CARBON TRADING

There should be a global thought that "Do Carbon Emissions that are causing climate change & threatening the survival of Planet Earth have distinct & different nationalities? Are they or should they be called as American Carbons, Chinese Carbons, Indian Carbons & so on.

It is an immense need of an hour to protect the Planet Earth from Pollution & the resulting Global Warming, which adversely affects the Ozone Layer of the atmosphere. The step has been taken by many countries by signing an International Agreement / Treaty known as "Kyoto Protocol", to discuss global warming & to reduce the Green House gas (GHG) Emissions by 5.2 % from 1990 levels, by 2012. Up till now, 175 countries have already been registered to the above treaty. But it's interesting to note that USA is currently not the member of this treaty.

GHG are those gases which are targeted to be regulated under the Kyoto Protocol. Yet, only six gases are covered under the ambit of GHG. They are Carbon dioxide, Methane, Nitrous Oxide, Hydrofluro carbons, Perfluro carbons & Sulfur Hexafluoride. It is interesting to note that Water Vapor is also a GHG but it is outside the control of Humankind, therefore not regulated under the above treaty.

How Global Warming does take place?

During the combustion of fossils based fuels, GHG are emitted & it results into green house effect in atmosphere i.e. Heat coming from sun is able to pass through this layer unimpeded but the heat reflected back from the earth finds it harder to escape into space. This results in gradual increase in Earth's temperature & therefore leading to Global Warming.

How does Carbon Trading take place?

Firstly we shall understand, what is a Carbon Credit? Where the pollutant emitted is Carbon dioxide, it is called Carbon Credit. These are in the form of certificates & measured in units of Certified Emissions Reduction (CER's). One Credit is equivalent to one tonne of Carbon dioxide emitted from burning of fossil fuels.

Carbon trading is the method worked out to control pollution by using economic incentives. A limit or a cap on the amount of pollutants that can be emitted by each partner country is set under the treaty. The amount of pollutant to be emitted by each company (In the form of Permits) is worked out on the basis of overall cap for the country. If the Company wants to exceed the emission level / cap set for it, it will have to buy an extra allowance / credit from those who pollute less. Sale & Purchase of Carbon Credits results into Carbon Trading. Therefore, in effect, Company buying the credit is penalized for polluting by having to pay for the credit while the seller is being rewarded monetarily. Thus, the Carrot (Monetary Reward) & Stick (Penalty) Policy helps to reduce GHG Emissions.

These are traded at CO_2 E Exchange of United Kingdom, CDM Exchange in Europe & Chicago Climate Exchange (CCX). The Multi Commodity Exchange of India Ltd. (MCX) part owned by Fidelity International & Citigroup recently began trading in Carbon dioxide emissions & became the first Exchange in ASIA to offer such a contract. It has a tie up with CCX.

India's Perspective

India is considered to be the largest beneficiary claiming 31% of total world carbon trade through Clean Development Mechanism (CDM). According to the Lamon Rutten, joint MD of MCX- "India is one among the global leaders having already generated close to 30 millions carbons credits and has roughly another 140 millions in the pipeline for sale". Some of the Indian banks which are already offering the Carbon Banking services include SBI, IDBI & ICICI Bank.

Many Big Corporate Groups including Godrez & Tata Steel have started measuring its Carbon Footprint (i.e. total amount of GHG emitted over the full life cycle of a product or service) & to figure out how much can the group possibly earn from carbon credits. Tata Steel hopes to earn around Rs 76 crores merely from sale of carbon credits to its bottom line. The immediate catalyst behind this exercise is that the companies believe that there is some business risk involved in the future if their carbon footprint is not controlled today, such as the fear of regulations like a carbon tax in the future. They now wanted to be efficient not only economically but also environmentally.

Yet in India, there is no Standard Accounting Procedure for accounting the sale & purchase of carbon Credits. It is interesting to note that till yet, no Income Tax Regulations have been made on Sale of Carbon

Credits (Such as Capital Gain Tax or Business Income or whatever).

Global Perspective

Carbon trading sales by developing countries such as BRIC nations (Brazil, Russia, India & China) may offer industrial nations participating in the Kyoto Protocol an alternative to installation of costly emission control technology to curb Green House gases blamed for Global Warming. Such technology includes use of EURO III Automobiles, Alternative source of energy via wind mills & solar panels & many more in queue.

Conclusion- On the face of it, it is a nice idea to incentives those who reduce emissions & penalize those who don't. So far, So Good. It has now become the part of Corporate Social Responsibility. On an Individual Level also, we can contribute towards reducing the GHG emissions by taking some small measures such as use of CNG (Compressed Natural Gas) in our Automobiles instead of Petrol / Diesel, Plantation of Trees or Avoid using Poly Bags in market & so on. But don't wait for any monetary reward for that, instead feel good for contributing towards saving country INDIA, saving the Planet EARTH.

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