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Exploring The Corridors of Eco-Taxation in India

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Introduction

Throughout the past century, sustainable development and environmental protection have increasingly become the focal point on the policy agendas of both developed and developing nations. While governments have traditionally focused on strengthening legislation to address environmental degradation, recent debates have centered on the potential role of fiscal policy instruments, such as taxes and subsidies, in mitigating environmental issues.

Green tax, also known as environmental taxation or pollution tax, is a type of levy imposed on goods and activities that contribute to environmental pollution. The primary goal of these taxes is to internalize externalities, meaning to account for the social and environmental costs associated with these goods and activities. These taxes are often referred to as Pigouvian taxes, named after Arthur Cecil Pigou, an economist who advocated for government intervention through taxes to address negative externalities in pricing (Folloni and Zelinski).



Eco-taxation aims to incentivize consumers to reduce their consumption of polluting goods and shift towards environmentally sustainable alternatives, rather than solely generating revenue for the government. In this sense, a decrease in tax revenues from environmentally taxed products and activities is seen as a positive sign of the policy’s success. For example, if a tax is implemented on household waste disposal to encourage waste reduction, the tax would be proportional to the number of garbage containers produced, rather than a flat fee (Chaturvedi et al.) A decrease in tax revenue from this tax would indicate a reduction in waste generation. Furthermore, environmental taxation can create a “double dividend” by not only reducing polluting activities and increasing social welfare but also improving the revenue system by reducing reliance on distorting taxes such as income and sales taxes in the market economy.

Eco-taxation offers a significant cost-effective advantage as it enables the achievement of environmental objectives at a minimal expense. By reducing the consumption of harmful products, eco-taxes incentivise resource-efficient consumption and encourage investment in innovative technologies to reduce emissions. Overtime, environmental taxes can increase the demand for eco-friendly alternatives such as public transportation and unleaded petrol, resulting in economies of scale and ultimately reducing their cost.



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History of Eco-Taxation: Global Developments

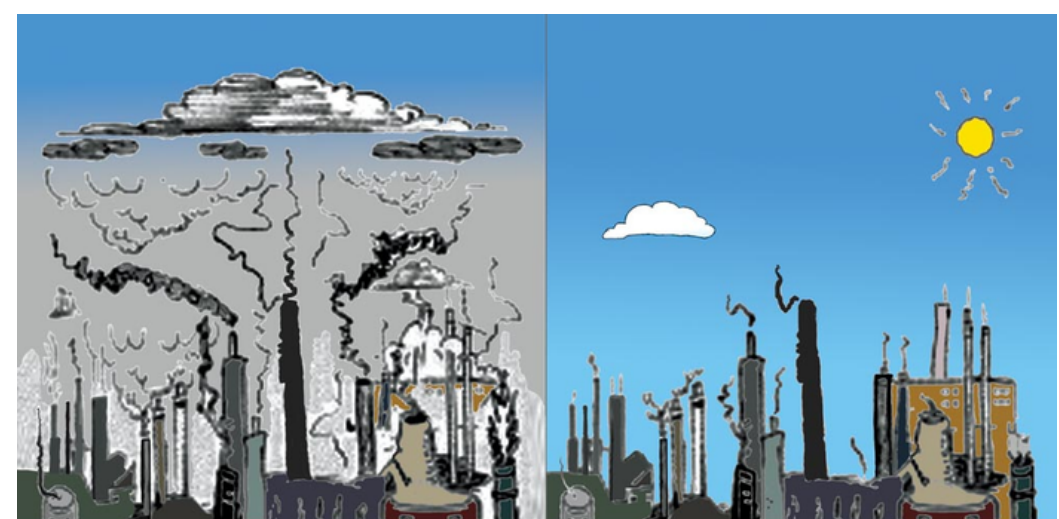
The use of eco-taxation was first endorsed by the 1992 Rio Declaration under Principle 16 which requires states to “promote the internalization of environmental costs and the use of economic instruments, taking into account the approach that the polluter should, in principle, bear the cost of the pollution”. In 1992, the Fifth Environmental Action Program of the European Union identified the use of economic instruments as a key strategy for achieving sustainable development. This approach was further emphasized in the United Nations Environment Program Green Economy Report, which highlighted taxes and market-based instruments as one of the six key factors for achieving a green world economy. The report was prepared in anticipation of the United Nations Conference on Sustainable Development, also known as Rio+20.

