

Carbon markets – how it works ?

**(Recommendation for effective
engagement)**

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Carbon Market vs Carbon Credit



Carbon Markets

['kär-bən 'mār-kəts]

A specialized type of financial market, through which carbon credits can be bought and sold.

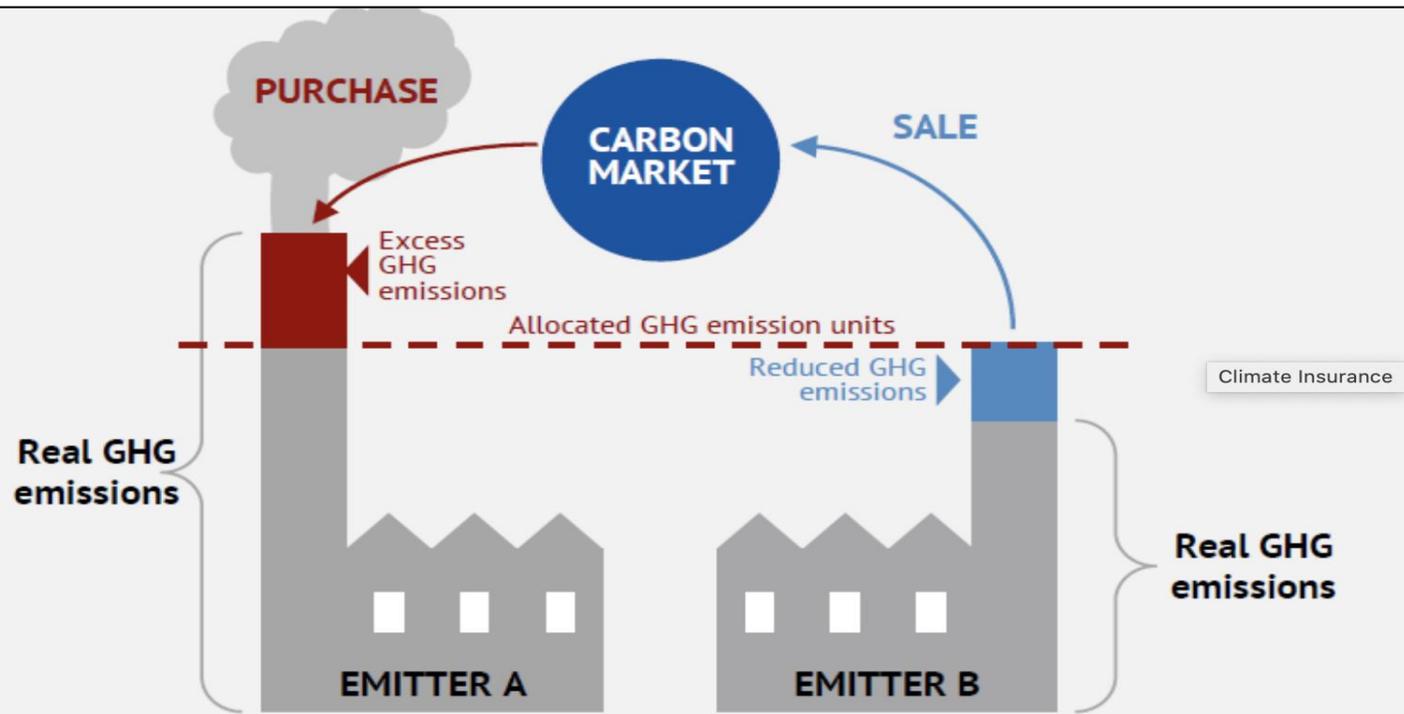
 Investopedia

Carbon Market -
is a mechanism for
Trading **carbon credit**.

Carbon Credit (allowance) - a permit that allows a holder to emit certain amount of carbon dioxide or its equivalent over a period. This credit reduces over a year and are tradable.

carbon credit is either Voluntary emission reduction (VER) or Certified emission reduction (CER), based on the markets.

