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First in pollution control: how Surat industries will trade particulate matter

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ETS is a market in which the traded commodity is particulate matter emissions.

Written by [Avinash Nair](#) | • Surat |

Updated: September 24, 2019 11:12:15 am



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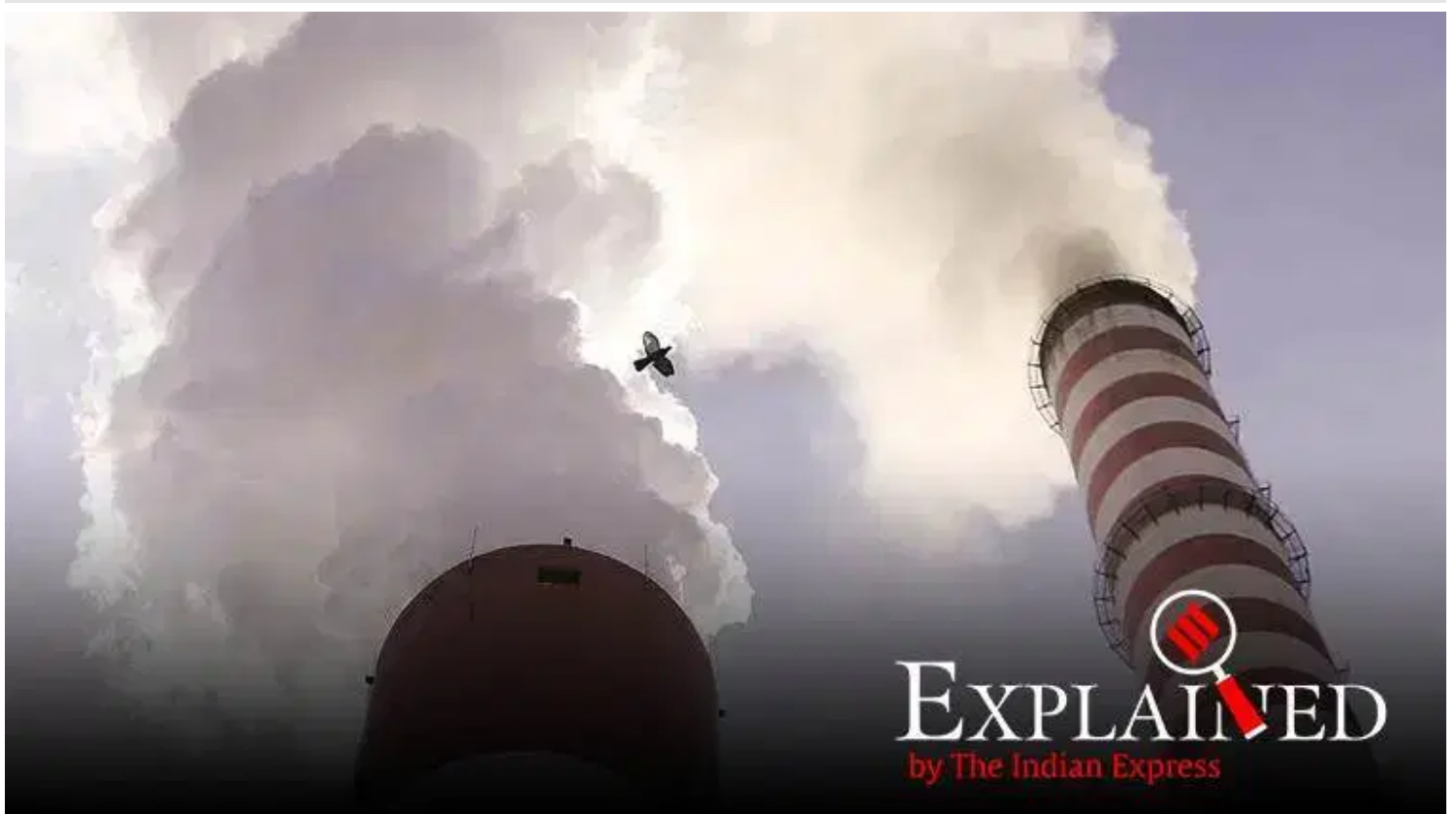
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Launched in Surat, the Emissions Trading Scheme (ETS) is a regulatory tool that is aimed at reducing the pollution load in an area and at the same time minimising the cost of compliance for the industry.

Last week, the Gujarat government launched what is being described as the [world's first market for trading in particulate matter emissions](#). While trading mechanisms for pollution control do exist in many parts of the world, none of them is for particulate matter emissions. For example, the CDM (carbon development mechanism) under the Kyoto Protocol allows trade in 'carbon credits'; the European Union's Emission Trading System is for greenhouse gas emission; and India has a scheme run by the Bureau of Energy Efficiency that enables trading in energy units.

How will the Gujarat scheme work?

More is less.

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ETS) is a regulatory tool that is aimed at
same time minimising the cost of compliance for
commodity is particulate matter emissions. The
on the total emission load from all industries.