Despite a general consensus over the benefits of eco-taxation, its focus has been defined differently by the OECD (Organisation of Economic Cooperation and Development) and the European Environment Agency (EEA). For instance, the OECD defines environmentally-related taxation as follows: “Environmentally related taxes are defined as any compulsory, unrequited payment to the general government levied on tax bases deemed to be of particular environmental relevance.”

On the other hand, the EEA focuses on correction of the tax base in defining eco-taxation: “Environmental tax reform of the national tax system where there is a shift of the burden of taxation from conventional taxes, for example from taxes on labour, to taxes on environmentally damaging activities, such as resource use or pollution. The burden of taxes should fall more on ‘bad’ than ‘goods’”.

Environmental taxes have been utilised extensively despite varying viewpoints on the approach. The European Union was the first to implement environmental fiscal reforms, with Nordic countries leading the way in the early 1990s, followed by other countries such as Germany, UK, France, and Italy. These countries have enforced taxes on carbon, transportation fuel, electricity, motor vehicles, solid waste, air pollutants, agricultural and industrial chemicals, among others. Although the specifics of these taxes differ from one country to another, environmental taxes have generally proven successful in reducing resource consumption in most European nations.

At present, the emphasis is on expanding the scope of environmental taxes to reflect the ‘user pays principle’ rather than the ‘polluter pays principle.’ Under the user pays principle, taxes are intended to apply to a broad range of ecological services used, as opposed to only pollution-causing activities. Thus, the scope is more extensive than that of the ‘polluter pays principle,’ which only targets environmentally harmful activities through taxation. Recently, taxes have also become a critical tool for achieving environmental goals in Asian nations, with some countries such as Vietnam drafting specific legislation for environmental taxation.



BEFORE ECO TAXATION AFTER ECO TAXATION



Advantages of Eco-Taxation

Eco-taxes have been considered better alternatives to the traditional command-and-control measures, such as legislations and regulations, for a number of reasons.

1. Taxation measures provide continuous incentives to reduce emissions, while command-and-control regulations do not incentivize progress beyond the legally required level. Moreover, government-prescribed approaches towards environmental remediation, as prescribed by command-and-control regulations, can prevent polluters from pursuing more cost-effective alternatives. Additionally, these regulations carry significant risks of becoming suboptimal due to ever-changing technological conditions. Economic instruments align more with the 'precautionary principle' because they encourage the prevention of pollution-causing activities even before conclusive proof of their harmful effects.[1] In contrast, command-and-control regulations tend to prescribe reactive measures rather than proactive ones, which can lead to suboptimal outcomes and may not incentivise the adoption of cleaner technologies.
2. Enforcing environmental legislation can be a costly and challenging task, especially in developing countries. Factors such as lack of awareness and inadequate regulatory resources for monitoring purposes make compliance challenging. In contrast, economic measures aim to secure compliance by promoting attitudinal changes. This means that desirable behaviour is not generated through the threat of penalties and sanctions but through measures that appeal to the rational considerations of consumers and procedures.
3. Environmental legislations often impose heavy penalties, including monetary fines and closure of industries, for non-compliance. Unfortunately, these penalties can negatively impact poor employees who are not responsible for the faults committed by the industry-owners. Developed countries with more advanced environmental policies seek to use market forces to drive environmentally beneficial changes. This approach aims to incentivise businesses to prioritise environmental responsibility and sustainability, ultimately leading to a cleaner and healthier environment for all.

Although economic instruments have emerged as a viable approach to environmental management, it is important to note that command-and-control measures cannot be entirely replaced. This is because environmental taxes do not provide absolute certainty regarding emissions reduction.

Eco-Taxation in India

Background

Since the 1990s, India has been considering the implementation of green taxes. The topic gained attention with the release of the Policy Statement for Abatement of Pollution by the Ministry of Environment and Forests in 1992, which emphasised the need to address pollution through fiscal measures. The Tax Reforms Committee report of the same year recommended the levying of taxes on certain raw materials for the purpose of conserving and protecting the environment, further fuelling the debate on the potential impact of taxes on environmental outcomes.

