



NATURAL RESOURCE POLICY BRIEF

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Setting up carbon markets in India: Powerplay stops decentralisation, reduces state's control over future carbon markets



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SUMMARY

- » The Energy Conservation (Amendment) Act, 2022 lays down the legal foundation to set up a carbon market in India. The new law was made by amending the previous Energy Conservation Act, 2001, aiming to meet its commitments under the Paris Agreement.
- » When the new amendments were first proposed by the power ministry, one proposal was to mandate every state to establish a State Energy Efficiency Agency (SEEA) for administering carbon markets and other energy conservation schemes. But the Prime Minister's Office asked the Power ministry to drop this idea.
- » The amendment mandating creation of SEEsAs was removed when the Energy Conservation (Amendment) Bill was placed in the parliament. That is, the centre kept the powers for administering carbon markets with itself instead of decentralising them.
- » The SEEsAs were to replace existing state designated agencies or SDAs that for more than two decades have failed to deliver against the mandate of the law.

BACKGROUND

The Energy Conservation Act, 2001 (EC Act) introduced a framework for regulating electricity consumption and for promoting energy efficiency. Under this, the Union power ministry set up a Bureau of Energy Efficiency (BEE) in 2002 for implementing energy conservation schemes. The Act also directed states to designate agencies (State Designated Agencies) for assisting BEE at the state level. The law was amended in 2010 to give powers to the central government to prescribe norms for consumers such as industries with high energy consumption and to issue energy savings certificates to the consumers whose energy consumption was lower than the prescribed norms. Following this, BEE came up with the Purchase Achieve and Trade (PAT) mechanism to trade these certificates with industries in energy intensive sectors such as aluminium, cement, fertilisers, power plants and power distribution companies.

The Indian government felt a further need to amend the law to bring it in line with the global energy transition standards and India's commitments under the Paris Agreement. During the COP26 [26th meeting of the United Nations' Conference of Parties] at Glasgow, India had announced a significant increase over its Nationally Determined Contribution (NDC) target — to reduce carbon emissions by 45% by 2030 and to achieve net zero by 2070.

a. Supreme Court Orders Forests to be Valued

The newly amended law, passed in 2022, brought in a range of changes: adopted a new framework for the national carbon market; mandated use of non-fossil energy sources across sectors to decarbonise the Indian economy; launched a new energy conservation regime; imposed penalties on large scale consumers of electricity generated from fossil fuels, among others. The law also expanded the powers of central and state governments to implement energy conservation activities.

When the Power ministry first proposed amendments to the old act in October 2021, it wanted to establish dedicated State Energy Efficiency Agencies (SEEs) in all states. Through this, it wanted to strengthen state level implementation of energy efficiency and conservation activities.

The move would have helped decentralise the implementation of schemes under the EC Act and bring the carbon markets under the purview of the states.

The setting up of SEEs was agreed by other ministries and state governments when the proposed bill was first circulated among them for comments. But the Power ministry dropped the idea of SEEs after a discussion with the Prime Minister's Office (PMO) in February 2022, official documents obtained through the Right to Information Act, 2005, reveal.

With the PMO's intervention, the amended legislation didn't include the proposal mandating the SEEs. Therefore, instead of the proposed SEEs, existing SDAs will have to implement the new schemes under the amended Act.

b. Formalising a Carbon Market in India

In March this year, the Power ministry released a draft 'Carbon Credit Trading Scheme'. The scheme proposed a legal framework for setting up a domestic carbon market in India. A carbon market is a market-based solution to reduce greenhouse gas emissions. Carbon credits are permissions for emitting greenhouse gases and are traded in such a market.

It is estimated that by regulating carbon markets, India will have an economic potential or energy savings to the tune of \$11 trillion over the next 50 years.

c. Centre and States' administration of carbon markets

BEE and SDAs are now tasked with implementing schemes including administering carbon markets. SDAs past record, however, raises questions on their efficiency. They have been lagging behind in meeting their objectives and implementing policies on energy conservation. Consider one of BEE's schemes — Perform Achieve and Trade (PAT) scheme. PAT is a market based compliance mechanism to accelerate improvements in energy efficiency in energy intensive industries such as aluminium, iron, steel, cement, pulp, paper, chemicals, fertilisers,

and textiles. Reports suggest that the scheme remains ineffective and participating industries fail to meet their emission reduction targets.

