CARBON CREDIT TRADING –WAY TO MONEY MAKING

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Abstract

To emit one ton of carbon dioxide need permit that allows to holder named as carbon credit. Credits are awarded to countries or groups that have reduced their green house gases below their emission quota. Carbon credits can be traded in the international market at their current market price. Carbon dioxide, the most important greenhouse gas produced by combustion of fuels, has become a cause of global panic as its concentration in the Earth's atmosphere has been rising alarmingly. Carbon credits are a part of international emission trading norms. They incentivize companies or countries that emit less carbon. The total annual emissions are capped and the market allocates a monetary value to any shortfall through trading. Businesses can exchange, buy or sell carbon credits in international markets at the prevailing market price.

Key Words: Carbon Credit Trading (CCT), Trading Norms

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INTRODCUTION OF INDIA AND CARBON CREDITS INDIAN SCENARIO

India being a developing country has no emission targets to be followed. However, she can enter into CDM projects. As mentioned earlier, industries like cement, steel, power, textile, fertilizer etc emit green houses gases as an outcome of burning fossil fuels. Companies investing in Windmill, Bio-gas, Bio-diesel, and Co-generation are the ones that will generate Carbon Credits for selling to developed nations. Polluting industries, which are trying to reduce emissions and in turn earn carbon credits and make money include steel, power generation, cement, fertilizers, waste disposal units, plantation companies, sugar companies, chemical plants and municipal corporations.

BENEFITS FOR INDIA

By, switching to Clean Development Mechanism Projects, India has a lot to gain from Carbon Credits:

a) It will gain in terms of advanced technological improvements and related foreign investments.

b) It will contribute to the underlying theme of green house gas reduction by adopting alternative sources of energy

c) Indian companies can make profits by selling the CERs to the developed countries to meet their emission targets.

TRADING OF CERS:

As a welcome scenario, India now has two Commodity exchanges trading in Carbon Credits. This means that Indian Companies can now get a better trading platform and price for CERs generated.

- Multi Commodity Exchange (MCX), India's largest commodity exchange, has launched futures trading in carbon credits. The initiative makes it Asia's first-ever commodity exchange and among the select few along with the Chicago Climate Exchange (CCE) and the European Climate Exchange to offer trades in carbon credits. The Indian exchange also expects its tie-up with CCX which will enable Indian firms to get better prices for their carbon credits and better integrate the Indian market with the global markets to foster best practices in emissions trading.

- On 11th April 2008, National Commodity and Derivatives Exchange (NCDEX) also has started futures contract in Carbon Trading for delivery in December 2008.
- MCX is the futures exchange. People here are getting price signals for the carbon for the delivery in next five years. The exchange is only for Indians and Indian companies. Every year, in the month of December, the contract expires and at that time people who have bought or sold carbon will have to give or take delivery. They can fulfill the deal prior to December too, but most people will wait until December because that is the time to meet the norms in Europe. If the Indian buyer thinks that the current price is low for him he will wait before selling his credits. The Indian government has not fixed any norms nor has it made it compulsory to reduce carbon emissions to a certain level. So, people who are coming to buy from Indians who are actually financial investors. They are thinking that if the Europeans are unable to meet their target of reducing the emission levels by 2009, 2010 or 2012, then the demand for the carbon will increase and then they may make more money. So investors are willing to buy now to sell later. There is a huge requirement of carbon credits in Europe before 2012. Only those Indian companies that meet the UNFCCC norms and take up new technologies will be entitled to sell carbon credits. There are parameters set and detailed audit is done before you get the entitlement.

Financing up-port in India

- Carbon Credits projects requires huge capital investment. Realizing the importance of carbon credits in India,
- The World Bank has entered into an agreement with Infrastructure Development Finance Company (IDFC), wherein IDFC will handle carbon finance operations in the country for various carbon finance facilities.
- The agreement initially earmarks a $10-million aid in World Bank-managed carbon finance to IDFC-financed projects that meet all the required eligibility and due diligence standards.

- IDBI has set up a dedicated Carbon Credit desk, which provides all the services in the area of Clean Development Mechanism/Carbon Credit (CDM).
- In order to achieve this objective, IDBI has entered into formal arrangements with multi-lateral agencies and buyers of carbon credits like IFC, Washington, KfW, Germany and Sumitomo Corporation, Japan and reputed domestic technical experts like MITCON.
- HDFC Bank has signed an agreement with Cantor CO2E India Pvt Ltd and MITCON Consultancy Services Limited (MITCON) for providing carbon credit services. As part of the agreement, HDFC Bank will work with the two companies on awareness building, identifying and registering Clean Development Mechanism (CDM) and facilitating the buy or sell of carbon credits in the global market.

What is carbon credit?

As nations have progressed we have been emitting carbon, or gases which result in warming of the globe. Some decades ago a debate started on how to reduce the emission of harmful gases that contributes to the greenhouse effect that causes global warming. So, countries came together and signed an agreement named the Kyoto Protocol.

The Kyoto Protocol has created a mechanism under which countries that have been emitting more carbon and other gases (greenhouse gases include ozone, carbon dioxide, methane, nitrous oxide and even water vapour) have voluntarily decided that they will bring down the level of carbon they are emitting to the levels of early 1990s.

Developed countries, mostly European, had said that they will bring down the level in the period from 2008 to 2012. In 2008, these developed countries have decided on different norms to bring down the level of emission fixed for their companies and factories.

