KAMARAJ IAS ACADEMY
Only IAS Academy by Grandson of "Perunthalaivar Kamarajar"

Carbon Trade Policy

Published On: 26-10-2024

Why in the News?

In preparation for the **29th edition of the COP in Baku, Azerbaijan**, next month, there is renewed momentum within **government circles to expedite the transition of Indian industry to carbon markets**.

About Carbon Trade Policy:

It is a **market-based approach** to control pollution by providing economic incentives for achieving reductions in the emissions of pollutants.

It sets a quantitative limit on emissions, by allowing member countries with lower emissions to sell rights to emit carbon to higher-emitting entities, promoting cost-effective carbon reduction.

Why India must develop a transparent Carbon Trade Policy?

A clear and transparent policy will boost investor confidence,***attracting both domestic and foreign investments***in green technologies and carbon-reduction projects.

Establishing robust verification and reporting mechanisms***will enhance the integrity***of carbon credits, preventing issues like double counting and greenwashing, and fostering trust among stakeholders.

A transparent policy will help align India's efforts with*global climate commitments*, enabling effective tracking of emissions reductions and promoting sustainable economic growth.

How effective is 'Fair Trade' in achieving its Goals?

Promotion of Sustainable Practices: Just as Fair Trade supports environmentally sustainable agriculture practices, carbon markets incentivize companies to adopt greener technologies and reduce emissions. Both aim to create a more sustainable future.

Empowerment of Stakeholders: Fair Trade empowers marginalized producers by providing fair prices and market access, similar to how carbon markets can benefit developing countries like India by enabling them to sell carbon credits generated from emissions reductions.

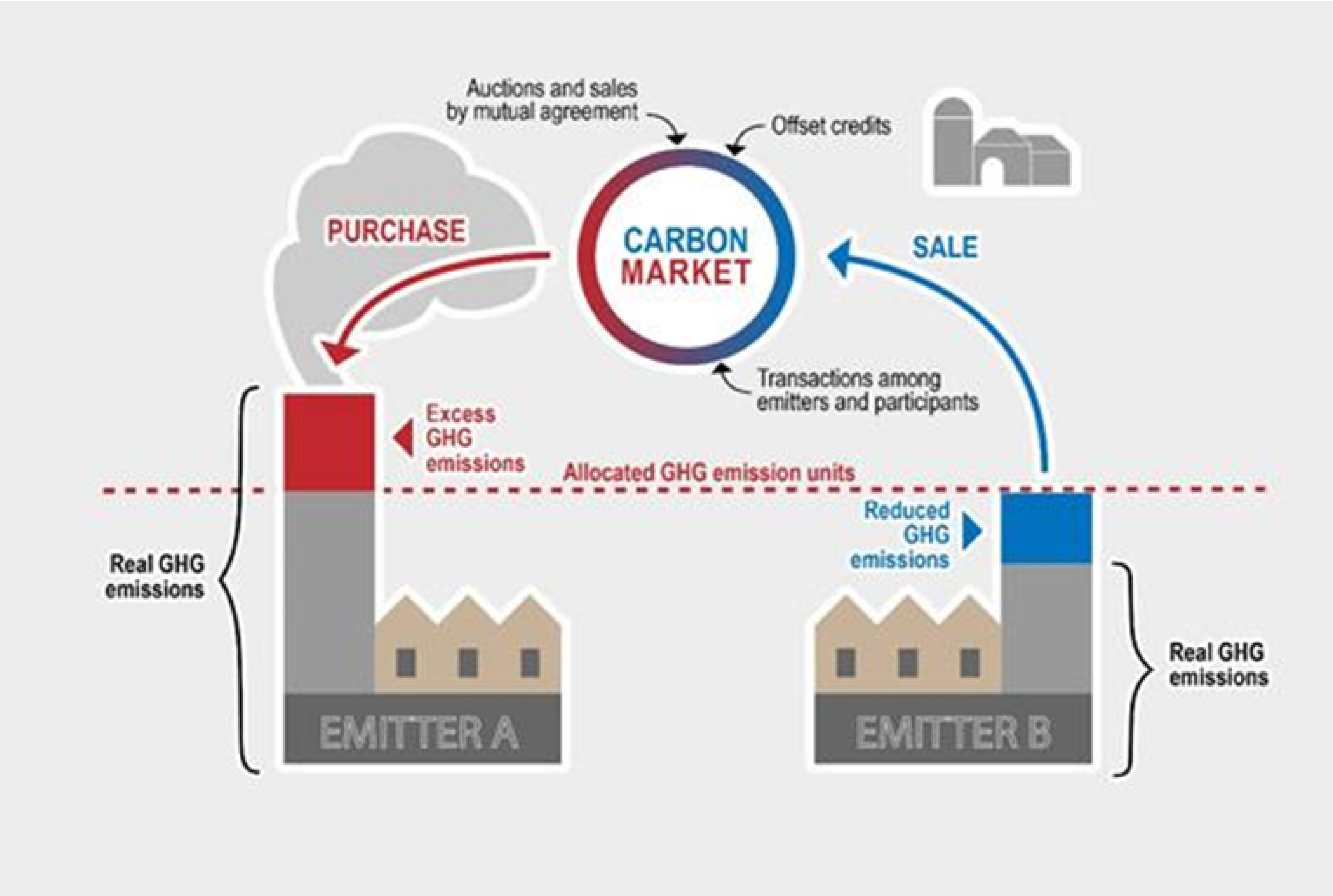
Economic Benefits: Fair Trade aims to create economic stability for producers, while carbon markets can generate revenue for countries that invest in carbon-reduction projects, creating a financial incentive for participating in emissions trading.

