

CONCEPT NOTE ON CARBON MARKET SIMULATION EXERCISE IN INDIA

Objective

WRI India, as the Secretariat of the India GHG Program, aims to simulate a carbon market across 30-40 large companies in India. The primary objective of the project is to develop corporate readiness and help corporates best leverage the opportunities from potential market based mechanisms to meet their emission reduction goals. Through a review of relevant domestic and international experiences, extensive stakeholder engagement and the evidence base created from the simulation, the project would also help provide concrete policy recommendations for an internationally linked carbon market in India that is efficient, sustainable and facilitates accelerated emission reductions to help India achieve its Nationally Determined targets.

Background

With a commitment of reduction in greenhouse gas (GHG) emission intensity of GDP by 33-35% until 2030 (compared to 2005 levels), a target to install over 175 GW of renewable energy by 2022, and increasing the share of non-fossil fuel energy sources to 40% by 2030¹, India is increasingly leading climate action in international fora. The Indian industry and energy sectors contribute to almost 80% of the country's GHG emissions. We can thus ascertain that the industry and energy sectors would play a significant role in achieving the reduction as well as clean investment targets.

With India's ratification of the Paris Agreement and its committed Nationally Determined Contributions (NDCs), IGHGP partners are exploring avenues to help facilitate a low carbon pathway to achieving these targets. While an implicit carbon tax (national clean energy cess) is being implemented in India since a few years, additional considerations on an industry wide cap and trade scheme are being made to accelerate progress towards India's NDCs. To this effect, India has signed up and is now a participant to the World Bank's Partnership for Market Readiness (PMR), which supports countries to assess, prepare, and implement carbon pricing instruments to scale up greenhouse gas mitigation. The PMR has announced an \$8 million grant for India to prepare for and pilot the use of carbon pricing instruments².

To help strategic realignment in the wake of the new climate regime, IGHGP proposes to advance this thinking both in the policy circles as well as industry and active civil society, think tank and research organizations by simulating a real-time, virtual cap & trade scheme across businesses in India, starting with the IGHGP's cross sectoral member base and industry network, representing more than 50-60% of India's industry related emissions.

WRI India, as the Secretariat of the IGHGP, would engage intensively with the key stakeholders to design and implement a virtual carbon market at the national or sectoral level from conception to trading that would help inform policymaking with insights and recommendations on design, implementation, and monitoring, reporting and verification (MRV) that build on current and emerging practices in carbon or particulate emission markets and through existing global and domestic case studies. The outcomes and learnings from the simulation will help draw recommendations relevant to the Indian context on implementation elements as scope, allocation, price stability, MRV and flexibility mechanisms (banking and borrowing) for

¹ <http://www4.unfccc.int/ndcregistry/PublishedDocuments/India%20First/INDIA%20INDC%20TO%20UNFCCC.pdf>

² <https://www.thepmr.org/content/india-pilot-carbon-pricing-instruments-8-million-pmr-support>

internationally tradeable permits, which is in line with the Paris Agreement’s call for internationally tradeable mitigation outcomes (ITMO). The main aim for the simulation exercise would be to help businesses assess their readiness (in case of an incumbent carbon market), as well as help build internal strategic insights within the corporate sector for boosting emission reductions by participating in market based mechanisms.

Participants and Anchor companies

For this simulation, WRI India envisions 30-40 large companies in India (incl. sectoral leaders) to participate across the two phases of the project – design and implementation. WRI India would also invite select companies to be part of the project as Anchor Companies. Anchor Companies would play a critical role in shaping the design of the market and support the project in strategic communications and outreach for disseminating the knowledge products and the learnings from the simulation, along with being part of the market simulation exercise. WRI India and its partners will support all participating businesses with research, knowledge, and findings, by hosting a series of webinars and information-sharing sessions with companies, thereby building institutional capacity within large corporates.

Below details provide clarity on the role of **Participants** and **Anchor Companies**:

Involvement as an Anchor Company	Involvement as a Participant
<p>Anchor Company would be a Participant (refer Participant Involvement section) in the simulation exercise along with playing a critical role in:</p> <ul style="list-style-type: none"> i. Providing strategic inputs in the design through Steering Group Meetings/ Roundtables/acting as a Sectoral Chair for the industry, leading discussions with peers ii. Providing support in recruiting network companies to widen the scope of industry base participating in the simulation, and iii. Supporting strategic communications and outreach for disseminating the knowledge products and the learnings from the simulation 	<p>Participant would be:</p> <ul style="list-style-type: none"> i. Participating actively in project related surveys and discussions ii. Participating in workshops and capacity building sessions for the implementation of the project iii. Participating actively in the simulated market and trading thereof

*Please note, the number of positions for **Anchor Companies** is limited.

