

Carbon trading



Kenya's farmers should take advantage of carbon trading to lower food prices

By Kennedy Mugambi

Global warming easily tops the list of defining issues of our age. Now, more than ever, the world is confronting the fact that, climate change is possibly the greatest threat to human existence. As a result, organizations globally are now focused on the environmental, social and governance aspects of business in addition to the traditional role of driving shareholder value. One of the biggest contributors to global warming are the greenhouse gas emissions from our day to day human activities. It is on that note that it is important to discuss about carbon emissions trading. Carbon emissions trading refers to a cap and trade regulatory programme designed to limit carbon emissions resulting from industrial activities. The carbon markets are divided into compliance and voluntary markets.

The compliance market is regulated by national and international authorities who determine a cap in the amount certain sectors can release into the environment in order to achieve their Nationally Determined Contributions (NDC) under Article 4 of the Paris Climate Agreement. The authorities track the carbon footprints for entities and determine if their emissions went beyond the allowable limit. Entities that go beyond the prescribed amount in carbon emissions have no option but to buy or use saved credits to stay below the emissions limit. For proper context, a carbon credit is a tradeable instrument which represents one tonne of carbon dioxide removed from the environment.

In the voluntary market, carbon credits trade is on voluntary basis meaning that the participants operate outside the compliance markets. This provides a flexible trading scheme for players (individuals, businesses, governments and NGOs) to voluntarily offset their emissions by purchasing carbon credits. The major difference between the voluntary carbon market (VCM) and compliance markets is the ability to participate in VCM regardless of the participant's geographical location or business factor.

There is a yin for every yan. The flexibility of the voluntary carbon markets is not without its fair share of challenges. Unlike the carbon permits at the compliance markets which are regulated by national and international authorities, the voluntary carbon market is highly unregulated.

Developing countries stand to benefit greatly from the voluntary carbon trading market that was estimated at \$1 Billion in 2021 by S&P Global Platts. Developing countries can take advantage of this great opportunity. Kenya Forest Service (KFS) is already set to benefit from carbon trading in its recent deal with BDO. Smallholder farmers can as well earn from the voluntary markets by selling the carbon credits generated from various farming activities. There are organisations that can create a link between the farmers and buyers. However, developing countries should come up with regulatory frameworks regarding carbon trading more specifically by regulating the market value for carbon credits and protecting smallholder farmers from exploitation.

In Kenya, The Rural Electrification and Renewable Energy Corporation (REREC) established under Section 43 of the Energy Act (2019), is tasked with harnessing opportunities offered under clean development mechanism and other mechanisms including carbon credit trading. Section 75 the Act further authorises the Cabinet Secretary to collaborate with the necessary stakeholders in harnessing carbon trading opportunities. This is a good starting point.

Developing countries in Africa need to come up with a multifaceted approach with the aim of tapping into the continent's abundant resources to derive economic benefit from the carbon trading market with a long term goal of eventually establishing a standard inter-governmental carbon compliance market similar to those in developed regions like Europe, America and China. If Kenyan farmers take full advantage of carbon trading, the expectation is that their costs of farming will come down and with this, there will be a trickle-down benefit to the rest of the Kenyans through reduced food prices.

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