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Carbon Markets: A Developing Tool in the Climate Transition at KASE

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Global carbon markets have the potential to generate significant economic and environmental benefits by directing private investment toward impactful and efficient climate initiatives across various technologies and ecosystems. These markets are expected to offer a flexible, cost-effective approach for both developed and developing countries to achieve their emissions reduction targets under international frameworks. By placing a price on carbon, they incentivise industries to innovate and adopt cleaner technologies, leading to more sustainable production methods. Ultimately, the success of these markets hinges on effective regulatory frameworks and collaboration among stakeholders, ensuring that the transition to a low-carbon future is both equitable and impactful.

While recent times have been challenging for carbon prices, carbon markets continue to be endorsed by the United Nations as an essential part of achieving the world's climate targets. Three global trends are shaping the current landscape of carbon markets and influencing their development in Kazakhstan: the expansion of compliance markets, the revitalisation of voluntary carbon markets, and the strengthening of carbon border adjustment mechanisms.

Compliance markets have been growing as more countries implement cap-and-trade systems or carbon taxes. The drive to use market-based approaches for carbon pricing has led to the launch of numerous new programs in recent years. According to International Carbon Action Partnership Status Report 2024, 36 emissions-trading systems are in force globally, with an additional 22 in various stages of consideration and development. Some existing markets are continuing to finalise their reforms, with the latest news being about China expanding its national carbon trading market to include the steel, aluminum, and cement industries by the end of this year.

The voluntary market is also evolving despite the pushback caused by doubts about the quality of underlying carbon projects. Market players are responding to transformations driven by regulatory developments focused on the integrity of carbon credits and shifts in corporate strategies, prompting them to establish stricter standards and certification processes.

This year has begun with additional regulatory requirements for European importers, particularly those purchasing industrial metals, fertilizers, cement, electricity and hydrogen from non-EU countries. Designed to impose a carbon cost on imports based on their embedded emissions, CBAM affects high-carbon goods such as steel and aluminium — key exports for Kazakhstan to the EU. This adjustment may drive enhancements in Kazakhstan’s emissions-trading system (ETS), encouraging stricter caps and improved monitoring and reporting practices.

Kazakhstan’s carbon emissions trading system (ETS), operational since 2013, stands as a cornerstone of the country’s climate policy. It remains the only operational carbon market in the region, positioning the country as a leader in climate action within Central Asia. The system has undergone several phases of development, each with adjustments to improve its efficacy.

Relaunched in 2018 and governed under the Environmental Code of Kazakhstan, the ETS covers greenhouse gas emissions across sectors including power generation, oil and gas, mining, metallurgy and specific manufacturing sectors. The ETS applies to entities emitting over 20,000 tons of CO_2 annually, requiring their participation in Kazakhstan’s National Allocation Plan. Currently, 135 companies are participants in the ETS. Allocations are provided at no cost, allowing businesses to sell unused allowances (generated from emission reduction measures) or purchase additional quotas if emissions exceed their assigned limits. The ETS also enables regulated companies and project applicants to create carbon offsets through low-carbon projects, thus enhancing trading flexibility. However, despite these provisions, Kazakhstan's carbon market remains relatively small, characterised by limited liquidity and low carbon prices with average $1 per ton of CO_2.