Mitigating Climate Change

What is the issue?

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A large increase in global temperatures correlates with an average 5% loss in global GDP, with poor countries suffering costs in excess of 10% of GDP.

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What mitigation policy can be followed?

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- A global and immediate policy response is urgently required to reduce greenhouse gas emissions and mitigate the effects of climate change.
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- **Multilaterally coordinated imposition of a carbon tax** can be a potent mitigation policy.
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- A carbon tax aims to internalise the externality of climate change by setting a price on the carbon content of energy consumed or greenhouse gas emitted in the production or consumption of goods.
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- Carbon tax regimes will only be effective if **harmonised internationally.**
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- Different country-wise policies could lead to **'carbon leakages'** where energy-intensive businesses will most likely move to less strict national regimes.
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What are the advantages of carbon taxes?

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- A carbon tax regime avoids the problems related to choosing a baseline.
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- In a price approach, the natural baseline is a zero carbon tax.
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- A carbon tax policy will be better able to adapt to the element of uncertainty which pervades the science of climate change.
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- Quantity limiting policies are often accompanied by administrative arbitrariness and corruption through rent-seeking. This sends off negative signals to investors.
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- In a price-based carbon tax, the investor has an assured long-term regulation to adapt to and can weigh in the costs involved.
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- The most contentious issue in any international negotiation on climate change mitigation either at the level of the WTO or at the UNFCCC has been **the issue of equity between high-income and low-income countries.**
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- The price-based approach in the form of carbon taxes makes it easier to implement such equity-based international adjustments than the quantity-based approach.
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- **The carbon tax will essentially be a 'Pigovian Tax'** which balances the marginal social costs and benefits of additional emissions, thereby internalising the costs of environmental damage.
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- It can act as an incentive for consumers and producers to shift to more energy-efficient sources and products.
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What does the global experience say?

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- Some countries and regions such as the U.S. and the European Union already have **fairly successful carbon pricing regimes** in place in the form of carbon taxes and emissions trading schemes.
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- Some other countries have introduced general taxes on energy consumption instead of direct taxes on carbon content.
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- The political consensus in favour of a direct carbon tax will be difficult to achieve in low and middle income countries that have developmental priorities and lack the capacity to administer such regimes.
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- A general tax on energy consumption combined with a technology-centric

policy that promotes entrepreneurs and investors who develop low-energy intensive products can be a good starting point from where they can gradually move towards a direct carbon tax.
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- Another near-term approach can be a **‘cap-and-tax’** which combines the strengths of both quantity and price approaches.
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What is the way ahead?

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- Countries must negotiate and share policy experiences and researches in this area.
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- They also must decide upon the **appropriate forum to discuss and implement** any such mitigation policy.
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- Any prospective policy regime must give the highest importance to the African continent.
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Source: The Hindu

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