

Carbon Markets Are the Shortest Path to a Green New Deal

An interview with Lorenzo Marsili, Suzana Carp

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With the climate crisis worsening and growing social movements demanding a response, the need for radical climate action is increasingly recognised. Proposals for a state-led Green New Deal are making waves around the world, while the stalemate at COP25 in Madrid seemed to confirm doubts about the future of international climate cooperation. But there are reasons to be cheerful, according to climate expert Suzana Carp. Longstanding problems with EU climate policy have been overcome and real money is on the table for the transition. The question is will it be enough.

Lorenzo Marsili: You work for Sandbag, a data-driven climate think tank, but you recently stood in the European elections in the UK as a Romanian national. What made you do that?

Suzana Carp: The UK is my country of residence and where I pay my taxes. With British policies going in the opposite direction of creating an enabling environment for EU migrants, I stood in the elections to give a voice to this community, Eastern Europeans especially. EU migrants have been targeted for years despite contributing greatly to the National Health Service and other public services. I stood in the same constituency as Nigel Farage to make precisely that point.

Migration and the climate are both cross-border phenomena that nation states seem increasingly unable to cope with. How have national politics contributed to shaping the common European response to the climate crisis?

Many pro-European groups miss how, unlike on migration, national interests are advancing climate policies in Europe. In my experience, it is the Council increasing the level of ambition rather than the European Commission or the European Parliament. This is why I am not a federalist. The climate debate at the national level is different from that at the European level: the UK has been one of most progressive countries in the EU on climate issues and has decarbonised per capita more than most other member states. While the European institutions – the new Commission included – lag behind.

It's rare for people to praise the Council over the Parliament.

In my last four years as a climate campaigner, I've seen the Council as an ally. Take the Emissions Trading System (ETS) negotiations, many Paris agreement amendments survived the Environment and Industry Committee phase of the European Parliament proceedings but were lost in the plenary vote. Partly that is because MEPs are individuals and therefore easier for industry lobbies to target. For every climate campaigner that went to a MEP's office, hundreds of lobbyists visited them. Workers were sent to meet MEPs and to complain that the legislation would put them out of work, even when there was no evidence of it. Trips to Brussels and hotels don't come cheap, a whole industry was behind the campaign.

But the Council managed to turn this around?

After the European Parliament voted down some of the more progressive amendments, the legislation went to the Council. To thwart the Commission's attempts to water down the demands of national ministers, the Council live-streamed the sessions and managed to pass what is still today the most progressive amendment on carbon policies.

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The ETS revision it passed fundamentally reworked the theory of carbon markets to make the cap and the market reflect changes in real emission levels: the more renewables and energy efficiency you pursue, the more you cancel carbon permits in the market. This adjustment has raised the carbon price in Europe, increasing the revenues available for decarbonisation and turning the economics of energy markets against fossil fuels. The ETS now self-adjusts as a live system. After two decades of discussions, it is finally fit for purpose.

But powerful national interests do resist ambitious targets, the diesel industry is one example. Most people would expect EU climate policies to work like tax policy, countries protecting their short-term interests against changes that would benefit the EU as a whole.

Only in the Council can you overcome national interests. In the case of diesel, the negotiating positions on CO2 standards for vehicles were entrenched and only at the Council level could governments, which back home are in the pockets of national industry, delegate responsibility and say they had no choice but to do the European thing. It's the only level where you can overcome the pressure from lobbies.

You could say it's a virtuous use of the technique often employed to push through unpopular policies – "I had no choice, the EU demanded it".

Yes, but the Council level also allows issues to be framed as transnational as opposed to national. The German car lobby can say what they want but Germany can respond that a particular issue is about a bigger European cause and regulating the internal market. There is virtuous blame-shifting but it's also the right level to address transnational issues.

You are a big believer in carbon pricing. The ETS system has been heavily criticised for not being up to the scale or the speed of the transition we need. Do you still think a market-based cap and trade system is the best way forward?

Yes and more so than before. Sandbag's motto for the ETS used to be "fix it or ditch it". But the Paris agreement opened up a path to a carbon-neutral second half of the century and for that, you need a trajectory. Cap and trade schemes such as ETS are the only way to draw a trajectory to zero, which is why China and Mexico are opening carbon markets of their own. As soon as you cap emissions, the trading component reveals where emissions are cheapest but also helps lower technology costs.

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I often call myself a green social liberal. The market has a role in decarbonisation but the green social element is necessary to make sure the market doesn't deepen inequalities. Reaching net zero in 30 or 40 years is impossible without markets that can lower technology costs. Not to mention that the ETS generates revenue without which some countries would not be able to invest in the transition.

But emissions have been rising since the Paris agreement was signed.

True, but in the EU ETS only covers the energy sector and part of the industrial sector. For those sectors, emissions have been dropping and the EU met its 2020 targets four years in advance. Energy sector emissions have been decreasing at a rapid pace, while industrial emissions have been flatlining. In other words, emissions from sectors covered by the ETS have either decreased (where the carbon price was fully reflected in costs) or have stagnated (where the industry was shielded from the price). This proves the point that carbon pricing is the most effective tool to promote steady decarbonisation. That emissions are increasing globally does not mean that the EU's carbon market is the problem. The lesson is that ETS works when sectors are not shielded or exempted from it.

Would a carbon border tax on energy-intensive imports into the EU be a good idea? Are other countries right to label EU efforts to leverage trade policy for climate action as protectionism by stealth?

The EU as the largest market in the world has an obligation and responsibility to use its market power to drive normative standards in a more environmentally friendly direction. It is not protectionism. The World Trade Organization and General Agreement on Tariffs and Trade protocols state that environmental considerations do not fall under protectionism. Protectionism refers to state aid and other forms of support and is treated differently under international law.

