



CHALKING THE REGULATORY FRAMEWORK FOR CARBON MARKETS IN INDIA – CARBON CREDIT TRADING SCHEME

Introduction

- A carbon credit is a tradable permit representing the right to emit a set amount of CO₂ or the equivalent amount of a different Green House Gas (“GHG”). Every carbon credit equals to one tonne of CO₂ removed, reduced, or sequestered from the atmosphere.
 - To regulate and operationalize the carbon market the Indian Government spawned two initiatives toward carbon trading. One was the cap-and-trade system introducing the voluntary carbon market to India ,[1] and the other was the 2022 Amendment Bill to the Energy Conservation Act, 2001.
 - One of the provisions of this amendment included empowering the central government to “specify Carbon Credit Trading Scheme” (“CCTS”) [2], in consultation with the Bureau of Energy Efficiency (“BEE”). The ‘CCTS’ provides an outline for the slew of legislations that are to be issued for regulating carbon trade in voluntary and mandatory carbon markets.
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Important Aspects of CCTS

Accredited carbon verifier': It is an agency accredited by the BEE to carry out validation or verification activities in respect of the CCTS.

Setting up of the Indian Carbon Market Governing Board ("ICMGB"): The oversight, and regulation of the Indian Carbon Market ("ICM"), guidelines regarding the sale of Carbon Credit Certificates ("CCC") outside India and other regulatory functions

The CCTS lays the outline for the composition, functions, and operation of the ICMGB. It is important to note that the ICMGB has members from all relevant ministries of the Indian Government.

So, we can assume that any new regulation regarding CCCs will complement and not conflict with existing laws. The BEE shall be the administrator for the Indian carbon market and shall also work as the secretariat for the ICMGB. The Grid Controller of India Ltd[3] shall be the registry for the ICM.

Relevant Regulator: Central Electricity Regulatory Commission ("CERC") shall be the regulator for the trading activities in the ICM.

Types of carbon markets:

The CCTS distinctly provides that regulation will be introduced in the form of a compliance market mechanism, also that it will operationalize voluntary carbon trading through the voluntary market mechanism.

- Compliance markets mechanism: The Government will notify the entities

that are obligated to comply with the GHG Norms that will subsequently be announced by the Government.

- Voluntary markets mechanism: Involves Issuance, buying and selling of carbon credits, on a voluntary basis.

Conclusion

The practice of trading in carbon credits is not entirely unknown to India[4]. It would still be beneficial for the buyers and sellers if the regulations to be released lay down a clear classification of the CCCs especially as to the kind of tradable instrument they may constitute. This way a nascent market has clarity on the applicable laws and regulations.

Further, clarification can be provided by the Ministry of Power specifying the applicability of these mechanisms on both OTC and well as exchange-traded markets.

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References

[1] The Gujarat Pollution Control Board Piloted the first Emissions Trading Scheme introducing a Cap-and-Trade System for voluntary trading of carbon with a cap of 276 tons of GHG emission of over a 46-day period.

[2] <https://powerline.net.in/wp-content/uploads/2023/03/Mail-dated-27-03-2023-to-Industry-Association-reg-CCTS.pdf>

[3] The Grid Controller of India Limited is an enterprise of the Government of India which was set up in 2009 for operating National Load Dispatch Centres and regional Load Dispatch Centred under the national Load Dispatch Centre Rules, 2004, to ensure integrated operation of the National Power System.

[4] Price risks arising from Carbon Credits have been hedged with commodity derivatives and traded on bourses of Multi Commodity Exchange and have also been permitted to be traded in the Over the Counter (“OTC”) Markets by RBI.

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