Legal Update | Environment and Climate Law

Carbon Trading in Nepal: The Carbon Trading Regulation, 2082

Project approval, safeguards and benefit-sharing under the Regulation, and the proposed First Amendment

Carbon trading in Nepal now has a dedicated legal framework. The ***Carbon Trading Regulation, 2082***, issued under the ***Environment Protection Act, 2076***, sets out who may develop a carbon project, how projects are approved and verified, and how carbon credits may be sold and their benefits shared. A first amendment to the Regulation has also been proposed. This update summarizes the framework, the safeguards it contains and the changes now under consideration.

The Regulation at a Glance

Instrument:	Carbon Trading Regulation, 2082
Issued under:	Section 44, Environment Protection Act, 2076
Published:	Nepal Gazette, 2082/08/22 BS (December 8, 2025)
Status:	In force with immediate effect; repealed Rules 28, 29, 30 and 31 of the Environment Protection Rules, 2077
Proposed change:	Carbon Trading (First Amendment) Regulations, 2083 (draft)

1. What is carbon trading?

Carbon trading is a market-based system for reducing greenhouse gas (GHG) emissions by giving an economic value to emissions and emission reductions. It involves the buying and selling of carbon permits or credits. One carbon credit represents one tonne of GHG emissions that has been reduced, avoided, or removed.

The *United Nations Framework Convention on Climate Change (UNFCCC), 1992*, established the broader international framework for addressing climate change. Carbon trading itself developed under the *Kyoto Protocol, 1997*, which introduced the first major international legal framework for it through three

market-based mechanisms: international emissions trading, Joint Implementation, and the Clean Development Mechanism (CDM). Under the CDM, projects in developing countries could generate emission-reduction credits that developed countries could use to meet their own commitments.

The *Paris Agreement, 2015* developed this framework further through Article 6, which allows countries to cooperate voluntarily in reducing emissions and achieving their Nationally Determined Contributions (NDCs). Article 6 provides for international transfers of emission reductions, a centrally supervised crediting mechanism, and non-market forms of cooperation.

Carbon markets are generally divided into compliance markets, which operate under legal requirements, and voluntary markets, in which entities buy credits of their own accord to support their climate goals.

As of November 2025, Nepal had received US$ 9.4 million from the World Bank's Forest Carbon Partnership Facility (FCPF) for reducing approximately 1.88 million tonnes of CO_2 emissions under its REDD+ Emission Reductions Program in the Terai Arc Landscape.[1] Nepal has since adopted a regulatory framework for carbon trading that is intended to increase participation by both domestic and international actors.

SINHA VERMA LAW CONCERN

2. The legal foundation in Nepal

The Constitution of Nepal, 2072

Article 30 guarantees the right to a clean environment as a fundamental right. The Environment Protection Act, 2076 also recognises this right. Article 30 therefore provides the constitutional basis for Nepal's environmental and climate laws and policies.

The Environment Protection Act, 2076 (EPA)

Section 28 allows the Government of Nepal to participate in carbon trading, for the mitigation and conservation of carbon emissions, through mechanisms created by international treaties, foreign governments or institutions, business entities and the private sector. The Act also:

→ empowers the Government to set national reference levels for emitting sectors and to measure emissions (Section 25);

→ creates the Environment Protection Fund (Section 31); and

→ establishes a national council on environment and climate change, chaired by the Prime Minister (Section 32).

Earlier practice

Before the Regulation, carbon trading in Nepal ran mainly on development-partner-driven programmes. These included the CDM and the results-based payment agreement under the FCPF, signed in 2021. According to the FCPF, Nepal's reduction target under that agreement is 9 million tonnes of CO_2.[2]

3. The Carbon Trading Regulation, 2082

The Regulation was issued under Section 44 of the EPA and published in the Nepal Gazette on 2082/08/22 BS (December 8, 2025). It came into force immediately and repealed Rules 28, 29, 30, and 31 of the Environment Protection Rules, 2077, which previously dealt with carbon trading.

3.1. Scope of the Regulation

Carbon trading is defined as the buying and selling of carbon credits, either under the Paris Agreement's crediting mechanisms or in the voluntary carbon market. A carbon credit is a unit measuring reduced GHG emissions; each credit represents one tonne of CO_2 or its equivalent.

