The Energy Conservation Amendment Bill 2022 Proposes To Institutionalise a Carbon Market. Taking Cue From This, Justify The Need For Carbon Markets As a Holistic Framework To Reduce Carbon Emissions. (250 Words / 15 M) (GS-3 Environment)

Approach:

1. Intro – state the provision of the Bill w.r.t. carbon markets.
2. Briefly refer to the Kyoto protocol & Paris deal.
3. Mention the context for carbon pricing.
4. Mention India's actions regarding carbon pricing.
5. Challenges associated in introducing C-markets.
6. Conclusion.

The Energy Conservation (Amendment) Bill, 2022 proposes a momentous carbon market framework in India to incentivize carbon emission reduction. The Bill empowers the government to specify a ***carbon credit trading scheme*** as well as issue ***tradable carbon credit certificates***. Any other authorized agency may also issue these certificates, as per the Bill. These can be traded by entities registered for the carbon credit trading scheme, which may involve the sale of such credits by entities reducing emissions in excess of the required levels to those unable to meet their reduction requirements.

The origins of carbon trading can be traced to ***1997***, when the ***Kyoto Protocol*** established ***carbon*** as an ***internationally tradable commodity*** and developed countries (except economies in transition) were mandated to have carbon markets. This changed with the ***Paris Agreement*** making it ***voluntary*** for countries.

Rapid industrial growth, an outcome of the Industrial Revolution and its spread, led to the accumulation of carbon in the atmosphere. ***Climate change*** is already being experienced and would only intensify once a tipping point is reached. This uncertainty is a worry for all.

In the ***absence of a carbon price***, economic agents ***do not factor in the social cost*** of their emissions. ***Setting a price for carbon emissions*** has been conceded as an ***optimal strategy***. Carbon pricing is often done explicitly through specific ***carbon taxes*** and carbon markets, and implicitly through ***indirect taxes, subsidies***, etc. Additionally, it is widely accepted that a ***portfolio-based approach*** with ***non- pricing policy*** measures can positively incentivize a gradual shift to low-carbon & green alternatives. ***Regulatory instruments*** nudge polluters to consider their emission levels as they try to meet the regulatory requirements. Policy support for the ***funding of R&D*** for low-carbon technology and support for testing of prototypes can boost innovation and its diffusion.

<u>**India's Actions:**</u> India has already put in place ***implicit prices on carbon emissions***. The current regime of indirect taxes imposes ***high tax incidence*** on ***petroleum fuels***. The ***GST***

compensation cess levies a ***tax on coal***. Moreover, the market-based ***Perform, Achieve and Trade (PAT) scheme*** works to enhance ***energy efficiency*** and thus indirectly reduce carbon emissions from energy consumption in energy-intensive industries, as does ***ethanol blending*** in petrol. The move to establish a carbon market—an explicit pricing mechanism—is therefore a natural next step.

Explicit and implicit carbon pricing are ***external stimuli*** impacting the composition of energy use, bringing about a change in consumption patterns and production decisions. A shift to low carbon technologies can, however, be *successful only if developing countries have access to resources, including finance, on concessional terms*. It also depends on the availability of ***critical minerals***. There are also ***transition costs***, as developing countries move towards less carbon-intensive production in a shorter period than their developed peers. The role of developed nations in ***mobilizing capital at reasonable/concessional terms*** for enabling this transition is a sine qua non, and part of their promise made at the Earth Summit in 1992 and as part of the Paris Agreement in 2015.

Instead, one of the biggest contributors to the world's cumulative carbon emissions in the last 150 years, the ***EU***, is now using ***disparities in carbon prices*** across countries as a tool to ***justify carbon border taxes***. ***Europe*** is responsible for around ***22%*** of the world's carbon emissions, while ***India*** has contributed ***only 3%***. These taxes are being promoted as a way to prevent supposed carbon leakage from a country with stringent carbon-control policies to those with laxer policies.

Seeking to establish a ***uniform*** emission trading system, similar regulations and comparable carbon taxes across countries ***violates*** the principle of ***common but differentiated responsibilities*** and ***respective capabilities*** set out in the Rio convention and Paris Agreement. In principle, carbon mitigation should be a shared responsibility, but the ***burden*** of ***carbon prices cannot be shared uniformly*** among all.