IETA SUBMISSION IN RESPONSE TO THE PUBLIC CONSULTATION ON THE CCTS IN INDIA | 45/02/NMEEE/Energy Efficiency/2022-CCTS NOVEMBER 2023

INTRODUCTION

IETA has been supporting the advancement of market-based climate policy instruments on behalf of our members since 1999. To advance the development of an efficient and high-integrity carbon market framework in India, we initiated the IETA India scoping group in May 2023. The group consists of a select group of thought-leaders and private sector stakeholders from India and internationally, brought together by a strong conviction that carbon markets can play a key role in supporting low-carbon development in India. Together, we developed a paper which was handed over to Shri Ashwini Kumar Choubey, Minister of State for Environment, Forest and Climate, in September 2023. The paper sets out key considerations, priorities and recommendations necessary to advance the development of carbon markets in India, and can be accessed **HERE**.

IETA appreciates the work of the Bureau of Energy Efficiency (BEE), under the Ministry of Power, Government of India in its efforts to establish the Indian Carbon Market (ICM), including the Carbon Credit Trading Scheme (CCTS). We welcome the continued inclusion and engagement with industry by the BEE through recent in-person stakeholder consultations, and the opportunity to provide comments through the request for input.

This submission addresses the following documents:

A. Accreditation Procedure and Eligibility Criteria for Accredited Carbon Verification Agency

B. Detailed Procedure for Compliance Mechanism

We look forward to continuing working together and engaging closely for the advancement of the ICM. For any questions, do not hesitate to reach out to us through the contacts listed at the end of this paper.

A. ACCREDITATION PROCEDURE AND ELIGIBILITY CRITERIA FOR ACCREDITED CARBON VERIFICATION AGENCY

1. Competence Criteria for Team Leader in Other Sectors:

It is important that the Team Leader for verification teams is a highly qualified individual. However, the mandatory 10-year experience specifically of CDM audits to become a Team Leader under 'Other Mechanisms' mentioned in Clause 3.7.1 seems to be disadvantageous to candidates with diverse experience from other crediting mechanisms. Recognizing the downturn and diminishing role of the CDM, the focus should shift to acknowledge the role and background of working within other independent carbon crediting standards as well. In addition, an individual who has worked as CDM auditor on 10 projects in 10 years is considered qualified under this criterion, however, another individual who has worked on 50 projects in 5 years would still not be able to qualify as Team Leader despite having more realised experience. Advocating for an expanded qualification criterion that embraces various GHG programs ensures a comprehensive competence assessment. This approach can help address the shortage of individuals with exclusive CDM expertise, fostering a dynamic and inclusive framework aligned with contemporary market dynamics beyond the downturn in CDM activities, ensuring a more equitable evaluation of candidates with valuable and varied experiences.

2. Clarity on Definitions of Newly Formed Organisations:

Greater clarity is needed on the definition of the time frame and/or criteria that determine an entity as a "newly formed organisation", in accordance with section 3.2.1 of the ACV procedures. This is crucial to ensure compliance with the stipulated minimum annual turnover and net worth requirements outlined in the clause.

3. Role of the Independent Reviewer:

The role and minimum requirements of the independent reviewer as a team member is clearly specified under 3.6.1 but is completely missing under 3.7.1 "Other mechanisms". It seems like this has been left out unintentionally and should be included under description of the Sector Expert.

B. PROCEDURE FOR COMPLIANCE MECHANISM

IETA fully supports that a singular market, as opposed to fragmented sectoral instruments, would effectively lower transaction costs, boost liquidity, streamline accounting and verification procedures, whilst facilitating targeted capacity development in India. The establishment of the compliance mechanism can support companies in their transition to net-zero, supporting low-carbon innovation and sustainable development. However, it is important that such a mechanism is well-designed and builds upon the input received from both obligated entities and other market stakeholders in the private sector. Several of the overarching design considerations have been explored in our previous paper, including:

- The development of stringent emission trajectories and targets for obligated entities within the covered sectors;
- The need for long-term clarity and predictability of rules and targets, with regular program-wide reviews aiming to assess its performance and recommending changes to ensure that key objectives are met;
- The necessity for transparency regarding the emissions covered, baselines, targets, carbon credit certificates (CCCs) generated, transactions of CCCs and any non-complying entities;
- The importance of low transaction costs and limited bureaucracy without artificial barriers to access or participation;
- The use of offsets and linkage with other crediting mechanisms to facilitate liquid markets where emissions reductions take place where they are least costly, allowing for higher ambition over time.

More specifically, find below detailed comments and concerns raised by our members regarding the Detailed Procedure for Compliance Mechanism under CCTS.

