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Budget suggestions for climate action

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The budget can recognize demands arising out of the need for climate action through GST tax rates rather than subsidies

Recent meetings at Davos and Madrid focused on climate change and raised concerns about inadequate climate action. Basically, we are talking about reducing the use of fossil fuels viz; coal, oil, and gas for climate mitigation. However, considering that the world has done so little so far, there are climate impacts that need to be countered such as disasters, extreme heat and cold, etc, through climate adaptation. This brings us to the question on what can the Budget do towards this cause?

India already has climate friendly policies in the power sector which promote renewable energy and energy efficiency. However, much more can be done to increase the pace. For example, what measures can be taken in the transport sector, which is the major user of petroleum products in India? Here we have triple pressing concerns: Large-scale imports of fossil fuels draining our foreign exchange resources; air pollution; and climate change. All the above three concerns can be addressed by promotion of electric vehicles (EV) – a remedy to address noise pollution as well.

Unfortunately, the Government programme for Faster Adoption and Manufacturing of E-vehicles (FAME), launched to promote EVs, basically depends upon providing subsidies for a few vehicles. It will be difficult and even undesirable to upscale FAME, which relies on subsidies to manufacturers for sold vehicles. In the name of demand mobilisation, it does the opposite. It providessubsidies to manufacturers e.g. Rs.1.5 lakh per car for only 35,000 cars . What manufacturers really need is high demand for EVs to upscale production. On the other hand, this amount of Rs 1.5 lakh is a lot for the car purchasers. However, even that would be unworkable for millions of consumers. So, how should this be addressed?

In any new technology, there is the ‘chicken and egg’ problem, in other words, the demand does not increase because the price is too high and price cannot drop unless there is high demand. To break this logjam, it is easier to play around with the goods and services tax (GST) rather than subsidy. Also, it may be easier to reduce GST, at least initially. Firstly, manufacturers may not pass the full subsidy received by them to consumers. Also, the allocated funds are limited to a small number of vehicles that may be provided with subsidy. Moreover, it requires bureaucratic interventions to monitor and transfer funds to the manufacturers. Instead, the Budget can give tax relief directly to consumers, producers as well as to the providers of charging infrastructure. Recently, the GST for EVs was reducedfrom 12 per cent to 5 per cent. This can be extended to zero per cent as well. Lower GST can reduce the price for a consumer to the same extent without any bureaucratic intervention. It will not require setting aside funds in the Budget, where other compelling demands compete. So if EVs take off, more than 35,000 can be absorbed. Of course, it will reduce the GST revenue. This will stress the budget only if sales exceed 35,000. The manufacturers should also be provided tax benefits initially instead of subsidy, so they reduce costs and are incentivized to produce better vehicles in abundance. More varieties of EVs are needed for consumers to make choices and purchase them in large numbers., stressing the budget if the sales exceed 35,000.

On the consumers’ end, incentivising behaviour change can go a long way. This requires analysing the existing options and creating a larger price difference between the conventional non-EV options and the new option of EVs. For example, only when the price difference between diesel and petrol started falling that the share of diesel cars purchased fell. This mechanism of creating price difference through taxation can be used effectively only when the other option can enter the market in a big way.

Other measures the Budget can look at, is to incentivise scrapping of old vehicles to save fossil fuel consumption, air pollution and CO_2 emissions. It is also another way to promote demand. Emphasis should be given to promoting electric two wheelersas the annual production of two- wheelers is about 21 million, as compared to four million cars. Charging is also simpler for two- wheelers. Similarly, EV buses are also very important for all three benefits quoted above. We need to provide an affordable and comfortable transport system which people prefer over driving a car, finding parking for it and maintaining it.

Charging infrastructure will remain a risky business for a while because not enough is known about charging behaviour yet. When, where and how many consumers will come with what type of vehicles will be clearer only as the demand picks up. The incentives they need are non-monetary, such as providing a place and other facilities. Thus, an appropriate programme will benefit the environment, the nation, the consumers, and producers. It would require incentivising EV but also taxing conventional vehicles after some period of time when sufficient EV options are available. A word of caution is required here - taxing fossil fuel-based vehicles more than EVs work better only if good choices of EVs are available. Currently, we have not reached that stage yet. Aggressive thrust on EV helps climate mitigation which reduces the use of fossil fuels.

We also need to worry about climate adaptation to deal with extreme weather events and disasters. Spring and summer are just around the corner. It is no longer possible even for the poor and lower-middle class to live without fans and coolers or cool roof over their head in congested urban slums. The Cooling Action Plan launched by the NITI Aayog needs to be taken up to design appropriate tax incentives and subsidies so that people go for energy-saving or super-efficient cooling devices. We recall what we did when the cost of LED bulbs was brought down by mass procurement. Similar programme for cooling devices is needed so that the increase in electricity demand is manageable.

Thus, the budget can recognise demands arising out of the need for climate action through the GST tax rates rather than subsidies for energy efficient appliances so as to give long-term signals for green growth.

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