In 2006, the National Environmental Policy of India also highlighted the importance of utilising economic instruments for environmental regulation. The policy recommended implementing a natural resource accounting system to assess the rate of depletion of natural resources caused by economic development. It further stressed the need to consider the environmental costs and benefits associated with different activities when making policy decisions. By doing so, policymakers could make informed decisions that account for the environmental impact of various actions.

Existing Eco-Taxes in India

Currently, India employs only a few fiscal instruments, such as the Water Cess collected under the Water (Prevention and Control of Pollution) Cess Act of 1977. This Act mandates the collection of a cess from specified industries listed under Schedule I of the Act, as well as from local bodies. Industries that consume water within the prescribed limits or have established effluent treatment plants receive a 25% rebate. The Central Government has the power to amend Schedule I to include industries that consume water and discharge pollutants, but this power has seldom been exercised. As a result, the Schedule only applies to sixteen industries. To improve the effectiveness of the Act, it is recommended that the government expand its scope to include more hazardous industries and make periodic revisions to the cess rates changed.

State boards in India often charge fees instead of granting permission for the discharge of pollutants into the environment. Under the Water Act, municipal corporations and certain industries must obtain consent from the state board before discharging sewage or trade effluents into water bodies. The state board has the authority to impose fees and establish conditions for the discharge, such as the nature and composition of the sewage. Similar fees are also charged under the Air (Prevention and Control of Pollution) Act of 1981. However, these fees generate very little revenue as rates are infrequently revised, and the funds collected are not effectively utilised for managing the polluting activity. It is, therefore, necessary to review and update these fees regularly and allocate the generated funds towards the proper management of the associated pollution.

Starting from 2010, the Indian Central Government has imposed a Clean Energy Cess on coal used in electricity generation, including imported coal, at a rate of INR 50 per ton, which was later increased to INR 200 per ton in 2015. The government has also offered tax exemptions and waived custom duties on eco-friendly resources such as solar cells and solar lanterns in its budget. Additionally, machinery that helps in controlling pollution is eligible for a depreciation allowance under the Income Tax Act of 1961. The government is exploring newer forms of eco-taxes, such as the imposition of Advance Recycling Fees (ARF) on electronic goods sales since 2012 to generate funds for the establishment of e-waste disposal infrastructure.



State and municipal authorities in India use various other fiscal instruments for environmental regulation. For example, in some states, green taxes are imposed on electricity consumption. Monthly waste generation charges are also levied on households and shops in many cities. Some states, like Kerala, have waived taxes on paper bags while increasing taxes on hazardous items, such as plastic bags.

The government also provides environment-friendly subsidies to encourage the use of sustainable technologies. These subsidies may include promoting eco-friendly public transport or offering financial support for treating effluents generated by small-scale industries located in clusters. For instance, the Ministry of Environment and Forests has initiated a financial support scheme that covers 50% of the capital cost for effluent treatment, with the concerned state government covering 25%, and the industry bearing only 25% of the cost. Although subsidies strain the public budget and can hinder the natural market development, they are effective in bringing about desirable changes in consumption patterns in a shorter period of time

Challenges in the Indian Context

The implementation of eco-taxes or green taxes in India has faced numerous challenges. These challenges need to be addressed if eco-tax reforms are to be successfully implemented in India.

1. One of the primary challenges is the lack of political will. The Indian government has been hesitant in implementing eco-taxes due to various reasons such as the fear of losing popularity among citizens, lack of awareness among the masses, and reluctance to affect the businesses of influential lobbies.
2. Another challenge is the lack of proper infrastructure for collecting and utilizing eco-tax funds. In many cases, the funds generated from eco-taxes have been diverted to other government projects or remained unutilized. This undermines the very purpose of eco-taxes, which is to promote sustainable development and mitigate the negative impacts of pollution.
3. Another significant challenge is the lack of awareness among citizens about the need for eco-taxes and the importance of sustainable living. Due to this, citizens may not take eco-taxes seriously, and this may lead to non-compliance or evasion of these taxes.
4. The complexity of tax laws and regulations is also a major challenge in implementing eco-taxes. Businesses may find it challenging to comply with these regulations, leading to non-compliance or evasion of these taxes.
5. Finally, the lack of coordination and cooperation among different government agencies at the central and state levels may lead to a lack of clarity and consistency in the implementation of eco-taxes.

