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Pricing of carbon and funding of low carbon transition under a 20C regime

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When the Paris Agreement comes into force, the world would have committed to limiting global warming to below 20C. The 20C regime calls for a drastic and ambitious reduction, up to 70% of the 2010 emissions by 2050, in global GHG emissions. That can be achieved only through a transformation of the fuel intensive sectors and the economy in general. While the 20C regime inherently puts a price on carbon, how to arrive at a fair price and will pay that price, and how to extract that price are questions yet to be answered. Setting a fair price for carbon will become the responsibility of countries when the global emission reduction target is distributed among them under the Paris Agreement. Carbon pricing will be mainly guided by the investment needs to drive a low carbon transition of the economy. The answer to 'who will pay and how?' will largely depend on the implementation mechanism adopted. Carbon tax, allowance auction, cap-and-trade and international offsets are already established mechanisms. Cap-and-trade and international offsets rely on demand-supply gap in the market. Under a 20C regime, the targets will be steep and all significant emitters would have a share of the target. In such a scenario, it is unlikely that there will be any significant supply of emission reduction under a cap-and-trade scheme or a significant supply of offsets internationally. Carbon tax and allowance auction may offer viable mechanisms to implement a carbon price and generate capital for investing in low carbon transition.

Biography

Bose K Varghese is the Head of Green Initiatives at Infosys Limited, India. Prior to joining Infosys, he served as a Director of Vie2Sustain Consulting LLP, Bangalore, India, and Head of Climate Change & Sustainability practice at Ernst & Young, Bangalore, India. He holds an MS degree in Environmental Engineering from University of Houston, Texas and a Bachelor of Technology degree in Chemical Engineering from the University of Calicut, Kerala.

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