A company has two ways to reduce emissions. One, it can reduce the GHG (greenhouse gases) by adopting new technology or improving upon the existing technology to attain the new norms for emission of gases. Or it can tie up with developing nations and help them set up new technology that is eco-friendly, thereby helping developing country or its companies 'earn' credits.

India, China and some other Asian countries have the advantage because they are developing countries. Any company, factories or farm owner in India can get linked to United Nations

Framework Convention on Climate Change and know the 'standard' level of carbon emission allowed for its outfit or activity. The extent to which I am emitting less carbon (as per standard fixed by UNFCCC) I get credited in a developing country. This is called carbon credit.

These credits are bought over by the companies of developed countries -- mostly Europeans -- because the United States has not signed the Kyoto Protocol.

What is Kyoto protocol?

An international agreement that aims to reduce carbon dioxide emissions and the presence of greenhouse gases. Countries that ratify the Kyoto Protocol are assigned maximum carbon emission levels and can participate in carbon credit trading. Emitting more than the assigned limit will result in a penalty for the violating country in the form of a lower emission limit in the

Following period.

LIST OF SELLER COUNTRIES FOR CARBON CREDIT

Asia : China, India, Korea, Malaysia, Indonesia, Philippines, Vietnam etc.,

Latin America : Brazil, Mexico, Peru, Argentina

Africa : South Africa, Kenya, Tanzania, Namibia, etc.,

LIST OF BUYER COUNTIRES FOR CARBON CREDIT

European Union: Germany, United Kingdom, Austria, Italy, Belgium, Sweden, France, Finland, Holland etc., (Govt. and Private Sector)

Japan (Govt. and Private Sector)

Canada (Govt. and Private Sector)

Australia (Private Sector)

New Zealand (Govt. and Private Sector)

USA (operating from Europe)

Mechanism of trade

Carbon dioxide, the most important greenhouse gas produced by combustion of fuels, has become a cause of global panic as its concentration in the Earth's atmosphere has been rising alarmingly.

This devil, however, is now turning into a product that helps people, countries, consultants, traders, corporations and even farmers earn billions of rupees. This was an unimaginable trading opportunity not more than a decade ago.

Carbon credits are a part of international emission trading norms. They incentivise companies or countries that emit less carbon. The total annual emissions are capped and the market allocates a monetary value to any shortfall through trading. Businesses can exchange, buy or sell carbon credits in international markets at the prevailing market price.

India and China are likely to emerge as the biggest sellers and Europe is going to be the biggest buyers of carbon credits.

Last year global carbon credit trading was estimated at $5 billion, with India's contribution at around $1 billion. India is one of the countries that have 'credits' for emitting less carbon. India and China have surplus credit to offer to countries that have a deficit.

India has generated some 30 million carbon credits and has roughly another 140 million to push into the world market. Waste disposal units, plantation companies, chemical plants and municipal corporations can sell the carbon credits and make money.

Carbon, like any other commodity, has begun to be traded on India's Multi Commodity Exchange since last the fortnight. MCX has become first exchange in Asia to trade carbon credits.

Trading through MCX trade on carbon credits

This entire process was not understood well by many. Those who knew about the possibility of earning profits, adopted new technologies, saved credits and sold it to improve their bottomline.

Many companies did not apply to get credit even though they had new technologies. Some companies used management consultancies to make their plan greener to emit less GHG. These management consultancies then scouted for buyers to sell carbon credits. It was a bilateral deal.

However, the price to sell carbon credits at was not available on a public platform. The price range people were getting used to was about Euro 15 or maybe less per tonne of carbon. Today, one tonne of carbon credit fetches around Euro 22. It is traded on the European Climate Exchange. Therefore, you emit one tonne less and you get Euro 22. Emit less and increase/add to your profit.

We at the MCX decided to trade carbon credits because we are in to futures trading. Let people judge if they want to hold on to their accumulated carbon credits or sell them now.

MCX is the futures exchange. People here are getting price signals for the carbon for the delivery in next five years. Our exchange is only for Indians and Indian companies. Every year, in the month of December, the contract expires and at that time people who have bought or sold carbon will have to give or take delivery. They can fulfill the deal prior to December too, but most people will wait until December because that is the time to meet the norms in Europe.

Say, if the Indian buyer thinks that the current price is low for him he will wait before selling his credits. The Indian government has not fixed any norms nor has it made it compulsory to reduce carbon emissions to a certain level. So, people who are coming to buy from Indians are actually financial investors. They are thinking that if the Europeans are unable to meet their target of reducing the emission levels by 2009 or 2010 or 2012, then the demand for the carbon will increase and then they may make more money.

So investors are willing to buy now to sell later. There is a huge requirement of carbon credits in Europe before 2012. Only those Indian companies that meet the UNFCCC norms and take up new technologies will be entitled to sell carbon credits.

There are parameters set and detailed audit is done before you get the entitlement to sell the credit. In India, already 300 to 400 companies have carbon credits after meeting UNFCCC norms. Till MCX came along, these companies were not getting best-suited price. Some were getting Euro 15 and some were getting Euro 18 through bilateral agreements. When the contract expires in December, it is expected that prices will be firm up then.

On MCX we already have power, energy and metal companies who are trading. These companies are high-energy consuming companies. They need better technology to emit less carbon.

Conclusion

With the example of following we can easy to identify the way to make money

Company A can reduce 1000 tons

CO2eat $2/ton = $2000

Company B can reduce 1000 tons

CO2eat $6/ton = $6000

SELL

BUY

1000 tons CO2eat $4/ton = $4000

$2000 profit

$2000saving

Company A –Seller

Company B –Buyer

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