

Green road to Paris

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Written by [Arvind Subramanian](#) | Updated: May 13, 2015 6:00 am



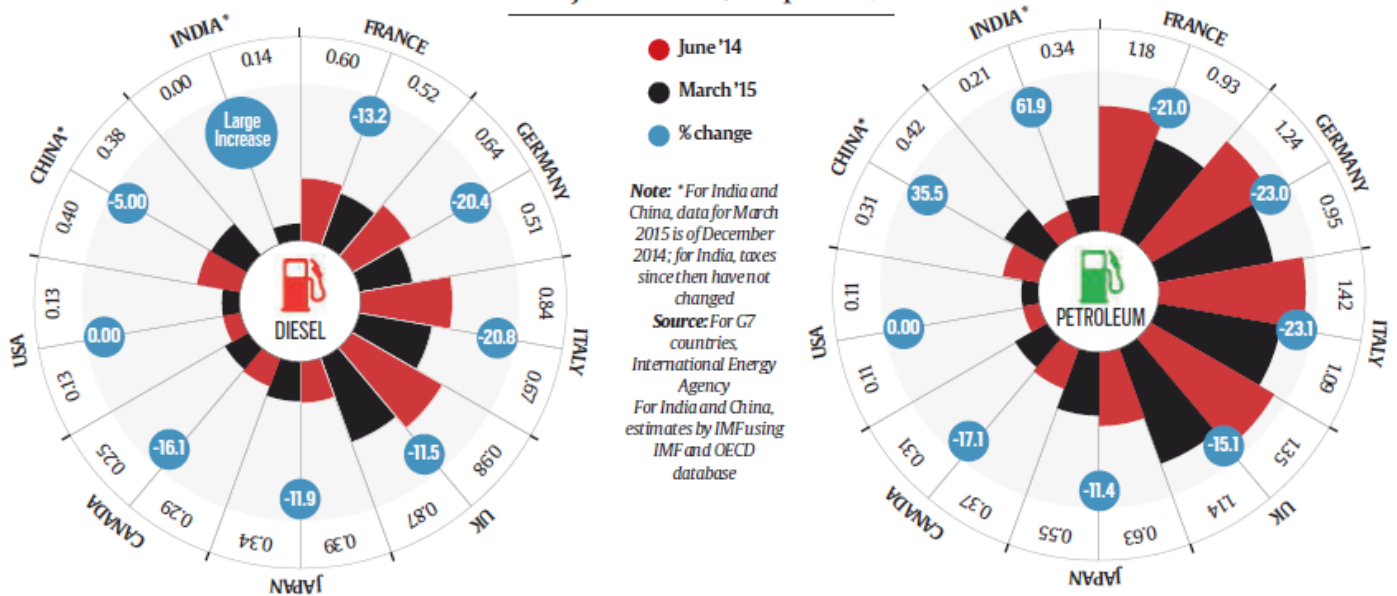
India has moved from a carbon subsidisation regime to one of significant carbon taxation — from a negative price to a positive price on carbon emissions.

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How should India approach the forthcoming, and highly anticipated, climate change negotiations planned for December in Paris (COP-21, as it is called)? The answer is, confidently and constructively, based on a series of green actions domestically that contrast, at least in one key area, with regressive inaction by advanced countries. Start with this contrast.

The cause of climate change has suffered a setback recently because of the large (about 35-40 per cent) decline in international energy prices. But that setback need not have occurred had governments taken offsetting actions to impose taxes on petroleum products. How have the major governments fared on this score? The chart highlights a striking difference between the responses of advanced countries and those of India. The former have reduced taxes while India has increased them substantially. Essentially, advanced countries have stood by passively, passing on the benefits of price reductions to consumers and producers.

Domestic petroleum taxes in major countries (US\$ per litre)



One surprise is the lack of outrage by international greens at this non-action on the part of advanced countries. One should also not be overly impressed by recent arguments made, for example, by the IMF, that the decline in energy prices offers an opportune time for advanced countries to impose carbon taxes. The fact is, such taxes were called for even when oil prices were above \$100 per barrel. So, imposing them at \$60 per barrel is only partial and inadequate catch-up.

While the advanced countries have not exactly covered themselves in glory, India has taken a number of positive actions to combat climate change. Consider a few.