Various industries can buy and sell the ability to emit particulate matter, by trading permits (in kilograms) under this cap. For this reason, ETS is also called a cap-and-trade market.

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How many industrial units are participating in ETS?

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Live trading began last Tuesday, with 88 industries taking part in the first round out of 155 that have joined ETS so far. Emission permits worth Rs 2.78 lakh were traded. These industries are from sectors including textiles, chemicals and sugar, and spread over an area of 50-30 sq km. These industries use either coal or bagasse (residue after juice is extracted from sugarcane) as fuel, thus emitting a high amount of ash. The participants were selected on the basis of the size of their chimneys – those with a diameter of 24 inches or more. “So most of the participants are larger players,” said N M Tabhani, member secretary of GPCB.

Why was Surat chosen for the scheme?

In the last five years, the quality of air in Surat has deteriorated. In 2013, when the project was conceptualised, the PM10 level at Air India Building in Surat was 86 micrograms per cubic metre. According to GPCB annual reports, pollution levels have increased between 120-220 per cent, with PM10 in 2018 reaching 189 µg/cu. m at Air India Building, 282 µg/cu. m at Sachin Industrial Estate and 261 µg/cu. m at Garden Silk Mills. Surat was chosen because its industrial associations agreed to run the pilot scheme, said officials associated with the project. Also, industries in Surat had already installed Continuous Emission Monitoring Systems, which makes it possible to estimate the mass of particulate matter being released.

How does the trading take place?



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At the beginning of every one-month compliance period (starting from the beginning of the month), 80 per cent of the total cap of 280 tonnes for that period is allocated to participating units. These permits are allocated based on an industry's emissions (for the previous period) as this determines the amount of particulate matter remaining 20 per cent of the permits during the first auction. The price of the permits is Rs 5 per kilogram. Participating units may buy and sell permits during the period. The price is not allowed to cross a ceiling of Rs 100 per kilogram or fall below Rs 5 per kg, both of which may be adjusted after a review. On Tuesday, GPCB put out 55,993 permits, of which 55,614 were traded.



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How are the auctions conducted?

These take place on the ETS-PM trading platform hosted by the National Commodities and Derivatives Exchange e-Markets Limited (NeML). All participants must register a trading account with NeML. Transactions are linked to the bank accounts of the users, who can view updates through these accounts.

There are two types of auctions. In the Uniform Price Auction every Tuesday between 3 and 5 pm, the week's permit price is discovered by participating members through bidding. Second, there is a continuous market between Wednesday and Monday (2 pm to 5 pm) where members will buy and sell permits whose prices were fixed on Tuesday.

For a true-up period of 2-7 days before the completion of the compliance period, units may continue to buy and sell any remaining permits at the final auction price to meet their compliance obligations.

How will ETS help reduce emissions?

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“Industries in this area are emitting way above [the cap] at 362 tonnes per month. To bring them down to 280 will be a huge reduction. In the future this cap may be reduced below 280 tonnes,” said Gargi Goswami, a research associate at Abdul Latif Jameel Poverty Action Lab (J-PAL) with its global office at Massachusetts Institute of Technology, J-PAL, along with Energy Policy Institute at the University of Chicago in India, and NeML and South Gujarat Textile Processors Association are partners in the ETS project.

“These permits are not a way to allow industries to keep polluting. Purchasing permits is only an interim measure for many of these units who find it financially difficult to install air pollution control measures. In other words it helps you buy some time and make investments later. So the idea of this scheme is also to make sure that some units realise that it is cheaper to install APCM and reduce emissions rather than buy permits at a higher cost that will vary due to the bidding process,” Goswami said.

Will there be a punitive action for non-compliance?

Based on permits held by units at the close of the compliance and true-up periods, units will be declared compliant or non-compliant. An environmental damage compensation at Rs 200/kg will be imposed for emissions in excess of a unit’s permit holdings at the end of the compliance period. This amount will be deducted from an environmental damage compensation deposit that each unit has to submit before the start of the scheme – Rs 2 lakh for small units, Rs 3 lakh for medium ones and Rs 10 lakh for large units. After any deduction, a unit will have to deposit extra money to meet that shortfall.

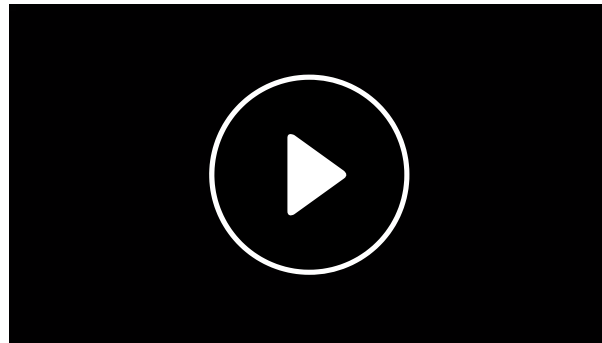
To prevent any participant from hoarding permits, an upper limit has been set – 1.5 times the initial allocation for the compliance period, or 3 per cent of the market cap for the compliance period. Also, no unit may sell more than 90 per cent of its initial allocation.

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