

CAN CARBON MARKETS SOLVE THE CLIMATE CRISIS?

Exeter Webinar

October 28, 2021

**PRICING CARBON EMISSIONS:
ECONOMIC REALITY AND UTOPIA**
[open access book Routledge](#)

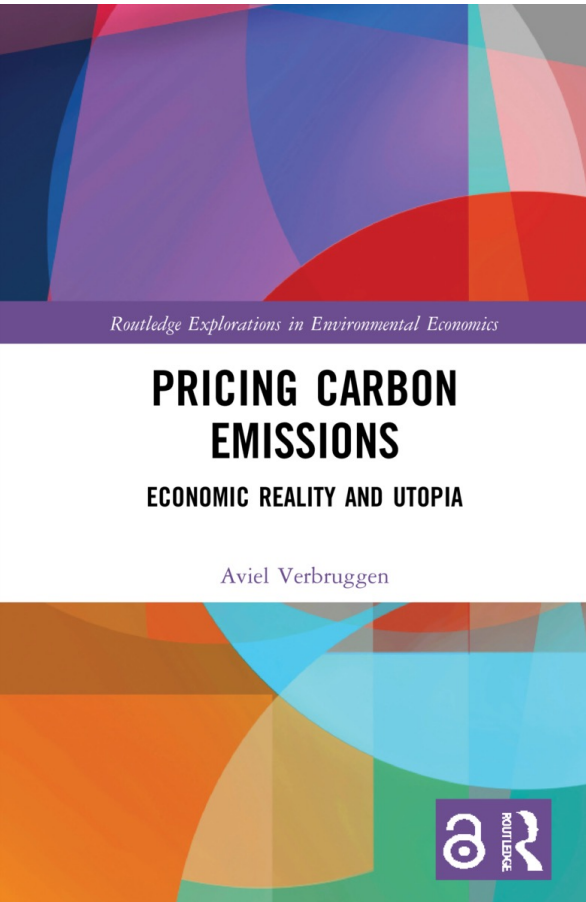
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HINT:

- **THE BOOK PROVIDES MORE INFO THAN THE SLIDES**
- **THE SLIDES PROVIDE MORE INFO THAN THE TALK**

This book finds: EU ETS amplifies the climate crisis



- **By diluting the Urgency to Act-Now, needed for avoiding**
 - Irreversible climate collapse
 - Irreversible biodiversity loss
 - Societal disintegration
- **ETS is a product of corporate power**
 - Thriving in neoliberal regimes, obstructing Sustainable Development
 - Sanctified by neoclassical economics
- **This lecture presents some of the book's analysis**
 - Necessary transformations in energy systems and societies
 - Carbon Pricing and Money
 - Neoclassical economics illusions (3 major ones)
 - Bewildering discursive power of Stakeholder Masterminding
 - Reality behind the CAP & TRADE façade
- **Beyond the book, research on 'Fit for 55' brings bitter notes**

**Present:
neoliberalism**

**Obscene
Rich
Wealth**



**Corporate
Money power**



**Poor
Destitute
Deprived**

**Fossil
fuels
&
Atomic power**

**Necessary
Transformations in
the public interest**

**Intertwined
Societal
Transformations**

**Precursory
Energy Systems
Transformation**

**Future:
Our Common Future
Sustainable Development**

PLANET
Care for nature &
Environment
Climate first

**POLITICS
PUBLIC POLICIES**
Vision, institutions,
discourses,
principles, action,
instruments

PROSPERITY
Limit wealth to
ecological bounds,
and aspirable by all
people

PEOPLE
Economic growth
for the poor.
Demography in
planet harmony

**100%
Renewable
Energy**

**Energy
Efficiency &
Conservation**

Don't get fooled by Carbon Prices: 'Follow the Money'

- 1. Carbon Pricing: objectives ⌘ outcomes (incl. distributional)**
 - Collect money
 - Incentivize particular activities / change in activities
 - Compensate the use of commons / public goods
- 2. "Carbon Price" confusion by various meanings and plain lies**
 - Speculation price at the carbon permit exchanges (Leipzig, London)
 - Fringe price (confused with Marginal Cost price)
 - Symbol of "market performance" being absent in EU ETS
 - Administrative price fixed via Market Stability Reserve
- 3. MONEY counts, yet volumes, origin, destination, distribution, ... hidden**
 - Firms select investments via capital budgetting, discounted cash flows
 - Firms pursue 'above-average profits'
 - Firms exploit every opportunity to cash rents, royalties, excessive profits