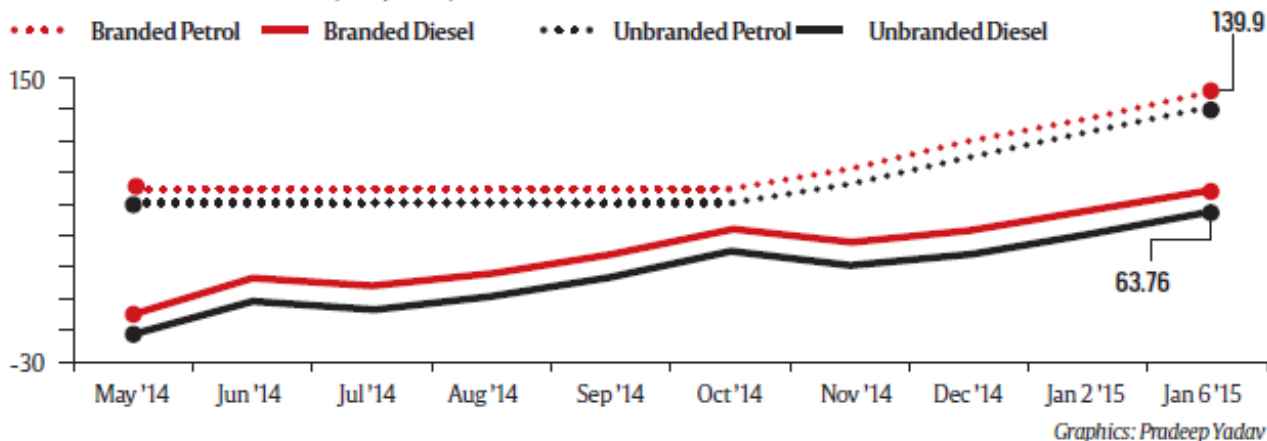
First, reflecting the developments noted in the chart, the government increased the excise duty on petrol and diesel, passing on only about one-third of the benefit of declining prices to consumers. As a result, on petroleum products, India has moved from a carbon subsidisation regime to one of significant carbon taxation — from a negative price to a positive price on carbon emissions. And the shift has been large.

For example, according to calculations done for the Economic Survey by Muthukumar Mani and Fang Zhang of the World Bank, the effect of the recent action has increased the carbon tax by nearly \$60 per tonne of CO₂ in the case of petrol and nearly \$42 per tonne in the case of diesel.

In absolute terms, the implicit carbon tax (\$140 for petrol and \$64 for diesel) is substantially above what is now considered a reasonable initial tax on CO₂ emissions of \$25 per tonne (see graph). Calculating the CO₂ emission reduction from the measures taken for petrol and diesel suggests that there will be a net reduction of 11 million tonnes of CO₂ emissions in less than a year, 0.6 per cent of India's annual emissions compared to the baseline.

FROM CARBON SUBSIDY TO CARBON TAXATION

IMPLICIT CARBON TAX (US\$/tCO₂)



Second, the coal cess has quadrupled from Rs 50 per tonne to Rs 200 per tonne. This has resulted in an implicit carbon tax of \$2 per tonne of CO₂ on domestic coal, and a carbon tax of \$1.4 per tonne of CO₂ on imported coal. This may, of course, still not be enough, and cleaning coal may require more domestic action by way of stricter regulation and enforcement. For example, the health cost of coal for power generation alone in India is estimated to range from \$3.41 per tonne to \$51.11 per tonne, depending on the value of statistical life, which is well above the current tax on coal.

Third, according to calculations done by Jonah Busch at the Centre for Global Development, the 14th Finance Commission effectively gave afforestation in India a boost by conditioning about \$6 billion of transfers to the states based on their forest cover. Implicitly, India is paying states about \$125 per hectare of forest per year, which compares favourably with other afforested countries. For example, Costa Rica pays landowners \$60-80 per hectare per year for forest protection and \$200-300 per hectare per year for forest restoration. Ecuador pays landowners \$10-30 per hectare per year for forest protection; Mexico pays \$27-36 per hectare per year; Vietnam pays about \$15-20 per hectare per year.

Fourth, the prime minister has announced an ambitious plan to ramp up the solar effort from 20 gigawatts to 100 GW by 2025. Fifth, despite the considerable costs that will be inflicted on domestic industry and eventually on consumers, the government has committed to phasing out hydrochlorofluorocarbons, a toxic source of greenhouse emissions.

Finally, and perhaps most encouraging from a medium-term perspective, pollution-related issues are becoming part of the domestic discourse and potentially a staple of the politics of outrage. The series on air pollution carried by this newspaper and the recent launch by the PM of monitoring mechanisms for pollution in a number of cities are significant in this regard. The pressure on governments to respond to this bottom-up pressure is only likely to increase over time. While the issues are local and domestic, there will be positive international spillovers relating to climate change. The time is not far off when carbon taxes to offset the domestic social marginal costs of carbon-related pollution — health, accidents and congestion — can be envisaged, which will have global benefits.

Against this background of solidly green actions, how should India approach Paris? For a start, India, especially with a new PM, can credibly repudiate its past perceived image as a recalcitrant negotiator, focused on asking others to contribute without offering contributions of its own. India's green actions should be the starting point and the basis for what India could be willing to offer in Paris and what it must seek of advanced countries.

At the end of the classic movie *Casablanca*, the soon-to-be-separated protagonists console themselves with the thought that, after all, "We'll always have Paris." For India and the world, Paris can be a good memory: India is doing a lot and can hence offer a lot to make COP-21 successful, but so too must its partners. India should shape the conversation leading up to Paris, above all by highlighting its domestic actions, so that the world doesn't just ask what India can do to make Paris successful, but also asks what others can do, and above all, begins by asking what they have not yet done.

The writer is chief economic advisor to the government of India.

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