Carbon Markets



- Allowances are either freely allocated or auctioned, and then may be traded.
- The supply and demand for these allowances establishes a market price.

- Emitters can also choose to “bank” allowances and hold them for use in future years.
- Emitters with an insufficient amount of allowances required for their industry at the end of the reporting period incur penalties.

In terms of **trading carbon credit**, there is a sort of **two markets**, one is a **regulated market**(Compliance market), set by “**cap-and-trade**” **regulations** at the regional and state levels and created by the Kyoto Protocol and the other is a **voluntary market** where businesses and individuals buy credits (of their own accord) to *offset their carbon emissions*.

Markets under the Paris Agreement

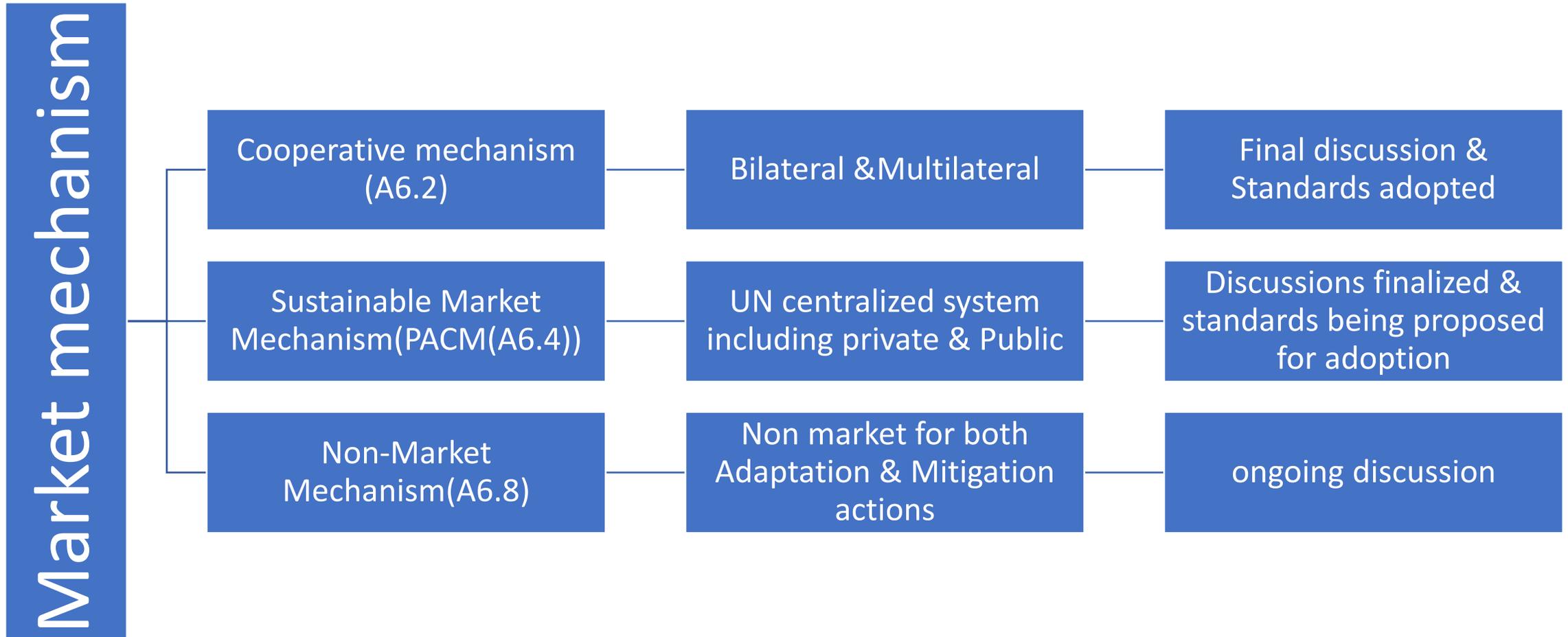
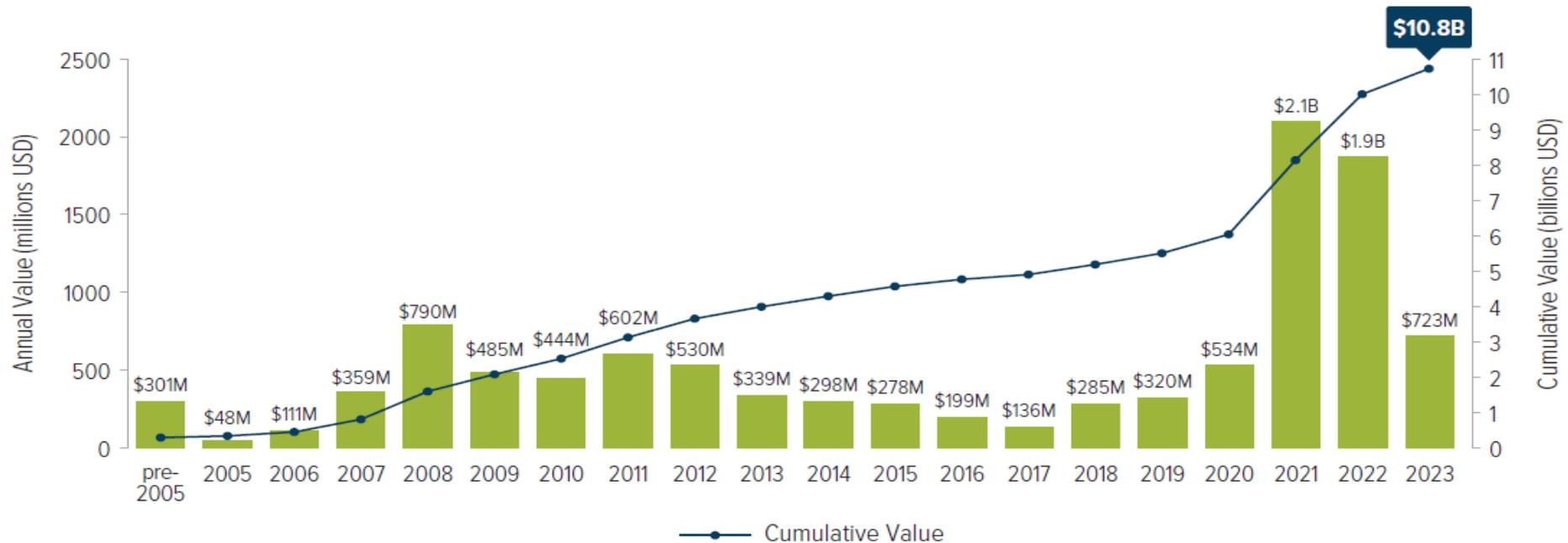


Table 1. Annual Total Voluntary Carbon Market Transaction Volume, Value, and Price per tCO₂e for All Projects, 2022-2023

2022			2023			Percent Change		
Volume (MtCO ₂ e)	Value (USD)	Price (USD)	Volume (MtCO ₂ e)	Value (USD)	Price (USD)	Volume	Value	Price
253.8	\$1.87 B	\$7.37	110.8	\$723 M	\$6.53	-56%	-61%	-11%

Figure 1. Voluntary Carbon Market Size, by Value of Traded Carbon Credits, pre-2005 to 2023



Ecosystem Marketplace launched 2024 State of the VCM - On the Path to Maturity

Recommendations:-

- All markets required **emission reductions and or removal**,
- The compliance market is the biggest in terms of finance with high carbon prices compare to the volunatry market
- National based interventions could take *advantage of the compliance market*
- *Small to medicum scale private* and or **public carbon related projects** should take advantage of the volunatry markets
- A legal framework inclusive of important components such as carbon rights, benefit sharing mechanism for a carbon based project in Liberia is important to accelerate participation in Carbon Markets.