Neoclassical econ. flaw #1: negating and abusing diversity

1. Ambiguous views

- On the one hand, diversity is ignored: replaced by averages, representative consumers, abstract producers, unlimited substitutability.
Disturbance of the mathematical abstraction is labeled as cost.
- On the other hand, heterogeneity is seen as source of gains to capture by trade. The more and deeper heterogeneity, the more gains in the air.

2. The 'holy grail' mirage of Global Uniform Carbon Price (GUCP)

- Harmonized global tax rate or worldwide emissions trading
- Labeled as ideal instruments, maximizing economic efficiency

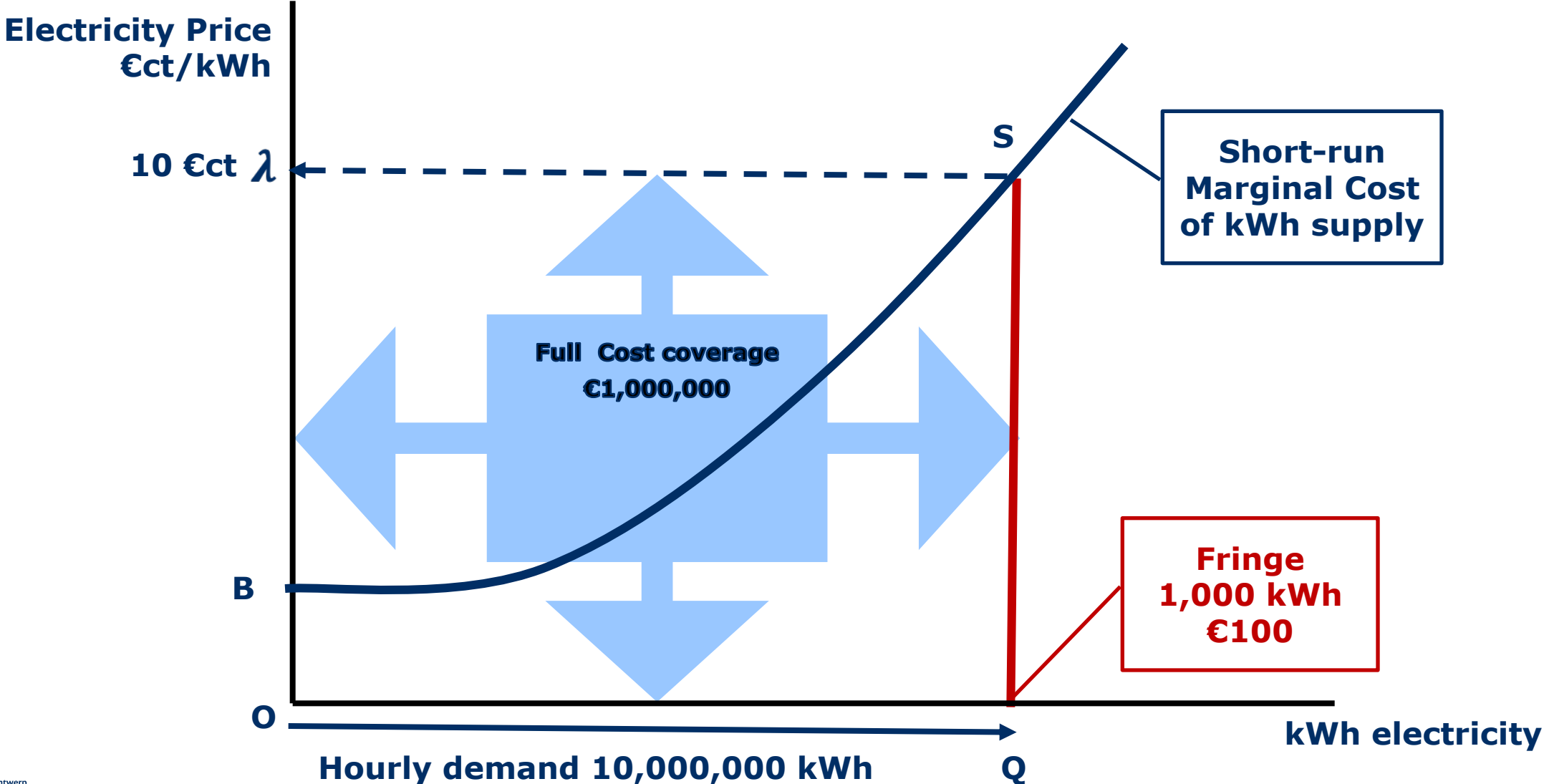
3. Evaluating GUCP performance

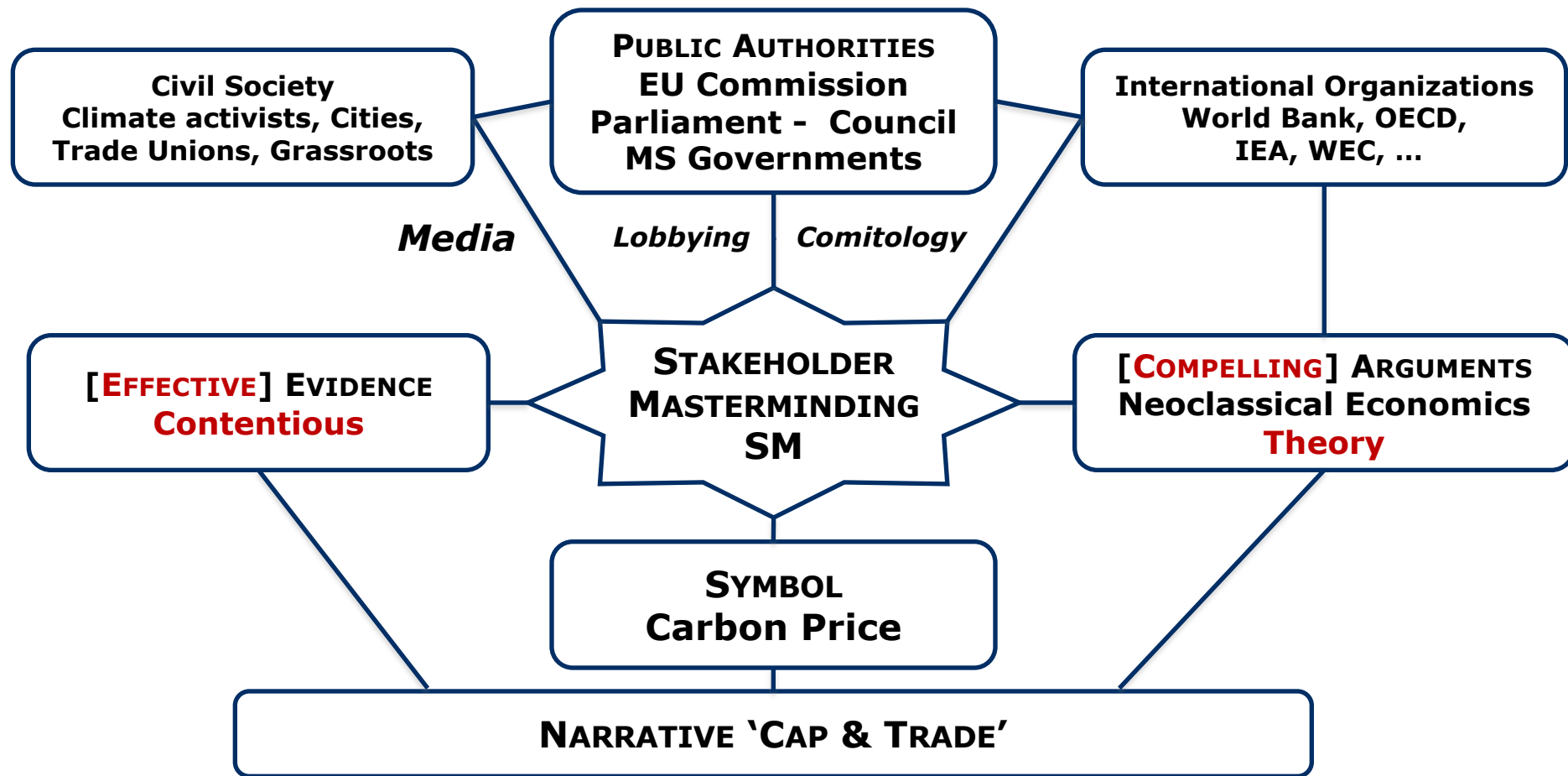
- Impossible because GUCP does not exist
- Observation: a uniform price on heterogeneous cases ends in unplanned, intricate ad-hoc adaptations, exceptions, exemptions, ... a mess

