

THE BENEFITS OF A CARBON TAX

Relevant for: Environment | Topic: Environmental Conservation, Sustainable Development, and EIA

With China, the largest carbon dioxide emitter, announcing that it would balance out its carbon emissions with measures to offset them before 2060, the spotlight is now on the U.S. and India, countries that rank second and third in emissions. One way to cut effluents while earning revenues is to price the carbon content of domestic production and imports, be it energy or transport. With the International Monetary Fund endorsing the European Union's plan to impose carbon levies on imports, India can be among the first movers in the developing world in taxing and switching from carbon-intensive fuels (like coal), the main sources of climate change.

Record heat waves in Delhi, floods in southwest China, and catastrophic forest fires in California this year are indicative of the existential danger from global warming. India ranks fifth in the Global Climate Risk Index 2020. Between 1998 and 2017, disaster-hit countries reported \$2.9 trillion in direct economic losses, with 77% resulting from climate change, according to a United Nations report. The U.S. faced the highest losses, followed by China, Japan, and India.

Comment | [A case for a differential global carbon tax](#)

Air pollution has fallen worldwide after the COVID-19 outbreak, including in India. But with resumption of polluting activities, emissions in India are set to rise sharply unless strong action is taken. Carbon dioxide, the chief culprit in global warming, was 414 parts per million in August 2020 because of past accumulation. As one half comes from the three top carbon emitters, they need to drive de-carbonisation.

India has committed to 40% of electricity capacity being from non-fossil fuels by 2030, and lowering the ratio of emissions to GDP by one-third from 2005 levels. It is in the country's interest to take stronger action before 2030, leading to no net carbon increase by 2050. A smart approach is pricing carbon, building on the small steps taken thus far, such as plans by some 40 large companies to price carbon, government incentives for electric vehicles, and an environmental tax in the 2020-21 budget.

One way to price carbon is through emission trading, i.e., setting a maximum amount of allowable effluents from industries, and permitting those with low emissions to sell their extra space. Pilot projects on carbon trading in China have shown success. There is valuable experience in the EU, and some American states — for example, the regional greenhouse gas initiative in the U.S. northeast. Another way is to put a carbon tax on economic activities — for example, on the use of fossil fuels like coal, as done in Canada and Sweden. Canada imposed a carbon tax at \$20 per tonne of CO₂ emissions in 2019, eventually rising to \$50 per tonne. This is estimated to reduce greenhouse gas pollution by between 80 and 90 million tonnes by 2022. The fiscal gains from pricing carbon can be sizeable. A carbon tax at \$35 per tonne of CO₂ emissions in India is estimated to be capable of generating some 2% of GDP through 2030. An internally recommended carbon price of \$40 per metric tonne in China could generate 14% additional revenues.

Comment | [Putting a global price on carbon](#)

Big economies like India should also use their global monopsony, or the power of a large buyer in international trade, to impose a carbon tariff as envisaged by the EU. Focusing on trade is vital because reducing the domestic carbon content of production alone would not avert the harm if imports remain carbon-intensive. Therefore, leading emitters should use their

monopsony, diplomacy and financial capabilities to forge a climate coalition with partners.

India is among the nations that are hardest hit by climate impacts. There is growing public support for climate action, but we need solutions that are seen to be in India's interest. A market-oriented approach to tax and trade carbon domestically and to induce similar action by others through international trade and diplomacy offers a way forward.

Ed Araral is Associate Professor and Director, and Vinod Thomas is Visiting Professor, at the Lee Kuan Yew School of Public Policy, National University of Singapore

You have reached your limit for free articles this month.

To get full access, please subscribe.

Already have an account ? [Sign in](#)

Start your 14 days free trial. [Sign Up](#)

Dear reader,

We have been keeping you up-to-date with information on the developments in India and the world that have a bearing on our health and wellbeing, our lives and livelihoods, during these difficult times. To enable wide dissemination of news that is in public interest, we have increased the number of articles that can be read free, and extended free trial periods. However, we have a request for those who can afford to subscribe: please do. As we fight disinformation and misinformation, and keep apace with the happenings, we need to commit greater resources to news gathering operations. We promise to deliver quality journalism that stays away from vested interest and political propaganda.

Dear subscriber,

Thank you!

Your support for our journalism is invaluable. It's a support for truth and fairness in journalism. It has helped us keep apace with events and happenings.

The Hindu has always stood for journalism that is in the public interest. At this difficult time, it becomes even more important that we have access to information that has a bearing on our health and well-being, our lives, and livelihoods. As a subscriber, you are not only a beneficiary of our work but also its enabler.

We also reiterate here the promise that our team of reporters, copy editors, fact-checkers, designers, and photographers will deliver quality journalism that stays away from vested interest and political propaganda.

Suresh Nambath

Please enter a valid email address.

Subscribe to The Hindu now and get unlimited access.

Already have an account? [Sign In](#)

Start your 14 days free trial [Sign Up](#)

You can support quality journalism by turning off ad blocker or purchase a subscription for unlimited access to The Hindu.

[Sign up for a 30 day free trial.](#)

END

Downloaded from **crackIAS.com**

© **Zuccess App** by crackIAS.com

CrackIAS.com