



23 - February 2023

Emissions Trading Scheme

This article covers "Daily current events" and the topic is about the 'Emissions Trading Scheme' which is in news, it covers "Environment" In GS-3, and the following content has relevance for UPSC.

For Prelims: Emissions Trading Scheme

For Mains: GS-3, Environment

Why in news:

The Energy Conservation (Amendment) Bill was passed last December, and as a result, the Center is currently finalizing the notification of an Emissions Trading Scheme (ETS) that would mandate polluting industries to meet specific standards of energy efficiency and allow them to "trade" these advancements.

ABOUT THE EMISSIONS TRADING SCHEME

- To internalize the detrimental external impact that dangerous gas emissions, such as CO₂, N₂O, etc., have on humans, the emissions trading Scheme (ETS) charges a fee for those emissions.
- In other words, businesses that emit these gases during industrial processes are held liable and charged for their emissions in order to reflect the detrimental effects on public health.
- These markets are designed to encourage businesses to innovate and switch to more environmentally friendly industrial processes, which will result in cleaner air for the general public and generate significant money for the government.
- Cap-and-trade models, in which the government sets an overall "cap" on the total emissions from a particular industrial sector, are the most widely used type of carbon market in practice.
- The government then allocates auction permits to regulated businesses, granting them permission to emit a certain volume of pollutants.

- The market forces of supply and demand set the price for these permits, which are freely tradable on environmental marketplaces.
- Businesses face substantial fines if they emit more emissions than allowed.
- The government gradually reduces the overall cap in order to reduce overall emissions.
- programs have been in place all over the world for a very long time; the EU-ETS program was the first global carbon market to be formed in 2005.
- 32 ETS initiatives are currently active worldwide, encompassing 31 subnational and 38 national jurisdictions.
- Importantly, China, the greatest emitter of greenhouse gases in the world, adopted its own mandatory emissions trading Scheme (ETS) program in 2021 and is currently the location of the largest carbon market in the world.
- As a result, emission markets employ a carrot-and-stick strategy to encourage the shift to a green economy:
 - The government raises the cost of manufacturing for these businesses by requiring them to get these licenses in order to discharge emissions.
 - As a result, businesses that can switch to cleaner production methods can cut costs and gain a competitive edge.

CLAUSES OF THE ENERGY CONSERVATION AMENDMENT ACT

- **Carbon Credit Trading Scheme:** The Bill amends the Energy Conservation Act, 2001 to empower the central government to specify a carbon credit trading scheme.
 - A tradeable permit to emit a certain amount of carbon dioxide or other greenhouse gases is implied by a carbon credit.
 - Carbon credit certificates may be issued by the central government or any other authorized agency to organizations that have registered and complied with the program.
 - The organizations will have the right to exchange certificates.
- **Obligation for consumption:** A percentage of the energy demands of designated users may need to come from non-fossil fuels. For various non-fossil sources and consumer categories, different consumption levels may be established. Among the designated consumers are:
 - Industries including petrochemicals, steel, cement, textiles, and mining
 - The transportation industry, including railways
 - Facilities for commercial use, as noted in the schedule.
- **Standards for vehicles and vessels:**
 - For ships and vehicles, energy consumption standards can be defined.
 - The Act allows for the specification of energy consumption criteria for machinery and appliances that use, produce, transfer, or supply energy.
 - The Motor Vehicles Act of 1988's definition of a vehicle is expanded by the Bill to include vessels (including ships and boats).

- A fine of up to Rs 10 lakh may be imposed for failing to adhere to guidelines.
- Offices and residential buildings with connected loads of 100 kW or more are also subject to the building energy conservation code.
- Facilitate the goals of COP26

ISSUES OF EMISSIONS TRADING SCHEME

- **Absence of Regulatory Body:** It is debatable whether the Ministry of Power is the proper Ministry to oversee this plan. The Act's designation as the market regulator for the trading of carbon credits is another matter of concern.
- **Interchangeability:** The interchangeability of these certificates is not stated in the Bill.
- Customers who are designated must adhere to particular non-fossil energy use requirements. It's possible that consumers won't have a choice in the energy mix due to the lack of competition among discoms.

WAY FORWARD

- Several cap-and-trade systems can be linked using the unilateral or reciprocal acceptance of emissions allowances for compliance.
- A wider carbon market is created through linking systems, which may result in cheaper overall compliance costs, more liquid markets, and a more stable carbon market.
- By highlighting a shared commitment to lowering GHG emissions, linking systems also have a political symbolic role.
- Linking might also be the cornerstone of a new, bottom-up international climate policy architecture that gradually links the systems of various different systems.

Saurabh kaushik