1. Renewable Electricity and RECs in CCTS Mechanism:

As it currently stands under clause 12.3, *"The purchase of Renewable Energy Certificates (RECs) is not considered as a claim towards renewable energy under the mechanism"*. This is a similar approach as in EU ETS and several other compliance markets. Considering the challenges of oversupply in the national Renewable Purchase Obligation (RPO) scheme and different denotation of units, linking the existing markets may hamper the price signal for CCCs, stifling innovation and investments in industry decarbonisation. At the same time, it may prove important for the Government of India through the Ministry of Power in the longer term to provide clarity on the potential overlap, integration and/or connection between the CCTS and RPO scheme. This will help to avoid further confusion and effectively allow the utilisation of market-based instruments towards the expansion of renewable energy generation and achievement of climate targets.

2. Integration of Durable Carbon Removals in the Carbon Credit Scheme:

In the CCTS scheme, it is mentioned that obligated entities with Carbon Capture Utilisation and Storage (CCUS) can subtract the emissions captured, transferred or utilized by such a process, whilst ensuring permanence of the captured CO2. First of all, it should be made clear how the permanence of such activities will be defined, including the necessity for long-term storage of CO2, the risk of reversal and how to address it, and what provisions will be in place for companies wishing to pursue such CCUS activities to reduce emissions under the scheme. Secondly, the procedure should also consider the inclusion of carbon dioxide removal (CDR) activities, such as Bio-energy Carbon Capture and Storage (BECCS) or Direct Air Carbon Capture and Storage (DACCS) as eligible to issue CCCs under the scheme which can be used to meet obligated entities compliance targets. This will provide clarity for investors and allow flexibility for obligated entities to meet their targets.

3. Avoid Unduly Restrictions on Trading of CCCs:

To allow for market efficiency and price discovery, trading of CCCs needs to avoid unduly restrictions. Presently, our understanding is that obligated and non-obligated entities will be eligible to purchase CCCs and trade them over the power exchanges as per the procedure defined by the Central Electricity Regulatory Commission (CERC). However, they only allow for one transaction to take place, from seller to buyer, before the unit has to be used towards meeting obligated entities compliance targets or by non-obligated entities for voluntary retirement (a process which has not yet been specified). This restriction risks hindering market activity and limiting the role of investors, traders and brokers in the scheme. To ensure a liquid market where companies have better price transparency, can hedge against future risks and use different market strategies to most cost-effectively achieve their targets, trading must be open.

4. Independence of Accredited Carbon Verification Agencies:

Section 4.1 of the detailed procedure outlines that *"The obligated entity in consultation with Accredited Carbon Verification Agency, shall put in place transparent, independent and credible monitoring and reporting arrangements (monitoring plan) for GHG emissions and production for compliance with GHG emissions intensity targets."* However, developing the monitoring plan together with the ACV raises questions about independence and potential conflicts of interest, as the ACV will later be the entity who ensures compliance with the monitoring plan and verifies results. We suggest amending the text to refer to entities other than the ACV.

5. We recommend the use of the latest Global Warming Potential (GWP) and GHG Emission Factors issued by the IPCC to ensure consistency with international schemes and national GHG inventory reporting.

6. Consider the Interlinkage of the Compliance Market with Independent Crediting Standards and Schemes through Article 6:
The role, importance and integrity of independent carbon crediting standards have significantly increased in recent years and Article 6 of the Paris Agreement has further strengthened the argument for allowing the use of carbon credits issued by other programmes as offsets under compliance markets. Integration of independently issued credits into the market allows for a wider pool of available projects, incentivises emissions reductions outside of the sectors covered by the CCTS, provides flexibility for obligated entities and can help to address future supply challenges. For reference, consider the examples of Singapore and South Korea. It would also be important to provide clarity on the possible interlinkages and/or overlap with the Green Credit Programme (GCP) under development, to avoid challenges pertaining to additionality, permanence, and double-counting.

7. Banking across Compliance Periods:
We welcome Section 9 which outlines the provision for banking of CCCs across compliance periods. Banking of CCCs provide obligated entities flexibility in meeting their compliance targets and allow them to invest when market conditions are favorable whilst decarbonising their operations. However, further guidance would be necessary to provide clarity on any restrictions on banking across compliance periods and/or ways to address potential oversupply in the market e.g. through temporal constraints on banking or the establishment of a market stability reserve (MSR), which has been discussed in previous instances but are not clearly described in the draft procedure.

ABOUT IETA

The International Emissions Trading Association (IETA) is a non-profit business association with a membership of over 300 leading international organisations operating in compliance and voluntary carbon markets. Since its foundation in 1999, IETA has been the leading voice of business on ambitious market-based solutions to climate change. We are a trusted adviser to governments to support them in developing international policy and market frameworks to reduce greenhouse gases at lowest cost, increase climate ambition, and build a credible path to net zero emissions. See www.ieta.org for more information.

CONTACTS

Nihal
India Policy Advisor, IETA
nihal@ieta.org

Björn Fondén
International Policy Advisor, IETA
fonden@ieta.org