



Proceedings

# Roundtable Discussion Exploring Role of an Inclusive Carbon Tax Policy in Climate Mitigation Efforts in India

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## **Proceedings from the Roundtable Exploring Role of an Inclusive Carbon Tax Policy in Climate Mitigation Efforts in India**

Discussion centres on climate change, particularly the role of energy and the potential of a carbon tax as a mitigation strategy. It delves into its feasibility and evaluates expenditure in addressing carbon emissions. Leading this discourse is a diverse panel from academia, research, industry, NGOs, and donors.

### **Context Setting:**

The topic of carbon tax in India, which is not yet implemented but has potential revenue avenues. There is a question if financial measures can truly offset carbon emissions and highlight the need to balance political and market economies in this discourse. While China and India are major carbon contributors, their emission intensity relative to population may differ. There is a need to emphasise on both international experiences and local nuances, such as intra-country comparisons and understanding who bears the carbon cost. Monetization may not be the sole answer; other solutions should also be explored. With a goal to provide direction and ensure future discussions, the speaker invites a holistic debate on India's carbon tax encompassing economic, social, and political dimensions.

### **Background Presentation**

Over time, the CBGA has recognized the centrality of governance in managing climate finance, emphasising that budgets must reflect accountability. India's commitment to reducing carbon emissions demands substantial investment in climate finance. A parliamentary panel on finance estimates an annual investment of \$50 to \$100 billion for India to reach net zero emissions by 2070.

### **Global and Local Momentum:**

Carbon tax is seen as a promising fiscal measure to combat climate change. Its potential lies in influencing both supply and demand aspects of the economy. Globally, 28 countries have adopted carbon tax, with another 46 embracing both carbon tax and emission trading schemes. The Paris Climate Accord underscores carbon pricing as crucial for mitigation. India has dabbled in implicit carbon pricing and is revising the Energy Act to usher in a carbon trading market. Institutions like the RBI and the Ministry of Petroleum and Natural Gas vouch for the relevance and efficiency of carbon tax in India.

### **Advantages and Challenges:**

The simplicity, substantial revenue generation, and a clear market signal are some strengths of the carbon tax. Revenue generated can fund social sector programs or offset other taxes. However, political challenges, the risk to competitiveness, and impacts on poverty-stricken and unequal societies can't be ignored. For India, the design, equitable revenue distribution, and effective communication are pivotal to surmount these challenges.

A synergistic approach with other instruments, like emission trading schemes and renewable energy subsidies, could mitigate certain challenges.

### **Key Discussion Points**

- The Perform, Achieve, and Trade (PAT) scheme was spotlighted as an effective method to enhance energy efficiency within industries, using a system of targets and rewards. The proposition involves adapting this model for carbon taxation to motivate emission reduction while incentivizing efficiency through the trade of carbon credits.
- The emissions trading scheme deliberations for Surat, India, unveiled the intricate task of choosing an appropriate pollutant for trading and highlighted the benefits of load-based standards. It brought to light the implementation hurdles of a carbon tax and underscored the need for careful regional planning to ensure successful emissions trading schemes.
- The necessity of transparent utilization of carbon tax revenue was stressed, with concerns raised about its effectiveness if not directly channeled towards environmental goals. This calls for dedicated efforts to prevent diversion of funds intended for specific environmental objectives.
- The potential adverse effects of a carbon tax on the manufacturing sector were discussed, emphasizing the risk of increased imports and the impact on vulnerable communities. It highlighted the importance of inclusive planning to mitigate these consequences.
- Questions about the Bureau of Energy Efficiency's (BEE) capability to oversee India's forthcoming ETS scheme were raised, suggesting a need for an evaluation of BEE's infrastructure and capacity to manage the carbon market effectively.
- The conversation on credits, allowances, and caps in the carbon market underscored the value of learning from global experiences to avoid pitfalls such as price crashes and explored the introduction of a green credits market to complement environmental efforts.
- The discussion critiqued the suitability of carbon taxation for financing the social sector, suggesting a reevaluation of its dual objectives to prioritize its role as a deterrent against environmentally harmful practices.
- The impact of carbon taxation on disadvantaged populations was examined, advocating for tax strategies that consider historical consumption patterns and emphasize local government involvement in climate finance to ensure equitable technology adoption.
- Carbon taxation's complexity was likened to changes in corporate and personal income taxes, with a call for clear objectives and a phased implementation to effectively influence behavior towards environmental sustainability.
- The allocation of carbon tax revenue was questioned, with proposals for state-level mechanisms to ensure

dedicated funding for climate initiatives, reflecting a need for transparent and equitable resource distribution.

