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Post-2020 Emission Market Scenario

What is the issue?

- With market mechanisms mandated under the Paris Agreement coming into operation, the CDM's future is uncertain.
- The next climate conference to be held in Madrid in December 2019 has the challenge of deciding how markets can be deployed in the service of climate.

What is CDM?

- The Clean Development Mechanism (CDM) is a product of the Kyoto Protocol.
- It is one of the market instruments that can help industry as well as climate.
- Under the CDM, emission-reduction projects in developing countries can earn certified emission reduction credits.
- These saleable credits can be used by industrialized countries to meet a part of their emission reduction targets under the Kyoto Protocol.

How has CDM's role been?

- Along with China and Brazil, India is a leader in CDM since its inception in 2007.
- A number of small and medium projects in the field of energy efficiency and renewable energy were set up in India in the last two decades.
- Most of these owe their origin to the financing support available from CDM.

What would Paris Agreement's implementation mean?

- The situation may change in 2021 when market mechanisms mandated under the Paris Agreement come into operation.
- Most developed countries are strongly opposed to permitting the carryover of CDM projects and their credits into the Paris Pact's mechanisms.
- 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.
- This will involve additional financial and administrative costs.

What is the implication for India?

- India has about 250 million Certified Emission Reduction (CER) units under CDM issued by the 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 still active.
- India would lose substantially if the doors on the existing CDM projects and credits are closed in 2020.

What are the advantages of CDM?

- CDM has failed to demonstrate environmental benefits in addition to the "business as usual" scenario, or provide technological benefits.
- Its transition to new mechanisms will have adverse impacts on carbon prices and investor sentiments in future markets.

- Nevertheless, it is to be noted that credits for CDM projects are issued after their compliance with internationally approved criteria is ascertained.
- CDM project proponents should be free to choose available cost-effective technologies as long as the objective of emission reductions is achieved.
- Moreover, "additionality" in CDM projects should not be judged solely on the criterion of technology.
- They are also about investments and overcoming market barriers.
- All CDM projects have passed these tests.

How does post-2020 markets' future look?

- The argument that a full-scale transition of CDM credits may flood the market and lead to deterioration in the carbon prices in future markets is over-stretched.
- Validation and registration of projects under the new mechanism may take at least 3 years.
- Assuming that all CDM units available globally till 2020 are traded immediately, they may be fully absorbed by 2024.

What is the way forward?

- The relationship between the project/programme-based emission reduction units and the national pool of emission reductions should be reviewed.
- This is essential to establish a firm basis for access to future carbon markets.
- Notably, CDM has been a useful source of finance to industry.
- Given all, India may build a viable domestic carbon market in future on the foundations of industry interest as well as environmental protection.

Source: Indian Express