

Reducing the carbon footprint

With hot summers, warm winters, increasing diseases, famines and droughts, and violent acts of nature, we can see how climate change is affecting our daily lives. India, which aims to be a global superpower, seems to have approached the subject half-heartedly, hiding behind the veil of protecting its growing economy.

Ways to fight it

To join other nations in the war on carbon, India needs to undertake a comprehensive approach, which can be done by establishing an emissions trading scheme (ETS).

An ETS is a market-based mechanism where a cap is set on the amount of carbon dioxide or other greenhouse gases that can be emitted by covered entities. The emitters can either reduce their emissions to adhere to the cap or buy additional allowances from other entities to compensate for their deficiency. One allowance gives the right to the holder to emit one tonne of carbon. Imagine that 'X' emits 120 tonnes of carbon per annum. The ETS sets a cap of 100 tonnes of carbon per annum (equivalent to 100 allowances) on it. 'X' would have the option to either reduce its emissions to 100 tonnes of carbon or buy 20 allowances to cover the difference.

A new weapon in the carbon fight

A separate and independent regulatory authority must be set up to implement the ETS. This would ensure that the ETS is insulated from the political influence of climate sceptics. The authority must strive to educate emitters about ETS and inform them of cheap methods to reduce their carbon footprint. It must act as a 'technical consultant' when the emitters submit their 'compliance plans' (discussed below). It must also plan for contingencies and be ready to use the tools at hand to prevent market failure.

Strategic decisions must be taken with respect to inclusion of industries under the ETS. Highly carbon-intensive industries (such as the coal sector) would have to be included under the ETS to maintain its effectiveness. However, with respect to the other industries, State governments must be empowered to add to the list of covered entities after giving due weight to factors such as area-specific emission profiles, financial position of the entities, impact on the economy, and administrative costs. For instance, in Delhi, the commercial sector emits 30% of the city's total carbon emissions, and in Ahmedabad the sector accounts for a mere 4% of total emissions. It would be reasonable to cover the commercial sector in Delhi under the ETS due to its large contribution to emissions, and due to the financial position of the corporations to employ carbon-saving technology. It would not make sense to cover the same sector in Ahmedabad, as the authority would have to bear unreasonable administrative costs to administer the ETS.

How to ensure compliance

The ETS must obligate the emitters to design a 'compliance plan', setting out its own medium and long-term goals, with an explanation of how it would achieve them. The big emitters must be required to adhere to their compliance plans, and sanctions must be imposed in case of any non-compliance. It is imperative to maintain the price of the allowances within a certain desirable range. If the price of the allowances is too high, it may result in increased non-compliance and force the emitters to reduce output, thereby hurting the economy.

Controlling price volatility

There are three suggested measures for controlling price volatility: safety valve trigger, price-based market stability reserve (MSR), and banking.

Putting a global price on carbon

A 'safety valve trigger' is a mechanism whereby, if prices touch a predetermined level, actions are initiated to drive them down. For instance, under the U.S. Regional Greenhouse Gas Initiative, if the price of the allowances touches \$10 after 14 months from the beginning of the programme, the compliance period is extended by one year. This mechanism allows the emitters to average out their emissions. For instance, say emitter 'X' (with a cap of 100 tonnes of carbon per annum) emitted 110 tonnes of carbon in the first year (due to sudden increase in the demand in the economy) and 90 tonnes of carbon in the second year. If the safety valve is triggered in the first year, X's average annual emissions would be 100 tonnes, and X would not be required to buy any additional allowances.

Similarly, in the MSR, a certain number of allowances are released in the market if the price of the allowance hits a predetermined level. Once the additional allowances are released in the carbon market, the supply would increase, leading to a reduction in the price of the allowances.

Banking offers respite to the emitters on an individual basis. An emitter, in anticipation of high prices, would be allowed to 'bank' his unused allowances for the next compliance period. However, such banking must be restricted to consecutive compliance periods and to a certain percentage of total emissions.

With this skeletal framework, India can be part of the global mission to curb climate change.

Shubham Janghu is a student at Jindal Global Law School in Sonapat, where Armin Rosencranz is a professor of law

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