



## How Markets Can Serve Climate

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This article is based on '**How markets can serve climate**' which was published in The Indian Express on 08/11/2019. It talks about the ways in which the markets can contribute in solving climate change problem through the Clean Development Mechanism.

The **United Nations Climate Change Conference, 2019** will be held in **Madrid, Spain** in **December**.

- Also known as **Conference Of the Parties (COP)**, it is the **25<sup>th</sup> UN conference on climate change (COP25)**.
- It faces the **challenge of deciding how markets can be deployed in the service of climate**. The situation may change in 2021 when market mechanisms mandated under the **Paris Agreement** come into operation.
- The **Clean Development Mechanism (CDM)**, a product of the **Kyoto Protocol**, is one such market instrument that can help the industry as well as climate.
- Along with **China and Brazil, India is a leader in CDM**.
- CDM has **provided financial support** to a lot of energy efficiency and renewable energy projects in India.

### Clean Development Mechanism

- It allows emission-reduction projects in developing countries to earn Certified Emission Reduction (CER) credits, each equivalent to one tonne of CO<sub>2</sub>.
- The CDM is the main source of income for the UNFCCC Adaptation Fund.
- The Adaptation Fund is financed by a 2% levy on CERs issued by the CDM.  
Adaptation Fund (AF) was established under the Kyoto Protocol in 2001 and has committed US\$ 532 million to climate adaptation and resilience activities.

### Kyoto Protocol

- The Kyoto Protocol was adopted in Kyoto, Japan, in 1997 and entered into force in 2005.

- The detailed rules for the implementation of the Protocol were adopted at COP-7 in Marrakesh, in 2001, and are referred to as the Marrakesh Accords.
- Its first commitment period started in the year 2008 and ended in 2012.
- Kyoto Protocol Phase-1 (2005-12) gave the target of cutting down emissions by 5%.
- Phase- 2 (2013-20) gave the target of reducing emissions by at least 18% by the industrialized countries.

## Key Highlights

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- **India** has about **250 million CER units** under **CDM issued** by the **United Nations Framework Convention on Climate Change (UNFCCC)**, the global administrator of Kyoto mechanisms.
- The number of **CDM projects registered in India** is **1,376 (out of total 7,979 globally)** and **89%** of these projects are active.
- The **demand in the European Union**, which has been the **largest market for CDM credits**, has **declined sharply** over the last decade because of regulatory barriers.
- The unrealised value of CDM credits could be in the range of **almost \$5 billion** — estimated at a very conservative price of US \$20 per unit.
- **Most developed countries are opposed to permitting the carryover of CDM projects and their credits into the Paris Agreement's mechanisms.**
- The **International Civil Aviation Organisation (ICAO)** is actively considering a plan that **seeks to limit the use of CDM credits to those issued after 2015.**

## Concerns

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- **India might lose substantially** if the doors on the **existing CDM projects and credits are closed in 2020.**
- The **credits lying unsold** with the CDM projects could **lose their economic worth.**
- Besides, the CDM projects will have to **go through the process of validation and registration again** with the new mechanism.
- All this process will involve **additional financial and administrative costs.**
- It is argued by the developed nations that CDM has **failed to demonstrate environmental benefits** in addition to the **"business as usual" scenario** or **provide technological benefits.**
- Its **transition to new mechanisms might have adverse impacts on carbon prices and investor sentiments in future markets.**

- **Double-counting could compromise global ambition on reducing Green House Gas emissions.**
  - The question of the **impact of CDM on global environmental integrity** is very important.
  - **Environmental integrity is an objective of the market mechanisms under the Paris Agreement.**
  - **Environmental integrity is influenced by these four main factors-**
    - Robust accounting
    - Quality of units, as issued by the underlying mechanism
    - Ambition and scope of the **Nationally Determined Contribution** target
    - Incentives or disincentives for future mitigation action

## Suggestions

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- CDM project proponents should be **free to choose available cost-effective technologies** as long as the objective of emission reductions is achieved.
- CDM projects should not be judged only on the **criterion of technology** but the **investments and ability to overcome market barriers** should also be considered.
- The **full-scale transition of CDM credits** will **not flood the market and lead to deterioration in the carbon prices** in future markets instead **more than 60%** of the credits may be **used fully even before 2022.**

The **demand from airline operators** to meet commitments under the **Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA** which **addresses the increase in total CO<sub>2</sub> emissions from international aviation above 2020 levels**) is very high.
- Countries which are having stakes in CDM should **try to negotiate with ICAO for long-term use of credits originating.**
- India should **strategise to ensure** that it **does not get shut out of the CORSIA market** even as **ICAO enlarges the source of supplies from other countries.**
- In project/programme-based mechanisms, countries should make **arrangements to prevent double-counting of emission reduction units in their national accounts.**
- **Policies and principles should not be applied uniformly** to developed and developing countries if sustainable development is desired.

## Way Forward

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- A **pragmatic assessment of possible gains and losses** from competing approaches to CDM transition into new mechanisms is the need of the hour.
- It is time that India **rethinks the relationship between the project/programme-based emission reduction units and the national pool of emission reductions** so as to establish a firm basis for access to future carbon markets.

- CDM has been a **useful source of finance to industry and India may build a viable domestic carbon market in future** on the foundations of industry interest as well as environmental protection.

***Drishti Mains Question***

How can the market play an important role in solving the climate change crisis?  
Explain.