Energy Transition Dialogues

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Middle East Economies have Compelling Need to Lower their Carbon Emissions

Carbon markets are in the early stages of development across the major GCC economies of the UAE and Saudi Arabia. Both countries have made commitments to achieve net-zero carbon emissions by 2050 and 2060 respectively and making use of carbon markets, along with other emissions reductions strategies, will help the journey toward those targets.

Carbon credits are financial instruments that permit emissions from a company's operations under a set national limit, usually reducing on an annual basis. A carbon offset is a certificate generated by a project that draws carbon out of the atmosphere, through development of a natural resource like a forest, or a project that doesn't add carbon - a renewable energy facility for instance. Carbon trading can take place under mandatory rules, such as the EU's Emissions Trading System (ETS), in which credits are auctioned or allocated to participating companies who then make use of the credits to cover their emissions and then buy or sell more if needed or they have too many. Voluntary carbon trading markets exist as well in which companies buy offsets from qualifying projects to offset their carbon emissions. Etihad in the UAE has made use of voluntary offsets to help reduce some of its carbon emissions.

The 2021 UN Climate Change Conference, COP 26 held in Glasgow last year, achieved a global breakthrough on carbon market operations to avoid double counting any reduction in emissions. It also allowed for voluntary carbon trading to be counted toward a nation's Nationally Determined Contribution (NDC), the carbon reduction plans submitted to the UN as part of the Paris Agreement on climate change. That should help to empower the development of domestic or regional carbon markets and channel investment toward more offsetting projects.

There is a compelling need for economies in the Middle East, and in particular the GCC, to lower their carbon emissions. Compared against peer economies, carbon emissions on a per capita basis are substantially higher. The UAE's carbon emissions per capita was nearly 25 metric tons CO_2 in 2020 compared with around 14 metric tons in the US or 7 metric tons in Germany. ■

**Paraphrased Comments*