Neoclassical econ. flaw #2: uniform price-induced innovation

- 1. Feed-in Tariffs (FiT) pull Renewable Electricity (RE) to maturity**
 - Germany, Denmark, ... applied specific FiTs for diverse RE technologies
 - 2001: Germany rejects EC market-based Tradable Green Certificates (TGC)
 - Flanders, UK, ... apply TGC: technological race to the bottom; excess profits
 - **2014 Energy corporations lobby EU Commissioner Almunia, effecting new State Aid guidelines prioritize large-scale RE projects + nuclear subsidy**
- 2. EU ETS triggers no decarbonizing innovations**
 - Business-as-Usual of energy & industrial corporations continued
 - Firms reject paying for emissions, environmental innovation, ask subsidies
 - **Electricity producers build coal-fired power plants [2008-2018: NI, D]**
 - ... now free-ride on FiT innovation results for coal phase-out
 - ... meet the ETS CAP decrease in phase IV [2021-2030]
- 3. Integrated Assessment Models (IAM) used by IPCC WG3**
 - Incorporate neoclassical recipe of uniform price-induced innovation
 - Hence, results and policy recommendations are problematic

Neoclassical econ. flaw #3: Fringe price equalized to Marginal cost price (to pardon free permit donations)





Bewildering discursive power upholds the CAP & TRADE façade, notwithstanding

- **evidence is contentious, not effective**
- **formal mathematical theory as argument is not compelling**
- **CAP & TRADE narrative hides opposite reality (next slide)**

EC(2000) CAP&TRADE Façade

EFFECTIVE reduction of emissions
by stringent CAPS

EFFICIENCY in reduction by equalizing
the Marginal Abatement Costs of all
emitting activities,
buying permits at auctions,
exchange via TRADE

Permit price set by market forces

Uniform price-induced innovation
for decarbonising activities

No bureaucracy, market allocates

Fairness, Polluter Pays Principle

EU ETS Façade vs. Reality



2005-2020 Reality

Oversized and permeable CAPS
Surplus permits in phases I, II, III [2005-2020]

Figure: Caps vs. Verified emissions

Source:

Marcu et al. (2021). State of the EU ETS

Free permit donations (grandfathered, then benchmarked)
... continue in phase IV [2021-2030] for EITE activities
Speculation with surplus permits is not trade

Administrative price fixing via Market Stability Reserve

Declining emissions by external economic factors and by competitive RE technologies (irena.org)

Incredible mess. Hidden ownership, transactions, money flows

People Pays Polluters: €billions in rent skimming on top of auction payments, both charged on non-ETS electricity bills

Fit for 55

- **Continues + expands EU ETS**
- **Similar to ETS in discourse, stakeholder masterminding, bureaucracy,**
- **Confined to European financial-economic interests**
- **Missing universal scope, while climate is a global commons**
- **Skips Our Common Future Sustainable Development. Prolongs neoliberalism**
 - Corporate interests prevail (like electricity corporations skim rents from billing electricity users, fossil fuel sellers can squeeze money out of transport and building users)
 - Material growth as solution (e.g., aviation gets free skies when shielded by EU ETS)
 - No cure for inequality
- **EU ETS is 20+ years lost in climate politics; Fit for 55 adds another decade**
- **Carbon markets do not solve the climate crisis; they amplify the crisis.**

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**Fossil
fuels
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Atomic power**

**Neoliberal interests
prolongation**

**Block societal
Transformations**

**Energy Systems
changes**

**Future:
Low-carbon neoliberalism**

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**Large-scale
Renewable
Energy
&
Derivatives
e.g., SAF**

**Technical
Efficiency,
No conservation**