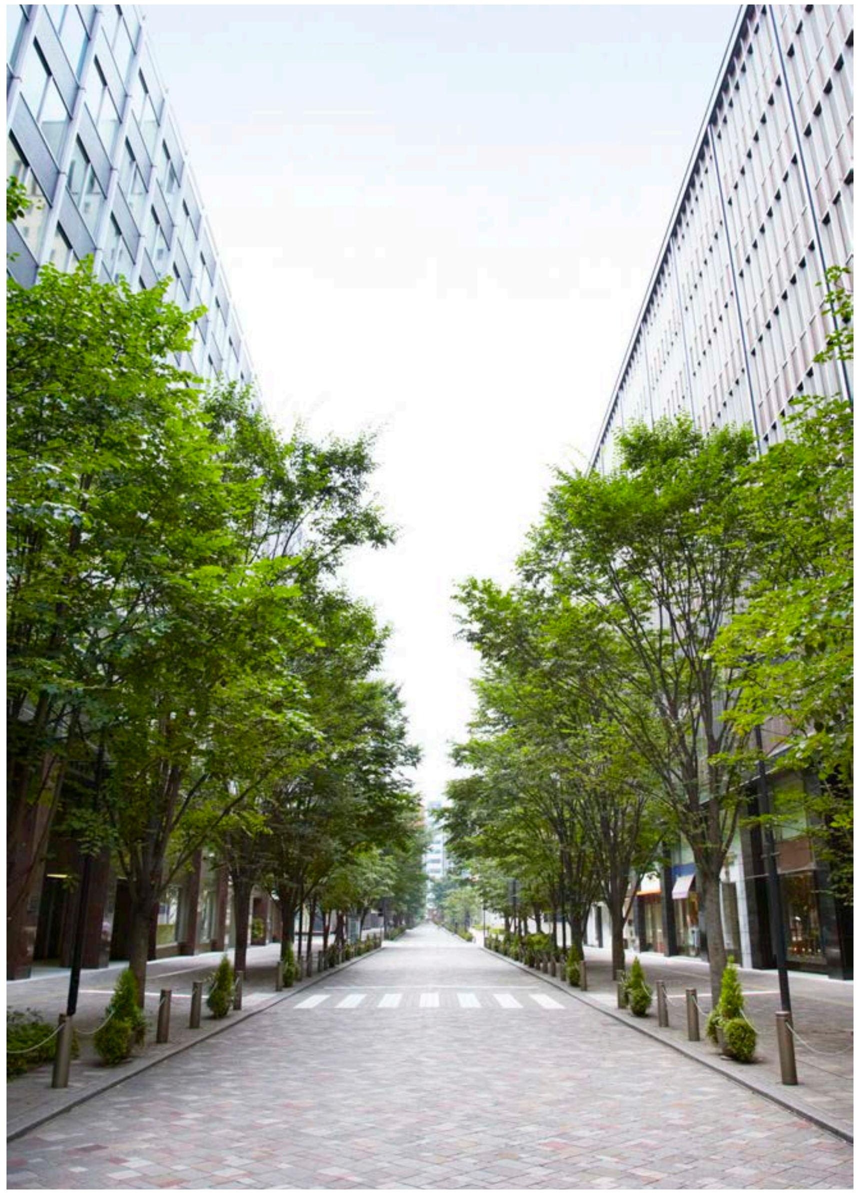
The carbon credits platform as a vital step toward net zero

The establishment of a carbon credits trading platform in Saudi Arabia brings a viable voluntary carbon market closer for the MENA region and is a significant milestone for the Kingdom's decarbonisation journey to becoming net zero by 2060.[2]



Carbon credits trading and the wider carbon ecosystem

In September 2021, the Public Investment Fund (PIF) and Saudi Tadawul Group announced the Riyadh Voluntary Carbon Market (VCM) initiative.[3] Just over a year later, Saudi Arabia's first carbon credit auction took place, one of the largest the world had seen.[4] The auction offered a total of one million tons of carbon credits for sale – each credit CORSIA compliant and validated by a Verra registered certificate. Further auctions are scheduled for the final quarter of 2023. In addition, trading in carbon credits will commence this year with the launch of a carbon credits trading platform and the establishment of a VCM, enabling companies to trade credits and offsets.