Who may propose a project

A proponent may be a company registered in Nepal, a joint venture between a foreign company and a Nepali company, or a government body or state-owned entity at the federal, provincial or local level.

Eligible sectors (Schedule 1)

Projects must fall within one of six categories:

(1) renewable energy development;

(2) energy utilization, efficiency and clean energy transition;

(3) agriculture, forestry and other land use;

(4) waste management;

(5) transport; and

(6) adaptation and resilience benefits.

3.2. Project approval process

The Regulation sets out a staged process with statutory timelines. The process begins when the project proponent submits a concept note to the Ministry. The concept note is the first document in the process: a preliminary outline of the proposed carbon project, submitted before the full project document is prepared.

1. Evaluation and consent.

The Ministry refers the concept note to the Management Committee for evaluation. If the committee finds the note eligible, it recommends that the Ministry grant consent. The Ministry decides within 15 days and, if satisfied, authorizes preparation of the full project document.

2. Project document

The document must be submitted within one year, which may be extended by up to one further year. If it is not submitted, the consent lapses automatically.

3. Evaluation and approval of the project document

The Management Committee reviews the document and may invite up to two independent experts and obtain an independent evaluation. The Ministry approves within 15 days.

4. Fee and approval letter

The fee depends on the estimated annual credits, in accordance with Rule 9 of the Regulation, as set out in the table below.

5. Duration and commencement

Approval lasts five years. It may be renewed twice, at double and then triple the fee, for a maximum of 15 years. Implementation must begin within one year of approval, extendable by one year. The Ministry may cancel an approval for non-commencement, but only after giving the proponent an opportunity to be heard.

Project size	Estimated annual credits	Fee
Micro	Under 20,000 tonnes	NPR 25,000
Small and medium	20,000 to 60,000 tonnes	NPR 50,000
Large	Over 60,000 tonnes	NPR 100,000

4. Safeguards under the Regulation

The Regulation contains safeguards intended to ensure that carbon projects are properly approved, monitored, verified, and implemented. They fall broadly into four areas:

(1) approval and verification,
(2) carbon accounting and registration,
(3) sale and benefit-sharing, and
(4) reporting and enforcement.

SINHA VERMA LAW CONCERN

Project approval and verification

The Regulation requires project proponents to enter into the relevant agreements before selling carbon credits.

It also establishes a Measurement, Reporting and Verification (MRV) system. Proponents must measure and report the carbon credits their projects generate, and those credits must then be verified by an independent third party recognised under the Paris Agreement or its mechanisms. A new MRV portal has been launched to track the sources of the country's GHG emissions, which is intended to help ensure that credits issued reflect actual, verified emission reductions.[3]

Carbon registry and prevention of double counting

The Regulation provides for a national carbon registry, with the Ministry as the central authority, to maintain systematic records of carbon trading. Until the registry is established, the Ministry may authorise subject-specific ministries of the Government of Nepal to maintain a registry.

The Regulation also guards against double counting, which occurs when the same emission reduction is counted more than once. The Ministry, acting as the Designated National Authority, is responsible for making corresponding adjustments.

Sale, pricing and benefit-sharing

Five percent of the total quantity of carbon verified as carbon credits is reserved for Nepal's NDC, although the Government may change this percentage by notice in the Nepal Gazette. The remaining credits may then be sold on payment of NPR 100 per tonne, unless a government-to-government agreement provides otherwise.

Pricing depends on the type of project. Government bodies selling credits internationally must use open, competitive, electronic bidding. In private projects, the price is set by contract at prevailing market rates.

Benefits must be distributed in accordance with the benefit-sharing plan in the approved project document. A private-sector proponent must allocate 10 percent of the benefits to the Government of Nepal. Benefits from government-owned entities go to their respective funds, and national forest carbon is governed by federal forest laws.

Reporting and enforcement

Proponents must submit an annual report within three months of the end of each fiscal year, which allows the authorities to monitor the implementation and performance of carbon projects. Developing a project or selling credits without approval is prohibited, and the associated movable and immovable property can be forfeited. An approval can be cancelled for breach of the Regulation, non-compliance with UNFCCC rules, or false reports or documents.