To address these challenges, the Indian government needs to take concrete steps to create awareness among citizens about the need for eco-taxes and sustainable living. It is essential to create a proper infrastructure for collecting and utilising eco-tax funds to ensure that they are used for their intended purpose. The government also needs to simplify tax laws and regulations to encourage compliance and reduce evasion.

Conclusion

Eco-taxation has emerged as a cost-effective policy instrument for preventing environmental degradation. It has the potential to contribute significantly towards achieving environmental goals without the need for penalties or sanctions. Despite the benefits that eco-taxes offer, they have not yet become an integral part of mainstream environmental regulation policies in India.

The evidence clearly indicates that eco-taxes can effectively prevent environmental degradation. They offer a cost-effective approach to regulating industries that have a negative impact on the environment. Moreover, they provide a means of encouraging businesses to adopt environmentally-friendly practices, thereby promoting sustainable development.

One of the key advantages of eco-taxes is that they are not punitive in nature. Instead, they incentivise businesses to adopt eco-friendly practices by reducing the tax burden for companies that operate in an environmentally responsible manner. This approach ensures that companies are not penalised for their environmental impact but are instead encouraged to take measures to minimise their environmental footprint.

Despite these benefits, eco-taxes have not been widely adopted in India. This is due to a range of factors, including a lack of awareness about the benefits of eco-taxation and the perceived administrative burden associated with its implementation. Additionally, some stakeholders may be resistant to change and reluctant to adopt new policies that could potentially affect their bottom line.

To overcome these challenges and promote the adoption of eco-taxes in India, there is a need for greater awareness and education about the benefits of eco-taxation. This can be achieved through targeted campaigns that educate stakeholders about the cost-effectiveness of eco-taxes and their potential to promote sustainable development.

In conclusion, eco-taxation has the potential to become a significant policy instrument for preventing environmental degradation in India. Despite the benefits that eco-taxes offer, they have not yet become a mainstream policy instrument in the country. To promote the adoption of eco-taxes, there is a need for greater awareness and education about their benefits and potential to contribute towards sustainable development.



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My name is Pratik Nayak. I am currently studying in Xavier Law School, XIM UNIVERSITY BHUBANESWAR. I enjoying reading and writing about social issues. From a very young age I have been taking part in various occasions where I get a chance to voice my opinions.

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Undoing Injustice in the Sundarban Delta

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Climate action is one of the 17 sustainable development goals formulated and put forth by the United Nations, effective to be entirely implemented by 2030. One of the foremost objectives of this goal is to "educate" communities at a grassroots level regarding their immediate environmental needs and effective ways to sustain available resources. Such a target invariably presupposes that the understanding of their immediate surroundings by grassroots-level communities or those indigenous to a location is somewhat lacking. The two lakh "tribal" people currently facing a perpetual threat of climate-induced migration in the Sunderban delta they call home are victims of this very dismissal of their pre-existing knowledge systems owing to policies of the Indian and Bangladeshi governments to homogenise and instruct the Adivasi communities of the land in conservation and climate awareness. The idea of the Anthropocene defines an era where "human" and "environment" are separate, solitary entities where human effects on the environment alter it to a great extent. The issue with the majoritarian discourses emerging from this understanding completely ignores indigenous communities' cultural and ritualistic belief systems.

Michael Wessels wrote on Southern African indigeneity, "The idea of the environment is a modern one, the product of a certain separation from a life lived on the land and the formations of consciousness that attended the shift to urbanisation" (119). The politics of loss and conservation of the environment have thus been under the manipulation of colonial and capitalist devices since they encroached upon the land and rights of the Adivasis. One fails to unsee this long-drawn connection between the realm of territorial inhabitation and that of the belief systems of these communities. Indeed the initial conflict between Orientalists and indigenous tribes was not so much over land as it was about what was considered and recognised as knowledge. The earliest weapons of colonisation were missionaries that preached the gospel. This aim to define indigenous cultures in European terms is what created the binary of the primitive, superstitious tribal as opposed to the Western-educated, scientific colonisers. The ramifications of such a hegemonic formulation still persists — as is evident from the displaced adivasis of the Sundarban delta — in the form of a loss of land, resources, and of dignity, owing more to an unfair, inequitable approach of policymakers towards these areas and its inhabitants rather than fluctuations of climate.