3. Carbon Market

Prelims Level: Environmental Impact Assessment

Mains Level: GS-III Conservation, Environmental Pollution & Degradation, Environmental Impact Assessment.

Why in News?

- Almost halfway through the climate conference in Madrid, one big thing it had to resolve — disagreements over setting up a new carbon market — remains contentious as Ever.

The Market Mechanism:

- Under the Paris Agreement, every country has to take action to fight climate change. These actions need not necessarily be in the form of reduction in greenhouse gas emissions, which can constrain economic growth. India, for example, has said it would reduce its emissions per unit of GDP.
- Only the developed countries have included absolute emission cuts in their action plans. Yet, there is scope for absolute emissions reductions in developing countries too.
- For example, a brick kiln in India can upgrade its technology and reduce emissions. But because India does not need to make absolute reductions, there is no incentive to make this investment. It is to deal with situations like these that the carbon market mechanism is conceived. Markets can potentially deliver emissions reductions over and above what countries are doing on their own.
- **For example,** if a developed country is unable to meet its reduction target, it can provide money or technology to the brick kiln in India, and then claim the reduction of emission as its own. Alternatively, the kiln can make the investment, and then offer on sale the emission reduction, called carbon credits. Another party, struggling to meet its own targets, can buy these credits and show these as their own.
- Carbon markets also existed under the Kyoto Protocol, which is being replaced by the Paris Agreement next year. The market mechanisms being proposed under the Paris Agreement are conceptually not very different, but are supposed to have more effective checks and balances, and monitoring and verification processes.

How to set up a Market:

- The provisions relating to setting up a new carbon market are described in Article 6 of the Paris Agreement. These are enabling provisions that allow for two different approaches of carbon trading, more or less on the lines described earlier.

- Article 6.2 enables bilateral arrangements for transfer of emissions reductions, while ensuring that they do not double-count the reductions. Article 6.4 talks about a wider carbon market in which reductions can be bought and sold by Anyone.
- Article 6.8 provides for making 'non-market approaches' available to countries to achieve targets. It is not yet very clear what these approaches would constitute, but they could include any cooperative action, like collaboration on climate policy or common taxation, that are not Market-Based.

What is Contentious?

- The main tussle is over two or three broad issues — what happens to carbon credits earned in the Kyoto regime but not yet sold, what constitutes double-counting, and transparency mechanisms to be put in place. Developing countries have several million unsold CERs (certified emission reductions), each referring to one tonne of carbon dioxide-equivalent emission reduced, from the Kyoto regime. Under the Kyoto Protocol, only developed countries had the obligation to reduce emissions.
- In the initial phase, some of these were interested in buying CERs from projects in India or China, which were not obliged to make reductions.
- In the last few years, several countries walked out of the Kyoto Protocol, and those that remained did not feel compelled to fulfil their targets. The second commitment period of the Kyoto Protocol (2012-20) never came into force. As the demand for CERs crashed, countries like India were left with projects generating CERs with no one to buy them.
- India has about 750 million unsold CERs and, along with other similarly placed countries, wants these credits to be valid in the new mechanism too.
- Developed countries are opposing it on the ground that the rules and verification procedures under the Kyoto Protocol were not very robust; they want the new mechanism to start with a clean slate.
- The second issue is that of double counting, or corresponding adjustment. The new mechanism envisages carbon credits as commodities that can be traded multiple times among countries or private parties. It is important to ensure that in this process, credits are not counted at more than one place; whoever sells carbon credits should not simultaneously count these as emissions it has reduced. The developing countries argue that the country that reduced emissions should be able to show it even after selling the credits, and that adjustments should be made only for subsequent transfers, if any.

Evaluation:

- Carbon markets are not essential to the implementation of Paris Agreement.
- But with the world doing far less than what is required to prevent catastrophic impacts of climate change, the markets can be an important tool to close the action gap.