5. Special provisions

- Non-market and voluntary projects. Government bodies, NGOs and private firms may develop non-market-based carbon projects (Rule 28 of the Regulation). Voluntary-market projects within Nepal are permitted under Ministry guidelines (Rule 29 of the Regulation).
- Legacy CDM projects. Existing CDM projects approved before the Regulation are deemed approved. Their credits may be transferred with the Designated National Authority's consent, and the prescribed fees must be paid.

6. Institutional structure

- ***The Ministry*** (currently the Ministry of Agriculture, Forest and Environment) acts as the Designated National Authority and custodian of the registry.
- ***The Steering Committee***, chaired by the Ministry's Secretary, provides policy guidance and coordination. Its members include joint secretaries from the ministries responsible for finance, energy, industry, agriculture, law, infrastructure, urban development and federal affairs, together with the REDD+ Implementation Centre, Nepal Rastra Bank and the Alternative Energy Promotion Centre.
- ***The Carbon Trading Management Committee***, headed by the head of the Climate Change Management Division, evaluates and prioritizes projects.
- ***The REDD+ Implementation Centre*** handles forest carbon.

7. Proposed First Amendment

The Ministry of Agriculture, Forest and Environment has published a notice to draft the Carbon Trading (First Amendment) Regulations, 2083, to make carbon trading more transparent, organized, and effective. As currently proposed, the amendment would:

- give greater administrative responsibility to the Carbon Management and REDD+ Forestry Centre, reducing the Ministry's workload and simplifying the approval process;
- replace the existing Management Committee with an Evaluation Committee, headed by a Deputy Secretary, to examine carbon projects;

- impose stricter requirements on private companies and foreign investors, including proof of registration and financial compliance. Private companies would have to submit a "Certificate of Not Being on the Blacklist of the Credit Information Center", and foreign-invested companies would also have to provide proof of registration in Nepal and of their foreign investment approval;
- make proponents responsible for any loss caused by incorrect information or by double counting of carbon credits;
- clarify that 10 percent of the net profit earned by private-sector projects from carbon trading is payable to the Government as royalty; and
- require a special authorization letter for the international transfer of carbon credits and introduce a bidding system for international sales.

Note: These proposals are in draft form and may change before adoption.

Key takeaways

(1) ***The Carbon Trading Regulation, 2082***, made under the Environment Protection Act, 2076, governs who may propose carbon projects, which sectors are eligible and how projects are approved.

(2) Safeguards include independent verification, a national carbon registry and measures to prevent double counting.

(3) Five percent of verified credits is reserved for Nepal's NDC, and private-sector proponents must allocate 10 percent of project benefits to the Government.

(4) Developing a project or selling credits without approval is prohibited and may result in forfeiture of property.

(5) The proposed First Amendment would tighten the requirements for private companies and foreign investors.

Nepal has moved from donor-led carbon programmes to a codified legal framework for carbon trading, which brings its system closer to the Article 6 framework of the Paris Agreement and gives project developers and investors a clearer set of rules. How well the framework works will depend, in particular, on the establishment of the national registry and on the enforcement of its rules.

Laws and instruments

- Constitution of Nepal, 2072, Article 30
- Environment Protection Act, 2076, Sections 25, 28, 31, 32 and 44
- Environment Protection Rules, 2077, Rules 28, 29, 30 and 31 (repealed by the Carbon Trading Regulation, 2082)
- Carbon Trading Regulation, 2082, including Rules 9, 28 and 29 and Schedule 1
- Carbon Trading (First Amendment) Regulations, 2083 (proposed draft)
- United Nations Framework Convention on Climate Change, 1992
- Kyoto Protocol, 1997
- Paris Agreement, 2015, Article 6

Sources

[1] Nepal Economic Forum, Carbon Trading, Foreign Investment and Sustainable Development: Nepal's Intersectional Approach — https://nepaleconomicforum.org/carbon-trading-foreign-investment-and-sustainable-development-nepals-intersectional-approach/

[2] Forest Carbon Partnership Facility, Nepal country page — https://www.forestcarbonpartnership.org/country/nepal

[3] Ministry of Agriculture, Forest and Environment, MRV Portal — https://mrvportal.moafe.gov.np/

This update is intended for general information only and does not constitute legal advice. Readers should seek advice on their specific circumstances.