Carbon Tax for Emission Reduction

What is the issue?

- India is taking varied efforts to curb pollution and achieve the Intended Nationally Determined Contributions (INDC) targets under the Paris climate deal.
- In this regard, it is essential to understand the instrumental role that carbon tax could play.

How serious is the pollution impact?

- Local pollutants, particularly particulate matter, cause many health-related problems.
- These include issues associated with breathing, wheezing, asthma, and aggravation of existing respiratory and cardiac conditions.
- It has been found recently that air pollution may lead to hypertension risk, particularly to women in India.
- Further, life expectancy, due to this, has reduced by 2.6 years.
- Worldwide, more deaths per year are linked to air contamination, particularly from the industrial and transport sectors.
- The situation is getting worse, particularly in megacities, including Delhi.

What is India's emission scenario?

- India is the world’s fourth-largest emitter of Greenhouse Gases (GHGs) though per capita emission is low due to a large population.
- Rapid economic growth with little concern for the environment makes this a serious threat.
- India’s total GHG emissions are more than 3,200 million metric tonnes, with an average growth of 6.3% in 2018.
- This constitutes around 7% of the world’s total GHG emissions.
- The energy sector has a major role in this and contributes 68.7% of total emissions.
- Over a span of 24 years from 1990, this emission has increased by 180%.
- The growing energy demand and consumption have led to an emergent need to put a price on emissions.
- This would directly reduce the exploitation of natural resources and pollution.

How does carbon tax help here?

- Carbon tax primarily discourages environment unfriendly production and consumer practices by making the 'polluting sources' costlier.
- This works without any negative effect on overall employment and output levels.
- Putting a price on carbon and taxing it directly is far better than *the 'cap and trade' system.*
- This is because the carbon tax system has advantages due to its simplicity, affordability, transparency, revenue recycling and predictability of carbon prices.

- It works on the principle of 'the polluter pays'.
- The principle has been adapted globally and many countries have successfully introduced a carbon tax.
- [E.g. in Europe, Denmark, Finland, Germany, Ireland, Italy, Netherlands, Norway, Slovenia, Sweden, Switzerland, and the UK had already imposed carbon tax in the 1990s
- Data shows that these countries generate revenue up to $1.7 billion annually from the tax.
- Countries use the revenue generated from this on energy efficiency improvements, renewable energy support program and public expenditure.
- The U.S., Canada, Singapore too has carbon tax systems in place.
- Among developing countries, South Africa has planned to introduce the tax soon.]

What can India do?

- Clearly, the carbon tax has three benefits of -
    i. reducing emissions
    ii. stimulating innovations
    iii. raising government revenue
- In all, carbon tax is the most basic economic instrument which can be used to price carbon and combat CO_2 emissions, and correct negative externalities.
- India should take up carbon tax as an effective policy instrument in reducing different local pollutants and achieving INDC targets.
- The tax proceeds may be used to -
    i. subsidise clean fuels and fuels used in the agriculture sector
    ii. promote electric vehicles through subsidy
    iii. improve public transport
    iv. build infrastructure

- India has to become a pioneer among emerging economies and impose an explicit carbon tax, and let the polluters pay.

Source: Financial Express

Quick Facts

Cap and Trade System

- Under the ‘cap and trade’ system, maximum emission limits are decided for the firms.
- Firms are required to buy permits if they pollute more than the prescribed limit.
- Similarly, firms can sell their permits to others if they pollute less than the limit.