ONE-STOP DESTINATION FOR TAXMAN AND TAXPAYER

Holey Planet! Time to weaponise fiscal sops for 'green' consumption!

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By Shailendra Kumar, Founder Editor

HOLEY
Planet! It is just too sizzling and life is getting roasted! This is how the latest report of the UN Intergovernmental Panel on Climate Change (IPCC) describes the tottering health of our planet! The report prominently highlights: The chances of mankind living within planetary boundaries rest on the measures taken in the next seven years.
"There is a rapidly closing window of opportunity to secure a liveable and sustainable future for all
," adds the Report summarising the scientific data on global temperature rise, fossil fuel emissions and the impact of climate crisis. In 2022, there were 387 natural disasters resulting in loss of over 30,000 lives and damages worth billions of US Dollar. Hurricane Ian alone accounted for economic losses worth over USD 113 billion.Â Â **Â**

To mitigate the rise in global temperature of more thanÂ 1.5Â°C above pre-industrial levels , governments around the world have made commitments to dramatically reduce emissions of greenhouse gases between 2035 to 2070. However, to reach this goal, governments need to mobilize the civil society, including both private companies and consumers,
to change production and consumption patterns in a more climate friendly direction.Â
Green growth will require large-scale changes in the behaviour of households, businesses and governments. Taxes and other market-based instruments are key policy instruments for providing clear and sustained incentives to reduce environmental damage.

For decades, the focus across the world has been lopsidedly on the supply side - subsidies and tax deductions to corporate to reduce carbon footprints. Since the relationship between consumer and climate has been too complex, most governments have not designed schemes to trigger changes in consumers' behaviour. The problem is grimmer in the emerging economies.Â One EU study reveals that the realistic implementation of schemes to change consumer behaviour canÂ reduce carbon footprint by about 25%.Â Now, the question is - Which are the key sectors which enormously contribute to overall greenhouse gas emissions? - Transport (39%); buildings (24%); and food (26%).

Now, the next questions is - How to influence consumers' behaviour toward sustainable consumption patterns? Apart from being self-motivated or sensitised, the only two policy instruments every government has, are - the monetary and the fiscal tool-kits. Since monetary measures have many inherent limitations, I will focus more on the fiscal side which can incentivise consumers to adapt to greener options which may, in turn, nudge manufacturers to adopt carbon-neutral methods of production and use of clean energy. Green labels on products is becoming a vogue. Unilever recently announced that above 90,000 of its products will have 'climate label' soon. If one goes by the ESG saga and rampant incidents of 'greenwashing', governments across the world will have
to empower their food administrations to audit and validate such labels
 to be preferred by consumers who may also end up paying higher prices.

This brings us to the larger question: Do fiscal sops tethered to consumers' behavioural changes really work?Â ***Yup***
, it works but not in the short-run! Behavioural change takes time owing to multiple factors such as the stage of economic growth of a country; per capita income; prices of green goods and availability of greener options. China's tax subsidy policy for promoting EVs is one good example.
 China ran this subsidy scheme for full one decade and has now extended it till end of 2023. As per data, EVs' sales doubled in 2022 - almost 87% growth YoY, and it is now one in four cars. Interestingly, the share of battery EVs dipped by 22% in 2022 and plug-in Hybrid EVs logged 24% growth. Local manufacturers account for 81% of sales which are projected to be over 8 million in 2023. Such a high projection goes to prove the point that fiscal sops do work in changing consumers' preferences for carbon-neutral goods.

India also has put in place subsidy schemes for EVs, including waiver of registration and road tax costs by some States, but the pace of change in consumers' preferences is tardy because of lack of charging infrastructure and also non-availability of eye-popping EV options. However, not to be dismayed, India needs to further extend the scheme beyond 2024 and also hike the subsidy or grant tax credit if a buyer spends one's own savings on EVs. It is important to remember that
subsidy or tax incentive works better and faster only when it helps consumers reduce the price gaps for greener goods.
Secondly, any rebate which is offered with a time lag, does not work.
 It is also worth paying attention to - If the incentive is not big and attractive enough, the scheme also fails. Netherlands had offered 1000 euro

for EV purchases for just one year andÂ the demand had skyrocketed by 100%. Besides subsidy, tightening of auto pollution standards may also elbow consumers toward e-cars or electric two-wheelers which is rising in population in India. Given that two-wheelers account for 70% of India's vehicular population, a solid fiscal nudge may engender kick-ass results! A double-down effort is also required to push battery-swapping sector.

A simple tax credit scheme to promote roof-top solar panels would also work better in place of the present subsidy scheme which most households find cumbersome. India can do better to either provide tax credits or direct subsidy to people if they use green building materials certified by the local authorities.
New building codes with in-built all electric provisions are the need of the hour and it would go hand in hand with India's rising per capital electricity consumption - 1255 kWh at present.
Â In her Budget Speech, the Union Finance Minister talked about Green Credit Programmes to encourage behavioural change. This is to be notified under the Environment Protection Act and would incentivise sustainable actions by companies, individuals and local bodies. Although details are not yet available but such a policy measure is the much needed step in the green-arrowed direction which would help reduce per capital carbon footprint of Indians which is inching close to two metric tons.

India also needs to borrow a few insights from President Biden's Inflation Reduction Act (IRA) which has earmarked USD 369 bn for promoting carbon reduction scheme, not only for EVs but also gas stoves using natural gas to be replaced by electric stoves and other household devices. Each household can claim upfront USD 28500 incentive for EVs and kitchen appliances. This will also annually save households up to USD 1800 in utility bills. Let's take a dive into the recent 'gas stove ban' controversy which was later denied by the White House but the fact remains that natural gas is a primary source of methane - a deadly greenhouse gas.
With over 40 million American households using natural gas, it generates pollution equivalent to half a million cars.
Secondly, kitchens using natural gas stoves account for 13% of childhood asthma in the US. To deal with this problem, the IRA has rightly focussed on changing the consumption behaviour of households which can avail incentive and switch to electric stoves. Besides all these benefits, close to 4000 lives would also be saved by 2030 which are statistically lost to pollution. On their part, more than 100 cities in several States have notified new building codes which require new residential and commercial buildings to be built all-electric.

Having discussed two major carbon-intensive sources - transport and building materials, let's swirl to the food sector. Incidentally, some food items are too carbon intensive and it is indeed difficult to influence eating habits of consumers. Notwithstanding the inherent limitation for success in this case, market-based instruments may yield results in the medium-term. Among all food items, poultry or meat-heavy food is the most carbon-intensive. As per studies, there is a clear negative relationship between the price and meat consumption. In fact, there is also a clear positive relationship between income and meat consumption.
This is where regulatory authorities and market forces can work together to reduce availability of poultry items and also gradually ratchet up prices. Such measures may prompt consumers to turn toward lab-grown meat.
Similarly, dairy-based products are also to be substituted by plant-based products as cattle and buffaloes hoofprint account for about 15% of global Green House Gases. Secondly, methane takes longer years than carbon to sink in troposphere. In a nutshell, a mix of policy instruments may trigger changes in consumers' behaviour in the long-run and consumption adaptation would go miles in realising the carbon-neutrality goals set to save the planet. Let's not forget - Climate change is the worst form of taxation without legislation! ***Qui!Â***