Approach

To provide effective recommendations, the following approach/key steps are being considered and will be split across two phases – Design and Implementation:

Phase I – Design

1. Landscape Analysis and Desk Research – 4 weeks (01/05/2017 – 31/05/2017):

- Mapping of international experiences: WRI Experts and Partners will map and analyze 3-4 relevant past and current emissions markets looking at specific aspects of goals, design, outcomes/impact, challenges, international linking
- Mapping of domestic experience: WRI Experts and Partners will map and analyse past and ongoing markets in India to understand the alignment of goals, design aspects, outcomes, impact, challenges, and opportunities for synergies

2. Stakeholder Engagement – 8 weeks (01/06/2017 – 31/07/2017):

- Recruitment of anchor companies, who would eventually act as the Steering Committee for supporting the design, implementation, and strategic communication of the simulation exercise
- **Interviews/Surveys: Businesses** – WRI Experts and Partners would engage with participating companies for feedback on their experience on past trading schemes, to understand priorities, incentives, and challenges at a sectoral level, identify pragmatic and ambitious targets to create a stable market and achieve reductions
- **Interviews/surveys: Policymakers** – WRI Experts and Partners would also seek inputs from key policy makers and experts on priorities or objectives, feedback from previous experience, transaction costs/policy hurdles for a potential carbon market. This feedback would also be formally shared with participating companies via webinars and virtual meetings.
- **Design elements of the carbon market-** With significant engagement of Key Champions/Business Anchors, WRI Experts would develop the entire project cycle from conceptualization to trading based on based on above learnings and economic theory to ensure efficient and equitable carbon market design that is internationally compatible

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4. Roundtable and Capacity Building – 2 weeks (15/07/2017 – 01/08/2017)

- **Roundtable:** The design elements would be finalized after a roundtable amongst business leaders deliberating comments/improvements on the developed model.
- **Workshop:** WRI and its Partners would host workshops to building capacity for participants on the implementation

Phase 2 – Implementation

5. Launch of the Simulation – 1st August 2017 to 31st July 2018

The simulation would be formally launched on August 1, 2017 and will run for a period of one year during which the market would be operational, emissions would be monitored, mitigated and traded.

6. Trading of permits –

At the end of a compliance period, as finalised in the design phase, the regulated entities would be required to surrender one allowance for every tonne of emissions for which they are accountable. Participants that hold more allowances than they have emitted during the period can sell them, or bank them for future use; entities that have exceeded the cap and require additional allowances may buy them on the market or pay the penalty for underachieving the target. The trade or exchange of allowances between those with surplus and insufficient allowances, would generate a price on allowances (carbon price).

7. Measurement of outcomes

Based on the trading of the permits, IGHGP would monitor and document the performance of the market, broadly on the following parameters:

- Reductions achieved
- Price stability
- Trading volume
- Cost considerations
- SWOT analysis

8. Compilation of Learnings/Recommendations - 4 weeks (01/08/2018 – 31/08/2018)

The learnings from the exercise would be compiled along with relevant recommendations for the Indian context that could potentially feed into policymaking and provide insights to the industry on the various aspects of a carbon market building corporate readiness amongst the Indian industry

Planned Outcomes:

1. Preliminary background note at the beginning of Phase 1: ***Global Carbon Markets Study: June 2017***
2. Publication at the end of Phase I: ***Carbon Market in India: Prospects & Design Considerations – Sept 2017***
3. Publication at the end of Phase 2: ***Carbon Market Planning and Implementation for the Indian Context/ Handbook or Design & Implementation Guide for a Carbon Market in India – Sept 2018***
4. **Events/Webinars:** Sharing company experiences, outcomes from simulation and insights for a potential carbon market in India – ***Sept 2018***

Action Points/Next Steps:

- Interested corporates would confirm to join either as Anchors or Participants
- Participating/Anchor Companies would designate a focal point for consultations and design approvals/simulation management
- Anchor Companies would work with WRI India and its Partners on communications & outreach strategy

- **Design Consultations:** WRI India would conduct one-on-one in person meetings with confirmed Participating/Anchor Companies to introduce and explain the project and get their feedback on the project design aspects
- **Interview/Surveys:** WRI India would disseminate surveys to participating companies on their experience on past trading schemes, business and climate priorities, and incentives and challenges at a sectoral level.



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About India GHG Program

The India GHG Program (IGHGP) led by WRI India, Confederation of India Industry (CII) and The Energy and Resources Institute (TERI) is an industry-led voluntary framework to measure and manage greenhouse gas emissions. The overarching goal of IGHGP is to facilitate profitable, competitive and sustainable businesses through mainstreaming GHG emissions measurement and management in India. IGHGP therefore aims to establish a robust and effective institutional set-up around measurement and management of GHG emissions by building local capacity, providing access to internationally recognized and locally relevant GHG measurement and accounting tools, relevant industry best practices, benchmarking data and analytics, and providing expertise on goal setting and voluntary targets and business solutions to achieve GHG reductions. Till date, the Program has been successful in recruiting over 50 large companies (all of whom prepare GHG emission inventories annually), training over 400 professionals in GHG accounting tools and methods, providing technical support to businesses in setting voluntary GHG reduction goals and, carry out policy engagements with relevant ministries on GHG management in India.