Emissions Trading Scheme (ETS)

Why in News?

Recently, the Gujarat government launched the Emissions Trading Scheme (ETS), the world's first market for trading in particulate matter emissions.

What are some other trading mechanisms?

- While trading mechanisms for pollution control do exist in many parts of the world, **none of them is for particulate matter emissions**.
- For example,

a. The CDM (carbon development mechanism) under the Kyoto Protocol allows trade in 'carbon credits'.
b. The European Union's Emission Trading System is for greenhouse gas emission.
c. India has a scheme run by the Bureau of Energy Efficiency that enables trading in energy units.

How will the Emissions Trading Scheme (ETS) work?

- The ETS is a regulatory tool and it is launched in Surat.
- It is a market in which the traded commodity is **particulate matter (PM) emissions**.
- It is aimed at **reducing the pollution load** in an area and at the same time **minimising the cost of compliance** for the industry.
- The Gujarat Pollution Control Board **(GPCB) sets a cap** on the total emission load from all industries.
- Various industries can buy and sell the ability to emit PM, by trading permits (in kg) under this cap.
- For this reason, ETS is also called a **cap-and-trade market.**
- **Partners in the ETS project** - Abdul Latif Jameel Poverty Action Lab (J-PAL), Energy Policy Institute at the University of Chicago in India, National Commodities and Derivatives Exchange e-Markets Limited (NeML) and South Gujarat Textile Processors Association.

How many industrial units are participating in ETS?

- Live trading began on 17th September 2019, with 88 industries taking part in

the first round out of 155 that have joined ETS so far.
- Emission permits worth Rs 2.78 lakh were traded.
- These industries are from sectors including textiles, chemicals and sugar.
- These industries use either coal or bagasse as fuel, thus emitting a high amount of ash.
- The participants were selected on the basis of the size of their chimneys those with a diameter of 24 inches or more. So, mostly larger players.

Why was Surat chosen for the scheme?

- In the last five years, the quality of air in Surat has deteriorated.
- According to GPCB annual reports, pollution levels have increased between 120-220% in 2018.
- Surat was chosen because,

a. Its industrial associations agreed to run the pilot scheme.
b. They had already installed Continuous Emission Monitoring Systems, so that the mass of PM being released can be estimated.

How does the trading take place?

- At the beginning of every one-month compliance period (during which one emission permit is valid), **80%** of the total cap of 280 tonnes for that period is distributed free to all participant units.
- The allocation of the permits is based on an industry's emission sources (boilers, heaters, generators) as it determines the amount of PM emitted.
- GPCB will offer the remaining **20%** of the permits during the first auction of the compliance period, at a floor price of Rs 5 per kg.
- Participating units may buy and sell permits among each other during the period.
- The price is not allowed to cross a ceiling of Rs.100/kg or fall below Rs.5/kg, both of which may be adjusted after a review.

How are the auctions conducted?

- These take place on the ETS-PM trading platform hosted by the NeML.
- All participants must register a trading account with NeML.
- Transactions are linked to the bank accounts of the users, who can view updates through these accounts.
- There are two types of auctions.

a. **Uniform Price Auction every Tuesday (3 pm - 5 pm)** - the week's permit price is discovered by participating members through bidding.
b. **Continuous market between Wednesday and Monday (2 pm - 5 pm)** -

Members will buy and sell permits whose prices were fixed on Tuesday.

- For a true-up period of 2-7 days before the completion of the compliance period, units may continue to buy and sell any remaining permits at the final auction price to meet their compliance obligations.

How will ETS help reduce emissions?

- Industries in this area are emitting way above the cap of 280 tonnes per month. To bring them down to the cap will be a huge reduction.
- In the future, this cap may be reduced below 280.
- Purchasing permits is only an interim measure for the industries who find it financially difficult to install Air Pollution Control Measures (APCM).
- It helps to buy some time and make investments later.
- So the idea of this scheme is to make sure that some units realise that it is cheaper to install APCM and reduce emissions rather than buy permits at a higher cost that will vary due to the bidding process.

Will there be a punitive action for non-compliance?

- Based on permits held by units at the close of the compliance and true-up periods, units will be declared compliant or non-compliant.
- Environmental damage compensation at Rs 200/kg will be imposed for emissions in excess of a unit's permits holdings at the end of the compliance period.
- This amount will be deducted from an environmental damage compensation deposit that each unit has to submit before the start of the scheme.
- After any deduction, a unit will have to deposit extra money to meet that shortfall.
- To prevent any participant from hoarding permits, an upper limit has been set,
    a. 1.5 times the initial allocation for the compliance period or
    b. 3% of the market cap for the compliance period.
- Also, no unit may sell more than 90% of its initial allocation.

Source: The Indian Express

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