

Los Angeles Times

FOREIGN EXCHANGE

'Carbon tax' is sensible, and perhaps inevitable, advocate says

Dieter Helm of Oxford says climate change policy should focus not on carbon production, but carbon consumption. A tax on carbon-heavy activities places the emphasis where it belongs, he says.



Dieter Helm, an economist and professor of energy policy at Oxford University, favors the carbon tax because it places the emphasis on carbon consumption--those who use the steel, for example--rather than carbon production--where the steel mill is located.

By Henry Chu
November 21, 2009

Reporting from Oxford, England - With the global climate change summit in Copenhagen just a few weeks away, gloom has settled in many quarters over the increasing likelihood that a robust international treaty to lower carbon emissions is out of reach, at least for now.

On an individual level, some countries have turned to a "carbon tax" to discourage carbon-heavy activities such as driving cars or taking long flights or manufacturing certain products. In contrast, U.S. lawmakers have shelved the idea of a carbon tax in favor of a "cap-and-trade" scheme, which permits industries to buy and sell pollution allowances.

Dieter Helm, an economist and professor of energy policy, is a strong advocate of the carbon tax. He spoke to The Times in his office at Oxford University.

How can you tax everything that requires carbon to produce?

Obviously, taking every commodity, every plastic toy, every piece of IT kit and dissecting its carbon content would be a lunatic thing to do.

We could start off with just the real energy-intensive products. We roughly know what the energy composition is of, say, steel. We certainly know what the energy composition would be of fossil fuels. We know quite a lot about the emissions from aviation, and a lot about the emissions from shipping.

So I would start pretty crudely with a very narrow number of things covered, and then over time I would expand it. Start simple -- indeed, start with a low price as well -- but signal that you mean business so that those who are making investments in the future

Los Angeles Times

know that when they build a new steel plant, when they build a new power station, there will be a higher price if they do not go down the low-carbon route.

But isn't carbon production already going down in some countries without a carbon tax?

I'm very, very concerned not about carbon production but about carbon consumption. Carbon consumption in countries like Britain has been going up dramatically as our carbon production has been falling. We're just importing the stuff from elsewhere. . . .

We in the West are the cause of many of the emissions in China. China is producing goods for us that we would have produced in Britain. We could have had a steel mill here; instead, it's now in China. Well, we're still consuming the steel, so it's our emissions. So I like the idea of a border price of carbon to make us in the West pay for the pollution we're causing in China and other countries.

What do you mean by a border price or border tax?

The border tax is simply saying you set a tax on carbon consumption, and you don't discriminate between stuff produced at home and stuff that's imported.

If cars produced in Detroit have to pay carbon tax, so do cars at the dockyards that are coming in from China or India or somewhere else. It's a perfectly neutral tax. It's not discriminating. It just says you shouldn't pay a different price of carbon depending on where the stuff was produced.

People could just happily pay the tax, and consumption levels would remain the same. So does a carbon tax need to be prohibitive to work?

What all the scientists are talking about -- and, indeed, the politicians -- is having a zero- or very low-carbon economy. They talk about an 80% reduction in emissions. They never follow through with the corollary. The corollary is that it has to be so expensive to produce the stuff with carbon that you will in fact invest in low carbon.

[But] I'm in favor of quite a low carbon tax to start with -- for political economy reasons, to get it in place, and because . . . in the short run, people don't have many options. You can't reduce your carbon very much today. You might turn the lights off, but it won't make much difference. You can really only affect climate change when the capital stock turns over and we replace the power stations, we replace the steel mills and so on. . . .

Take the United States, take Britain -- we're almost entirely a carbon economy. And you want to de-carbonize those economies very quickly? That's an enormous national undertaking. It's the sort of undertaking in the 1930s between being a peacetime economy and saying you want to be a wartime economy by 1940, '41. It's a transformational thing to do. . . .

That's why Copenhagen is so difficult. The reality of actually doing something about climate change is something which challenges a whole way of life, and that challenge is not something that world populations are willing to take onboard.

Los Angeles Times

Which countries have successfully implemented a carbon tax already?

In Europe, we have Finland, Sweden. Ireland's going down that route. France has just begun to go down that route. The U.K., if the Conservative Party wins [the next election], will go down that route next year. Across Europe, my guess is within five years everybody will have a carbon tax. . . .

Are any of them brilliant? No, they're all very crude, but they're all better than nothing. . . . The question is, can you start on the road and then do what I call learning by taxing -- fine-tuning as you go along to get closer to the point? No one has a perfect one yet.

Do you feel a carbon tax is politically possible in the U.S.?

First of all, every major developed country faces the question of raising more taxes. So the question isn't, in the United States, do you have a carbon tax or not? It's, given possible taxes you could increase, is this a sensible one? It almost certainly is.

Secondly, is everybody else doing it? That's a very good protection for politicians. The answer is yes, they are.

And finally, does it deal with the China question? Yes, if it's also a border tax. The objection to climate change policy is you'll just lose your industry and you'll give competitive edge to China and other countries. Well, the border tax solves that problem. And that's politically very important here in Europe and, I suspect, even more politically important in the U.S.

So my hunch is yes.