Clean Development Mechanism and Carbon Credits
A Primer

Celebrating the 60th Year of Excellence

Professional Development Committee
The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

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And
Carbon Credits – A Primer

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Email : pdc@icai.org

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FOREWORD

We have been witnessing changes in severe weather conditions and shift in rainfall patterns across the world. These changes in the climate are directly or indirectly attributed to human activities that alter the composition of the global atmosphere in addition to natural climate variability. Such impacts of climate change would have far-reaching and unpredictable environmental, social and economic consequences. Our fight towards climate change has so far been at a very low pace, but it has got impetus in the last few years with very significant participation from Governments, Scientists, Technologists, NGOs, Business Houses and common people.

Some decades ago, a debate started as to how to reduce the emission of harmful gases which 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 have voluntarily decided that they will bring down the level of carbon they are emitting to the levels of early 1990s.

Kyoto Protocol is one of the most important milestones to tackle this global challenge which provides for three innovative mitigation mechanisms. One of these mechanisms is the Clean Development Management (CDM). The CDM Project has various steps which invariably include the process of calculating emission reductions (CER). The net CER is later verified and certified by an independent entity to ensure compliance of specific criteria defined under the Kyoto Protocol. The CDM Projects also comprise of validation of project design and other associated documents. We believe that the chartered accountant, being a significant member in the national building, could contribute extensively in this process of mitigating climate change in terms of trading, accounting, verification and validation aspects.

It is a matter of great pleasure that Professional Development Committee of ICAI, considering the importance of the matter, has come out with the publication on "Clean Development Mechanism

& Carbon Credits – A Primer". This publication speaks in detail of various opportunities for professional accountants in this newly emerging area of carbon credit.

I congratulate CA. Rajkumar Adukia, Chairman, Professional Development Committee and his secretariat for putting in their efforts in preparing such a knowledge disseminating publication on carbon credit.

I hope this publication would serve as a guideline and support to all professional accountants to take up their assignments effectively and efficiently in the area of carbon credits.

Ved Jain

President, ICAI

Date : January 01, 2009

PREFACE

In order to achieve faster economic growth, countries are going in for rapid but unorganized industrialization. This has led to emission of green house gases (GHG) in the atmosphere resulting in pollution of environment. To control pollution, the concept of Carbon Credit or mitigation of Climate change has been introduced. Mitigation of climate change refers to human intervention to maintain greenhouse gases to a level that is not harmful for the planet. In order to do this, we can adopt two strategies: either go in for reduction in the emission or increase removals by sink.

In early 1980s, climate change was recognized as a great danger. To counter this problem, Kyoto Protocol came into force on 16th February, 2005. Kyoto Protocol is one of the most important tools to implement mitigation mechanism. India accepted Kyoto in August 2002 itself. This protocol clearly states that developed countries have to reduce their GHG emission levels by at least 5% against the baseline levels of 1990 in five years' time from 2008 to 2012.

The above challenge has compelled developed countries to earn and trade emissions credits through projects implemented either in other developed countries or in developing countries which they can use towards meeting their commitments. Through Clean Development Mechanism (CDM), Certified Emission Reduction units are earned. These units are traded in the market.

India and China are likely to emerge as the biggest sellers and Europe is going to be the biggest buyers of carbon credits. India is one of the countries that have 'credits' for emitting less carbon and is therefore having surplus credit to offer to countries that have a deficit.

For being a certified project it is necessary to have the validation of the same. Validation is an assessment of the design of a greenhouse gas emission reduction project. It provides for analysis of the project design document and other associated documents and information which would include project design, baseline study, monitoring methodology and plan including a verification schedule. The validation also includes background investigation of a mitigation project. Similarly, verification is a periodic review to determine actual emission reductions of the Clean Development Mechanism (CDM). This validation/verification needs to be carried out at regular intervals once a registered project of mitigation is implemented and is carried out by an independent operational entity.

Professional Accountants, being the active contributors to economy of our nation, could play a pivotal role in mitigating the climatic changes by effectively performing the functions of validation and verification of such mitigation projects to comply with the requirements of the Kyoto Protocol.

The Professional Development Committee has felt that there is a tremendous potential for our members in practice and industry in this field. Thus, the committee has come out with a publication "Clean development Mechanism & Carbon Credits – A Primer". We have tried to incorporate all the relevant information which is useful to gain an insight in the subject.

I am thankful to Shri Vinit Deo and CA. Vikas Kumar, partner, Alok Sharma & Co. for drafting the said publication. I am also thankful to Mr. Rahul Rai, Vice President, Finance & Control, Rabo Equity Advisors for providing an article on Professional Opportunities for Chartered Accountants in Carbon Trading.

I am also thankful to the following officials/professionals for their valuable contribution in developing an exhaustive publication.

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I hope this material would prove very helpful for new entrants and existing experts in the field of carbon trading.

CA. Rajkumar Adukia
Chairman, Professional Development Committee

Date : January 01, 2009