Carbon markets and pricing:

Demystifying policy landscape and the role of private sector

Background note

At the recently concluded CoP23 in Bonn (Germany), the SBSTA contact group on matters relating to Article 6 drafted an informal note detailing out possible contents of the rules for the proposed market (Articles 6.2 and 6.4) and non-market (Article 6.8) mechanisms. However, the contact group recognised that a key challenge that remains is how achieving environmental integrity of emissions reduction through these proposed mechanisms will provide a degree of confidence for financial institutions to invest in instruments and thereby bring scale to emissions reduction technology and projects. Although key design issues for Article 6 have been identified, a remaining challenge is how to meaningfully advance the negotiations over the next 12 months. This means that work can commence on the drafting of informal documents containing the elements for the rules of the mechanisms in advance of the next SBSTA meeting in May 2018. While this keeps progress on track for COP24 in Poland in 2018, much work remains to be done on these mechanisms.

Domestically, while India has not established either an explicit carbon pricing policy or emission trading market, it has implemented two types of policy instruments over the years including domestic market mechanisms such as the renewable energy certificates markets (REC) and energy efficiency certificate markets (PAT), and carbon pricing policies such as carbon tax in the form of coal cess. Moreover, heterogeneity across its domestically tradable markets set-up to achieve its renewable energy (through REC mechanism) and energy efficiency (through PAT scheme) targets lays out a peculiar circumstances in front of us. While it is well understood that in isolation, the two markets continue to operate within their own boundaries thereby delivering mitigation outcomes and associated climate benefits; it is expected that linking of the two markets will further deliver enhanced transparency and comparability of mitigation outcomes in the country. Not only this, a connected market for carbon will endure other market benefits such as of increased demand for carbon certificates, wider flexibilities to market players, entail ease of tracking climate progress, and reduce volatility in determined carbon price as the larger benefits of the linked markets.

India Inc. progressive actions on combating climate change would play an essential role in meeting India's climate change objectives. Furthermore, India Inc. is increasingly looking at carbon pricing as an effective tool to make their investments climate proof. Some of the leading companies are exploring tools – such as voluntarily applying an “internal” carbon price – to address risks and opportunities related to climate change policies. However, there is a need to develop standardized methods or tools with sectoral focus, training and capacity building and establishing a business case of putting a price of carbon, in addition to a clear understanding on the domestic policy signals around markets and pricing mechanism.

With this background, TERI in collaboration with the World Bank and CDP, is organizing a high-level discussion around the theme ‘Carbon Markets and Pricing’ at the World Sustainable Development Summit 2018, to deliberate upon the challenges and issues around domestic carbon markets and pricing mechanisms and how business actions on internal carbon pricing can contribute to an India-specific sectoral market based mechanism.