The VCM trading platform is attracting widespread interest with five leading Saudi Arabian businesses – Saudi Aramco, SAUDIA AIRLINES, ACWA Power, Ma'aden, and ENOWA, a subsidiary of NEOM – having signed non-binding MoUs to become the first partners of the regional VCM.[5] Partners will support PIF in the development of the VCM through the supply, purchase, and trading of carbon credits.

The trading platform will encourage companies, institutions, and entire industries to reduce their carbon emissions, and acts as a mechanism to redirect finance to projects that reduce or avoid emissions, or that remove greenhouse gases (GHGs) from the atmosphere.

The next level in carbon maturity

While the VCM will play a significant part in achieving Saudi Arabia's goal of becoming net zero by 2060, if we are truly to achieve decarbonisation and sustainability goals in the long term, it is worth pointing out that carbon credits and carbon offsets do not make a direct contribution to a reduction in emissions. Therefore, carbon offsetting should be considered a short-term fix and will eventually need to be phased out of global emissions reduction strategies.

Nonetheless, carbon credits/offsets are an effective way of redirecting finance towards carbon zero or carbon net positive projects and initiatives. As such, credits and offsetting will continue to play a major role in short- to medium-term mitigation strategies, at least until technologies and solutions mature enough to contribute to achieving the ambitious emissions targets currently being set both locally and internationally.

The UN Net-Zero Banking Alliance Finance Initiative

The Alliance's Finance Initiative is primarily concerned with setting climate targets within an international framework to achieve cohesive action on global emissions.[6] The thinking here is that major banks and financial institutions are in the best position to divert investments and funding toward industries, sectors, businesses, and projects that are supportive of decarbonization strategies. This is borne out by the scope and boundary of targets set

> **The launch of the voluntary credits trading platform is a leap forward in the establishment of a viable carbon credits ecosystem for MENA.**

out by the framework which accounts for a significant majority of each bank's portfolio emissions. Currently, targets apply to on-balance sheet investment and lending activities (Scope 3) only. Bank targets will eventually include clients' Scope 1, Scope 2, and Scope 3 emissions, where significant and accurate data allows, and will focus on achieving impact in the real economy.

Saudi Arabia's major banks have yet to sign up to the initiative, but there are credible reasons for this. The Kingdom's pledge to reach net zero by 2060, ten years later than the Alliance's target of 2050, is, in part, due to the unique challenges of transforming an economy that relies on fossil fuel to one that is low carbon. For banks in Saudi Arabia, joining the Alliance would result in having to align strategies with both national and international goals, which could create inconsistencies and trade-offs. Managing divestment from fossil fuel investments will be a balancing act between achieving the Kingdom's long-term net-zero goal and meeting anticipated medium-term energy demands that are required to build a net-zero emissions world.

Opportunities for the banking sector

For Saudi Arabia's banking industry, the debut of the VCM heralds an exciting period of transition. Previously carbon trading was associated, some would say unfairly, with greenwashing. Now the tide has turned with trading in credits viewed as a necessary component of achieving a net-zero economy, as evidenced by the rise in demand for carbon credits trading throughout the world's exchange houses, driven by geopolitical pressure to implement minimum climate targets by 2030.

For banks and financial institutions and companies, the initiative delivers immediate opportunities to include carbon offset products and services into their offering. Examples are green bonds and carbon trading accounts. Indirect demand exists too, driven by the increasing popularity of ESG and sustainability-based investments. Banks could go one stage further by incorporating carbon credits into their existing investment and lending portfolios, is either a form, or requirement or a selection criterion. Another area where banks might find value is secondary services such as carbon footprint tracking tools, carbon reduction decision making tools, and sustainable procurement systems.

These are only a few of the opportunities available to the banking sector here and inevitably, there will be further prospects for innovation and growth as the carbon market develops.

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