# Global Trends in Carbon Trading and Market Mechanisms



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### Overview

Carbon trading is the practice of buying and selling credits to permit entities to emit a certain amount of carbon dioxide. This market-based approach aims to combat climate change by capping overall emissions and allowing for the trade of emission allowances.

### Key Mechanisms

* Carbon Tax: Fixed prices emitters pay per ton of carbon dioxide emitted.
* Carbon Credits: Tradable certificates allowing companies to offset their emissions by funding projects that reduce or remove atmospheric CO2.
* Emission Allowances: Permits granted to entities to emit specified amounts of carbon dioxide, tradable among regulated companies.

### History and Evolution

The concept was introduced by the Kyoto Protocol, a UN treaty enacted in 2005. It incentivized wealthier nations to help poorer ones reduce emissions by buying their carbon credits.

### Market Types

### Influencing Factors

* Cap-and-Trade Regulations: Cap limits on emissions and allows trading of allowances.
* Technological Innovation: Encourages the development and adoption of new technologies aimed at reducing emissions.
* Financial Incentives: Provides economic reasons for countries and companies to invest in emission reduction initiatives.

### Global Trends

* Diverse Carbon Markets: Markets are becoming more varied with new services and platforms.
* Revenue Growth: Carbon taxes and trading have generated substantial revenues, reaching $95 billion globally in 2022.
* China's National Program: Launched in July 2021, aiming for carbon neutrality by 2060, encompasses over 2,225 companies.
* EU ETS: Established the first international emissions trading system in 2005, driving EU climate goals.
* COP26 Agreement: Established global carbon market rules, enhancing public-private sector engagement.
* Regional Initiatives: Saudi Arabia and the UAE are making significant commitments to carbon credit investments.

### Challenges

* Credibility of Carbon Credits: Ensuring the quality and actual impact of the traded credits.
* Market Fragmentation: Inconsistent policies across countries regarding the classification and treatment of carbon credits.
* Supply Shortages: Meeting the growing demand for carbon credits by increasing project investments.
* Lack of Intermediaries: Enhancing market intermediaries to streamline buying processes and increase market activity.

### Conclusion

Carbon trading is evolving as an essential part of global efforts to mitigate climate change. With increasing international cooperation and investment, challenges such as credibility, market fragmentation, and supply shortages need to be addressed to ensure the system's effectiveness.