- The balance between economic growth and environmental sustainability in India was debated, recognizing the need for a nuanced approach that integrates carbon taxes and subsidies to address sector-specific impacts.
- Integration of carbon taxes into the broader tax framework, including GST considerations, highlighted the challenges of achieving a system that is efficient, equitable, and conducive to sustainable development.
- A broader environmental tax strategy was recommended, starting with high-energy-intensity sectors and leveraging the PAT scheme to address climate change while generating revenue.
- The efficacy of direct taxation, including carbon tax, was questioned in terms of its past impact on clean energy development and the consistency of GST rates, suggesting a uniform approach to energy taxation.
- The need to expand the carbon tax discussion beyond the coal sector to include other major greenhouse gas emitters was emphasized, urging states to prepare for a future with diversified revenue sources.
- The benefits of explicit carbon pricing were highlighted as a means to simplify the tax system and address emissions trading challenges, promoting a uniform tax on fuels based on carbon content.
- The discussion addressed the transition away from fossil fuels, suggesting a progressive tax rate to mitigate the impact on prices and ensure a fair and effective revenue recycling framework.
- Advocacy for a pilot carbon tax approach underscored the importance of flexibility, accountability, and learning in tax policy design, aiming for transparent allocation of tax proceeds to support green technologies.
- The potential regressive impact of the carbon tax on consumers was acknowledged, with suggestions for digital infrastructure to implement offsetting mechanisms that support environmental objectives and alleviate social impacts.
- The discourse on equitable financing mechanisms for states during tax system transitions stressed the need for a comprehensive strategy that avoids the creation of new institutions, favoring a national tax rate for simplicity and efficiency.
- The Finance Commission's role in examining significant fiscal reforms, including the carbon tax, was highlighted as a mechanism to achieve consensus and integrate new policies into the fiscal framework.
- The challenge of incorporating the carbon tax into the GST framework was discussed, emphasizing the need for consensus among state governments and strategic alignment for fiscal reforms.
- The importance of inclusivity in carbon pricing mechanisms was underscored, addressing the need for supportive measures for affected sectors and communities, and exploring compensation mechanisms to mitigate impacts.
- The challenges of carbon pricing implementation were acknowledged, focusing on the need for a well-designed system that reduces emissions while ensuring accountability and effective fund utilization.

- Post-GST implementation issues related to state revenue losses and the redistribution of additional revenue highlighted the necessity for fiscal strategy revaluation to support equitable state support.
- The critical need for robust accountability mechanisms within the GST framework to ensure responsible fund utilization was emphasized, highlighting the role of local governance in environmental strategies.
- The progressive and inclusive design of a carbon tax was advocated, considering various factors beyond emissions to ensure a fair and effective tax system that balances environmental and socio-economic considerations.
- Tailoring the carbon tax to reflect each product's emissions and impacts suggests a holistic approach that addresses environmental concerns while mitigating socio-economic disparities.
- Carbon taxation's designation under the Concurrent List in the Indian Constitution was noted, emphasizing the need for collaborative policy formulation between central and state governments.
- The potential for a decentralized approach to carbon taxation was discussed, allowing states flexibility to align tax strategies with their environmental goals, underscoring the collaborative nature of achieving sustainability.
- The focus on identifying stakeholders ready for carbon tax adoption highlighted the need to consider the broader impacts of carbon emissions, advocating for a comprehensive approach to tax implementation.
- The suggestion for an Interstate Council to coordinate efforts among states on carbon taxation underscored the need for a unified approach to finance pollution mitigation and align tax design with environmental objectives.

**Annexure**  
**List of Speakers and Presenters**

<b>S.no</b>	<b>Name</b>	<b>Organisation</b>
1	Aman Srivastava	Centre for Policy Research
2	Asadullah	Centre for Budget and Governance Accountability
3	Bhagavat Patra	Berhampur University
4	Bhaskar Natarajan	Alliance for an Energy Efficient Economy
5	Indranil Chakraborty	OP Jindal University
6	Jyotsna Goel	Centre for Budget and Governance Accountability
7	Karishma Bist	Federation of Indian Chambers of Commerce and Industry
8	Krithika Jerome	Shakti Sustainable Energy Foundation
9	Mohan Patil	Federation of Indian Chambers of Commerce and Industry
10	Nilachala Acharya	Centre for Budget and Governance Accountability
11	Protiva Kundu	Centre for Budget and Governance Accountability
12	Rohit Jyotish	OP Jindal University
13	Saloni Sachdeva	Institute for Energy Economics and Financial Analysis
14	Sharad Pandey	Centre for Budget and Governance Accountability
15	Soutrik Goswami	Centre for Budget and Governance Accountability
16	Subrata Rath	Centre for Budget and Governance Accountability
17	V R Raman	Centre for Budget and Governance Accountability
18	Varun Agarwal	WRI, India
19	Vibhuti Garg	Institute for Energy Economics and Financial Analysis



