



# ICRA's CLIMATE SERIES

## Trading of carbon credits

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An ecosystem for carbon trading likely to attract global technologies and investments; a step towards India's NDCs

March 2023

**CLIMATE CHANGE**

The biggest crisis of our time

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*Government's measures towards forming an ecosystem for carbon trading and to incentivise the players is a step in the right direction.*

*This is expected to attract global investments and technologies in India and will ultimately help India achieve its nationally determined contributions (NDCs).*

- The Union Government has notified the National Designated Authority for the implementation of the Paris Agreement (NDAIAPA) to take decisions on the type of projects that may take part in the international carbon market under Article 6 of the Paris Agreement.
- Article 6 of the Paris Agreement provides principles on how countries can “pursue voluntary cooperation” to reach their climate targets. Through this mechanism, a country can reduce emissions in its own area and seek carbon credits for this so that it can sell them to another country. That second country may use them for complying with its own emission reduction obligations as under Nationally Determined Contributions (NDCs).
- In February 2023, NDAIAPA finalised a list of activities to be considered for trading of carbon credits.

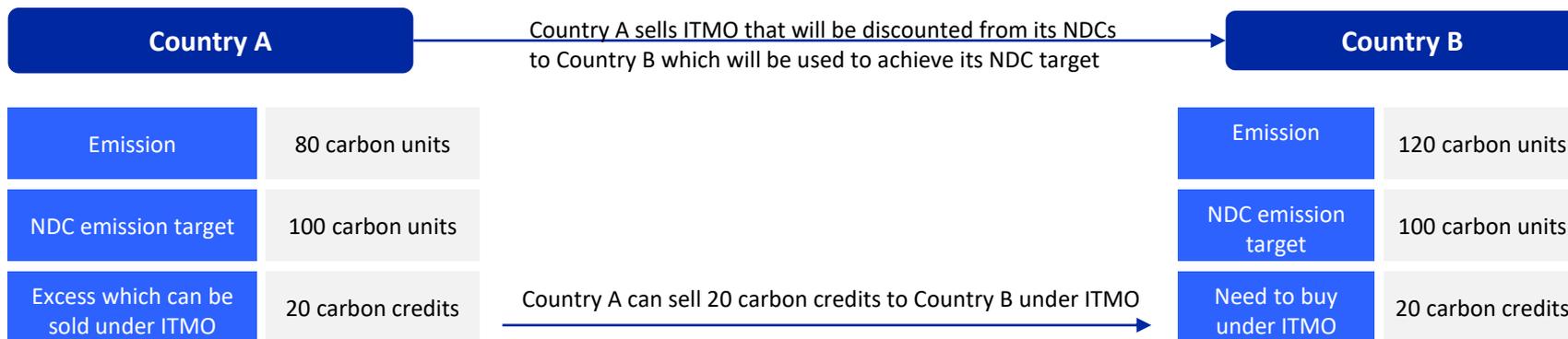
- The selection of activities for trading of carbon credits also indicates the Government's focus on carbon-emitting sectors, i.e. power, industry and transport, which emit more than 70% of carbon in India.
- Projects in renewable energy, green hydrogen, Carbon Capture Utilisation and Storage (CCUS), which will primarily benefit in reducing greenhouse gas (GHG) emissions of the power and transport sectors, are expected to play a major role in the carbon credit market in India.
- The Government will need global technologies and massive investment of over Rs. 45-55 trillion by 2030 for implementing projects in the above-mentioned sectors.

- In March 2023, the Power Ministry also issued a draft 'Carbon Credit Trading Scheme' with an aim to set up a framework for the Indian carbon market to help set up the operational and governance process for carbon trading.
- The Government's measures towards forming an ecosystem for carbon trading is a step in the right direction. Incentivising the global players and putting the operational, compliance and governance policies in place, providing necessary support (in form of policies, tax benefits, schemes etc) will increase their confidence and attract them to invest in India, and will ultimately help India march towards the committed NDCs.

# Article 6 of Paris agreement promotes voluntary cooperation between member countries towards NDCs

## What's Article 6 of Paris Agreement?

- Article 6 of the Paris Agreement provides principles for how countries can “pursue voluntary cooperation” to reach their climate targets. **Through this mechanism a country can reduce emissions in its own area and have those reductions credited so that it can sell them to another country.** That second country may use them for complying with its own emission reduction obligations under **Nationally Determined Contributions (NDCs)**.
- It replaces previous forms of international carbon credits under the Kyoto Protocol and provides a new rulebook for governance. **The unit of trade in these markets is coined “internationally transferred mitigation outcomes” or ITMOs.**
- **Countries use ITMO towards NDCs** to promote sustainable development.
- Emission reductions that have been authorised for transfer by the selling country’s government may be sold to another country, but only one country may count the emission reduction toward its NDC.





# ICRA Analytical Contact Details



**Aditi Nayar**

*Chief Economist and  
Head Research & Outreach*

**Madhura Nejjur**

*Assistant Vice-President*



aditin@icraindia.com

Madhura.nejjur@icraindia.com



+91 0124 4545 385

+91 22 6114 3417





ICRA

# Business Development/Media Contact Details



**L. Shivakumar**

*Executive Vice-President*

**Jayanta Chatterjee**

*Executive Vice-President*

**Naznin Prodhani**

*Head Media & Communications*



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080 – 4332 6401

0124 – 4545 860





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