasian Development bank](#) show that:

- **The deployment of CPIs** presents significant challenges, as it **requires robust policy and regulatory frameworks as well as institutional capacity**
- Central Asian countries and Azerbaijan are actively integrating climate related provisions in their policies, considering international agreements and tailoring best practices to national conditions and priorities.
- According to the IMF, **the current mitigation policy mix in Azerbaijan, the Kyrgyz Republic, and Kazakhstan may not be sufficient to curtail emissions to their target, while Uzbekistan and Tajikistan appear to be on track to meet their unconditional commitments**
- The reasons for both common and different practices lie in the **diverse economic structures and GHG emissions profiles**.
- Analysis of the Central Asian countries and Azerbaijan demonstrates that **CPI could not be considered as a “one-size-fits-all” approach**, underscoring the need for tailored strategies to maximize the value and impact they would generate for the country

Learnings

Opportunities

1. A regional alliance would be a platform for countries to engage and **work through common challenges together, facilitating more focused regional peer exchange** and tailored **capacity-building efforts** aimed at strengthening institutional capacity and synergies across the region **to attract carbon and climate finance**.
2. **Enhanced regional integration of the grid**, to tap into each other's resources, reduces economic and financial costs.
3. Find **common project types** and **use standardised MRV protocols**
4. **Cooperating** by joint programme of activities **under JCM or Art 6.2**.

Challenges

- Before carbon market collaboration there is a need for:
 - Capacity building on carbon market mechanisms
 - Robust and standardised MRV procedures
 - Monitoring equipment
 - Technology transfer
 - Readiness assessment for the different carbon market mechanisms
 - Public support
 - Regional funds to finance the above

Starting point for CAREC

- Regional task force?
- Joint PoA pilot?
- knowledge-sharing platform?

The research has been done, on many different topics for your region.

Work with ADB or equivalent, or other funding opportunities (JCM, Art 6.2) and achieve your NDC targets.



Thank you



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