

Implementing Kyoto-type flexibility mechanisms for India: issues and prospects

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Nature and extent of India's involvement in CDM activities

- Economic logic of CDM
- Many opportunities for CDM
- India as a major user of coal and source of GHGs (about 12% of CDM market – Jotzo and Michaelowa, 2002)

Some concerns about CDM

- Dividing up the ‘gains from trade’
- Price of CERs is an important concern
- Banking of CERs for future use?
- ‘Low hanging fruit’ issue

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India and emissions trading

- Clear gain from Kyoto (Babiker et al. 2000)
- Look beyond first commitment period (2008-2012)
- Some commitment likely, howsoever defined (Sagar 2002)
- Equity based allocation – major gain? (Leimbach 2003)
- Technical progress in abatement technology could result in loss of revenue (Bertram 1996)

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Convergence of CDM and emissions trading?

- Long-term convergence (after first commitment period)
 - bank CERs and use them in later commitment period (when trading...?)
- Short-term convergence (during first commitment period):
 - sectoral v-a-v project-based approaches to implementing CDM (ex-ante / ex-post)
 - an umbrella approach to CDM projects
 - why is broader better?
 - lessons from Montreal Protocol (China vs. India)
 - negotiate an overall target and then deliver by using flexibility mechanisms (taxes, tradable permits, etc.)₅

Likely CDM scenarios

CERs ↓	→	Many sellers	Few sellers
Many buyers		‘emissions trading’?	Monopolistic market
Few buyers		Monopsonist market (coordination problem)	Bilateral bargaining

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Monitoring and enforcement under CDM and emissions trading

- Eventually both require project/firm-level monitoring of activities (emissions, etc.)
- Emissions trading subset of overall MBIs
- General issues of monitoring and enforcement whether MBIs or CAC
- Several options – indirect monitoring, self-reporting, incentive-based enforcement, etc.

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To conclude

- In the short-run:
- Ministry of Environment – case by case approach or a holistic one?
- proactive vs. reactive?
- develop a portfolio/shelf of CDM projects
- at issue is flexibility, transaction costs
- avoid eclecticism and ad-hocism at all cost
- In the long-run:
 - get a better sense of allocation criteria and permit prices

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THANK YOU