

1. What a Carbon Tax can and can't achieve against Climate Change

Context:

- ▶▶ Climate change is undoubtedly one of the most serious challenges for the entire world, and the poor in countries such as India are especially at risk. In this context, it is essential to understand the instrumental role that carbon tax could play.

What is Climate Change?

- ▶▶ **'Climate Change'** as a change of climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods.
- ▶▶ The major characteristics of climate change include rise in average global temperature, ice cap melting, changes in precipitation, and increase in ocean temperature leading to sea level rise.

India's and world's Emission Scenario:

- ▶▶ **India is the fourth highest emitter of carbon dioxide in the world**, accounting for 7 per cent of global emissions in 2017.
- ▶▶ **The top four emitters in 2017, which covered 58 per cent of global emissions**, were China (27 per cent), the US (15 per cent), the European Union (10 per cent) and India (7 per cent), according to the projection by the Global Carbon Project. The rest of the world contributed 41 per cent last year.
- ▶▶ India's emissions look set to continue their strong growth by an average of 6.3 per cent in 2018, with growth across all fuels — coal (7.1 per cent), oil (2.9 per cent) and gas (6.0 per cent).

What is Carbon Tax?

- ▶▶ **Carbon Tax is a form of Pollution Tax.** It levies a fee on the production, distribution or use of fossil fuels based on how much carbon their combustion emits.

How can carbon tax be helpful to mitigate Climate Change?

- ▶▶ Carbon tax primarily discourages environment unfriendly production and consumer practices by making the 'polluting sources' costlier.
- ▶▶ The IMF team argues that such a **Pigouvian tax (A Pigouvian tax is a tax on any market activity that generates negative externalities)** will help limit global warming to 2 degrees Celsius above pre-industrial levels, as embedded in the 2015 global climate change agreement in Paris.

- ▶▶ A carbon tax can eventually be an important part of any mitigation strategy—from new **technologies to rethinking cities to lifestyle changes.**
- ▶▶ The idea of a carbon tax in itself is a good one. **It does its work thorough the price system,** rather than rationing quantities through instruments such as carbon credits. Putting a price on carbon and taxing it directly is far better than the ‘cap and trade’ system.
- ▶▶ Carbon tax system has also advantages due to its simplicity, affordability, transparency, revenue recycling and predictability of carbon prices.
- ▶▶ **The carbon tax has three benefits of :**
 1. Reducing Emissions
 2. Stimulating Innovations
 3. Raising Government Revenue

Problems associated with the Carbon Tax Policy:

- ▶▶ A carbon tax increases the price that consumers pay for energy.
- ▶▶ The IMF estimates that carbon tax of \$75 per tonne of carbon consumed will increase the price of coal by 230%, natural gas by 25% and electricity by 83% and petrol by 13%. Such steep price hikes affects developing country like India where middle class and farmers are the biggest consumers of energy, and on the other, **people emerging out of poverty need access to cheap electricity and fuels.**
- ▶▶ The idea of a global carbon tax will run into two problems. First, **it will penalize incremental carbon emissions** rather those that have already been spewed into the atmosphere since the Industrial Revolution.
- ▶▶ A homogenous global carbon tax will, in effect, impose costs on developing countries rather than those that have been responsible for most of the existing stock of pollution.

Conclusion:

- ▶▶ Climate change is undoubtedly one of the most serious challenges for the entire world, and the poor in countries such as India are especially at risk.
- ▶▶ However, the underlying principle should be of Common but Differentiated Responsibilities and Respective Capabilities that has been recognized by the United Nations Framework Convention on Climate Change.
- ▶▶ Global cooperation is also needed, since climate change is essentially a global challenge. India should be part of the global alliance to fight the problem.

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- ▶▶ But it also needs to reiterate that it is not responsible for what has been pumped into the atmosphere over the past three centuries, that its average citizen consumes too little energy, and that the developed world needs to help finance its transition to cleaner energy.