SDAs remain dependent on BEE for financial assistance in implementing its schemes. This hampers their functioning, often causing delays in implementation. These agencies are also burdened with other activities as they are also part of other power sector departments.

In addition to these challenges, so far, standalone SDAs exist only in Kerala and Andhra Pradesh. Other states have designated existing renewable energy development agencies, electrical inspectorates, distribution companies and power departments as SDAs. This suggests that the structure and functioning of SDAs varies across states.

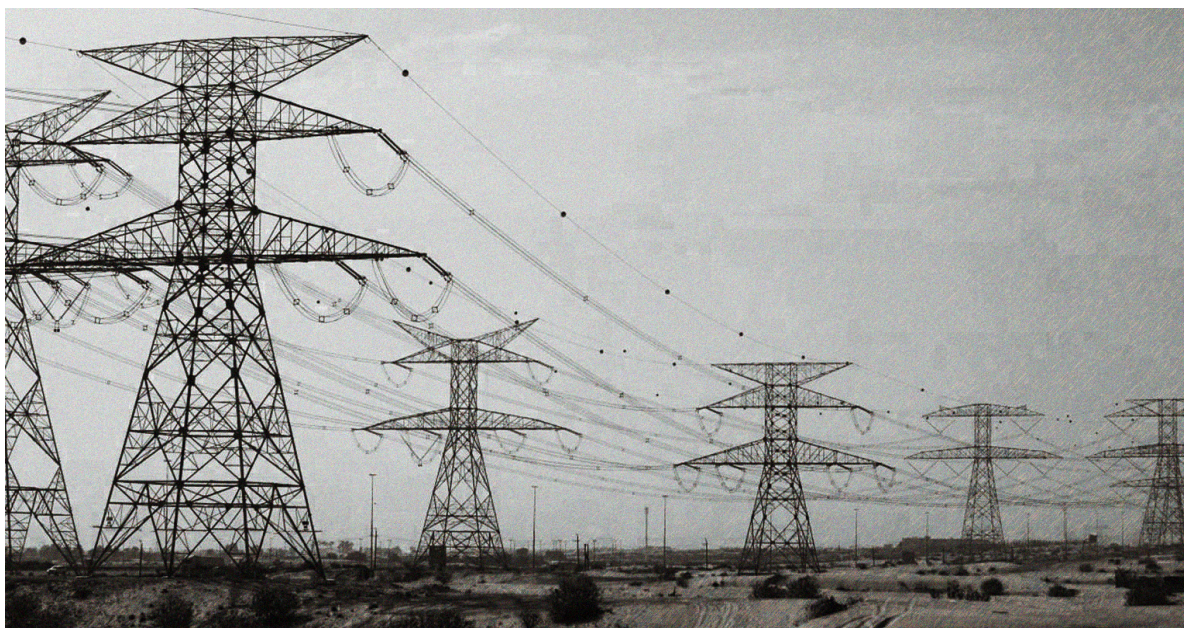


Photo: João Pacheco/ PIXINO

EMERGING ISSUES

The Impact of the Policy on the Ground

- » With no carbon markets in India and international carbon markets opened up, between 2010 and 2022, India issued 278 million credits accounting for a substantial 17% of credits traded globally. As India launches its own carbon market, Indian industries will trade credits domestically as well.
- » SDAs are plagued with institutional obstructions and are inefficient in their functioning. The marginal 1.5 times increase announced in January 2022 was criticised by experts. Methods used to calculate this increase were outdated and remain so.
- » There is no uniform structure of SDAs across states. Leaving Kerala and Andhra Pradesh, which have standalone SDAs, other states are dependent on other energy sector departments for implementing existing energy conservation schemes.
- » While SDAs are known for underperforming and failing in their responsibilities, the administration of carbon markets will further burden these agencies.

RECOMMENDATIONS

- » Considering the performance of implementing existing energy conservation schemes, BEE would have to scale up its workforce and strategies.
- » Centre must encourage and support states to create standalone SDAs as SEERs are not mandated.
- » Workforce/ human resources of SDAs needs to be increased for improving performances.
- » The preparation of the framework for the carbon market must ensure no energy intensive sector is left out.
- » Robust regulatory systems will have to be ensured at sectoral levels to regulate the stakeholders participating in trading carbon credits.

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