

Finance mechanisms for accelerating industry decarbonization

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Industries have a key role to play in keeping global warming at less than 2°C. It is the private sector that is expected to lead the way in creating low-carbon pathways for industries to transition. The Indian industry is recognized globally for its proactive, ambitious and pioneering climate actions. However, to meet the climate goals a wider and deeper industrial transition is required. For this the sector requires an enabling environment in pursuance to incorporate sound climate financial decision making and develop resilient strategy. The theme focuses on understanding the specific aspects or needs that are required to mobilize and scale up finance from industrial perspectives that yield maximum benefits through effective collaboration.

Track 1: Accelerating carbon pricing for low carbon finance in the corporate sector

Carbon pricing has been recognized as one of the effective and critical tools for setting a social cost of carbon to correct externalities and efficiently reduce emissions from the corporate sector. Introduction of a price on carbon is a reflection of the damage that has occurred which not only encourages industries and manufacturers to monitor and reduce emissions but to invest in low carbon technologies. Besides this, carbon pricing policies have been recognized to promote clean energy transitions and accomplish equity goals. However, until now corporates have been imposing carbon taxes through internal carbon pricing which on one hand increases competitiveness and on the other hand, has been rendered to generate inefficient revenues. It is primarily because the price benchmarked is not sufficient to compensate for the damage caused mainly due to lack of proper guidelines and policy interventions to promote such environmental market instruments among the corporate sector. This has widely discouraged technological interventions among many corporates implying carbon pricing as a mere management tool lacking sufficient impact towards adopting a low emissions corporate strategy.

Although Article 6 of Paris Agreement, governing the establishment of carbon markets, remained unresolved at COP25, it is almost certain carbon pricing will become more mainstream in coming years. Explicit carbon taxes, border tax adjustments and carbon markets are likely to be used as a mechanism to regulate global emissions. In order to help understand and quantify potential climate risk impacts, the Task Force on Climate Related Financial Disclosures recommends the application of ICP as a key metric in scenario analysis because it is forward-looking and can help internalize the idea of carbon risk and prepare to aggressively compete in a carbon-constrained world. In addition to this, ICP is also a unique tool to help organizations create funds that can be used to invest in low carbon transition.

CDP has partnered with TERI to develop a handbook on internal carbon pricing to support corporate sector in their endeavour to put a price on carbon emissions. Like the former handbook, the second edition of the handbook will include step-wise guidance on implementing an internal carbon pricing strategies, existing policy landscape and best practices undertaken by leading corporates in India. During this event, CDP will launch the second handbook and take stock of the knowledge base and strengthen understanding of emerging trends in carbon pricing during a high-level panel discussion.

Track 2: Mainstreaming green finance for decarbonizing industries

A green industry is the goal, but on the way to achieving this goal, it is imperative to support industries in transitioning to decarbonization pathways. Such support must be available through enabling policies and access to affordable finance. Among India's eight core sector industries, which form the backbone of any developing economy, are steel, cement and electricity. These three and the others are highly emission intensive but also essential for the country's vision to become a \$5 trillion economy by 2024-25. Some of these industries, such as steel, are working at the most optimum level of technology available. In these sectors, efficiency optimization is not the problem, however the lack of scalable alternatives is.

For several industries, energy transition can be driven by the competitiveness of low-carbon technologies, notably in the case of the power sector, and personal transport segment. However, for other sectors such as heavy industry (including steel) and heavy transport; the technologies and operational models required are yet to achieve market competitiveness.

It is here that the role of finance becomes indispensable. Green finance in the form of bonds, grants, loans, results based finance or any other form is crucial for three aspects: R&D, scalability, and affordability. Increased R&D can help develop technological alternatives which can reduce emissions significantly when deployed at a large scale; also access to viable finance is necessary for installing, operationalizing and utilizing this technology to achieve actual emissions reductions.

This issue is especially critical for India, in the context of its high economic and infrastructure growth, projected for the coming decade. Historically, industrial, economic and social development world-over has been fueled by coal and other fossil fuels. Now for developing countries, including India, to manage this challenging feat without resorting to the traditional development pathways and models, requires a concerted and collaborative effort, which includes access to affordable finance and supportive policies.

This panel discussion will focus on developing a degree of understanding on what is required to advance the ongoing industry transitions.