Global Impact Awareness: Both Fair Trade and carbon markets raise awareness about global issues—Fair Trade regarding trade equity and carbon markets regarding climate change, fostering a sense of responsibility among consumers and companies.

What are Carbon Markets?

- **About: Carbon markets**are essentially**a tool for putting a price on carbon emissions—**they establish trading systems where carbon credits or allowances can be bought and sold.
- A carbon credit is a kind of**tradable permit that**, per**United Nations**standards,**equals one tonne of carbon dioxide removed**, reduced, or sequestered from the atmosphere.
- Carbon allowances or caps, meanwhile, are**determined by countries or governments**according to their emission reduction targets.
- Carbon trading started formally in 1997 under the United Nations**' Kyoto Protocol**.
- **Types:**There are broadly two types of carbon markets that exist today, viz:
- **Voluntary Markets**: Those markets in which emitters buy carbon credits to offset the emission of one tonne of CO_2 or equivalent**greenhouse gasses.**
- Such carbon credits are created by activities which reduce CO_2 from the air, such as afforestation.
- In a voluntary market, a corporation looking to compensate for its unavoidable GHG emissions purchases carbon credits from an entity engaged in projects that reduce, remove, capture, or avoid emissions.
- For Instance, in the aviation sector, airlines may purchase carbon credits to offset the carbon footprints of the flights they operate.
- In voluntary markets,**credits are verified by private firms as per popular standards.**
- **Compliance Markets:**They are**set up by policies at the national, regional, and/or international level and are officially regulated.**
- Today, compliance markets mostly operate under a principle called "cap-and-trade", most popular in the **European Union (EU).**

Kamaraj IAS Academy
Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthi Colony, Anna Nagar, Chennai, Tamil Nadu 600040
Phone: **044 4353 9988 / 98403 94477** / Whatsapp : **09710729833**



What is the Status of the Carbon Market in India?

- In India, the **Centre is planning to set up the Indian Carbon Market (ICM)** by establishing a national framework that will help in decarbonising the domestic economy.
- The draft framework for the Indian Carbon Credit Scheme 2023 was recently notified by the Union government.
- The **Bureau of Energy Efficiency functioning under the Ministry of Power has been tasked to develop the Carbon Trading Scheme** in tandem with the Ministry of Environment, Forest & Climate Change.
- The ICM will have following benefits:
- It will help India **lower the emissions intensity of its GDP by 45% by 2030** compared to the 2005 levels, thereby meeting its **NDC** target related to its global climate commitments.
- ICM would help in decarbonising the commercial and industrial segments (in line with India's **net zero by 2070).**
- It will give a fillip to energy transition due to its greater scope for covering the country's potential energy segments.
- **GHG emissions** intensity targets and benchmarks would then be developed in sync with the domestic emissions trajectory, according to the climate goals.
- Although the ICM would be regulated, it will **offer flexibility to companies in hard-to-abate segments to augment their GHG emission efforts** through carbon market credits. It will also **create more awareness, change and innovation** across hard-to-abate industries.
- It could help **attract finance and technology** for sustainable projects that can generate carbon credits.

Kamaraj IAS Academy
Plot A P.127, AF block, 6 th street, 11th Main Rd, Shanthi Colony, Anna Nagar, Chennai, Tamil Nadu 600040
Phone: **044 4353 9988 / 98403 94477** / Whatsapp : **09710729833**