

## 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 17<sup>th</sup> 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**