Developing countries are most exposed to the impacts of climate change so these measures already take everyone's concerns into account. The idea that the funds gathered could be reinvested in the energy transition of the countries where the imports come from is a good one. It is the only way to increase the development of mitigation and adaptation measures in other countries given the high costs involved.

What do you make of the new Commission's Green Deal for Europe?

I am sceptical. It sounds like the Conservatives borrowing language to keep the upper hand. The way the German national agenda is being pushed forward is also profoundly inconsistent. One example is the idea to include the transport sector in the ETS. While marked as a green move, the reality is the opposite. Germany's coal phase-out will create lots of allowances in the ETS. Instead of cancelling them, which would be expensive, the German government is using the space as a cushion for the transport sector to miss its targets. Looking at the Green Deal drafts so far, we're worried.

Does the money on the table match the ambition of the policies? The scale of economic and financial transformation required seems to be lacking whether in terms of real investment, green bonds, or redeploying Europe's financial institutions.

Cohesion funds and ETS revenues are already available and, now that the pricing of ETS has increased fivefold and continues to rise, the revenues that EU countries receive from it, as well as from modernisation and solidarity funds, have grown massively in value. Croatia has access to 4 billion euros for ecological transition, Romania and Poland much more. The money is there for the next seven years, what's missing is a strategic investment plan

holding it all together. And that's a national competence, the EU can't do much there.

But that is still far short of the investment needed. Many economists claim hundreds of billions a year are required.

No one knows how much is needed because member states claim they need more than they do. These funds will trigger private investment and huge amounts of money are available in private markets. So if you ask me, it is enough.

Didn't this approach fail already with the Juncker investment plan of the previous Commission?

The Juncker plan lacked direction and wasn't focused on the climate. Unless you are talking about investing in the energy transition, the proposition is not attractive for the private sector. Up to now, Europe has been too conservative regarding the energy sector and therefore has not attracted the kind of private investment you have in mind.

Mariana Mazzucato argues that the private sector is too shy to drive the kind of industrial transformation we need.

The private sector won't drive it, the private sector will match-fund it. But governments and EU institutions don't earmark funds for the transition because the climate emergency is not at the top of the agenda for the conservative establishment, even though jobs and growth depend on it.

How do you see the situation in countries such as Poland that are reliant on dirty industries?

Some countries engage in a degree of political posturing at the European level because it means more money for them. Poland imports most of the coal it burns, ironically from Russia in large part despite it not wanting Russian gas. Its attachment to coal has many inconsistencies: even if they do not brag about it, the Polish government is building massive offshore wind farms in the Baltic Sea. Coal no longer has a future and pretending that it does is pushing workers off a cliff.

Do climate and energy policy risk deepening inequalities between new and old member states?

Many governments in Central Eastern Europe are developing plans for coal phase-out, even if they don't say so publicly. It's fair for the EU to pay more for poorer member states. But a transition must be happening in the first place for it to be a just transition and you cannot force opportunities on people.

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The transition has good chances of going well but planning is key and EU institutions will be important in that regard. I have this memory from my childhood. My city used to have electric public transport from the Communist era, then the European Bank for Reconstruction and Development granted a loan to the city council so it could renew the fleet. The city ran a tender and the company that won imported second-hand diesel buses from Western Europe. We went from pollution-free electric transport to high-emissions transport with a European loan.

Who do you see as rowing against the transition?

Industrial lobbyists, stakeholders, and shareholders.

Who is the most important ally?

Progressive businesses, companies, and industries, of which there are plenty in the EU. Forward-thinking businesses are the ones who can shift the terrain in this debate. Politicians tend to be powerless when faced with organised interests so progressive companies need to showcase their achievements more.

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Compared to the Green New Deal proposals calling for massive investment, full employment via a green job guarantee, and the redeployment of central banks – in short, a structural transformation of financial capitalism – your approach appears more gradualist and reformist. How different are these visions for the transition?

The different approaches to the Green New Deal are not incompatible with what I advocate. I am just being pragmatic. Overnight reformists have struggled to get their point across, whereas steady campaigning targeting tipping points in the system seems to have worked. Thanks to collective campaigning, the European Investment Bank has announced divestment from fossil fuels. At COP 25, one third of the world's monetary power committed to divestment.

The scale of investments needed calls for steady and predictable investment landscapes. For everybody to act at lightning speed, a consensual approach is not just necessary but the most effective way forward. Nonetheless, I do think we will end up with the changes to the economic system that the Green New Deal envisions, but just that it is pragmatic campaigning that will get us there. Carbon pricing will be the plug in the economic system that changes the logic of lending. It will shift the investment landscape while creating further funds, moving the economy in a more virtuous direction and generating cash as we decarbonise.



Lorenzo Marsili is a writer, political activist, and founder of international network European Alternatives. He is a board member for global NGO CIVICUS and on the coordinating committee of pan-European movement DiEM25. He previously worked in journalism and was founding editor of *Naked Punch Review*. His latest book is *Citizens of Nowhere: How to Save Europe from Itself* (Zed Books 2018).



Suzana Carp is Sandbag's Brussels representative, leading the organisation's EU Engagement. She worked on the Energy Union as a Schuman fellow with the European Parliament's DG Presidency, in the Directorate for National Parliaments, having also previously worked as a civil servant in a national Parliament. Suzana has an MA from College of Europe, where she specialised in the energy and climate diplomacy of the EU in the European Neighbourhood countries and an MSc from the University of Oxford.

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