



Dieter Helm is the author of  
Burn Out: The endgame for fossil fuels

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LECTURE EIGHT

# CARBON PRICES AND BORDER ADJUSTMENTS

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# AGENDA

- The central role of carbon prices
- Setting the carbon price
- Carbon taxes vs. carbon trading
- Multiple prices vs. harmonisation
- The intermittent context and border tax adjustments
- Practicalities

# CENTRAL ROLE OF CARBON PRICES

- Efficient market internalises externalities
- Efficient marginal arbitrations scattered across economy
- Government/regulators do not know firm's production functions
- Location and type of source do not matter
- All interventions have a price consequence

# SETTING THE CARBON PRICE

- Uncertainty is pervasive
  - About costs
  - About technologies
  - About innovations
- Lots of lobbying and vested interests
- Set targets and carbon price adjustments

# TARGET AND PERMITS

- In theory either can hit target
- Permits vs. taxes and the income effect
- Auctions vs. grandfathering
- The scope to lobby for vested interest in permits
- Adjustments process much harder in permits
- EUETS → carbon taxes

# MULTIPLE PRICES vs. HARMONISATION

- Carbon prices, CCL, carbon floor price and other measures
- Cost of Energy Review assessment
- Inclusion of all sectors including agriculture
- Inclusion of traded sector → border adjustment

# BORDER TAX ADJUSTMENTS

- Carbon consumption not carbon production is what matters
- Only the case for unilateral targets
- Start with a small number of core industries
- Except countries of original carbon taxes
- Apply to the fossil fuels directly

# PRACTICALITIES

- Carbon taxes raise money
- Carbon taxes focus on inelastic demand
- Increase effect for key political incentives
- Cost of decarbonisation reduced as efficiency increased
- Lots of other costly detailed interventions can be abandoned



# SUMMARY

- Without a carbon price, decarbonisation not likely to happen
- Setting taxes like interest rates and inflation targets
- Credibility requires institutional embedding
- EUETS has been a very expensive mistake
- Border taxes are the way to intentional co-operation, rather than top-down agreements
- Governments need the money – a clinching argument



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