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Energy & Decarbonization Politics affected by Price & Money

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CONSIDER:

Oil & Gas PRICES are ephemeral; cashed MONEY is a lasting asset

PRICE is subservient to MONEY

Follow the MONEY to understand politics

Contents (11 topics in 15 slides)

Public & Private Pricing

Public Pricing (of externalities like carbon emissions, or public goods) pursues maximum welfare, where prices intend to

- Collect money for public treasuries
- Incentivize actors to change activities, engage more/less in particular activities
- Compensate or regulate the use of commons / public goods

Private Pricing (of goods & services privately owned/controlled), pursues maximum profits, accumulation of capital, 'big money'

- THEORY: perfect markets = marginal cost pricing by numerous suppliers = limited profits and rents = maximum benefits for the combination {producers + consumers}

- PRACTICE: Oligopoly & Monopoly = price hikes, discrimination to maximize profits, capture rents (= superprofits = profit without effort)

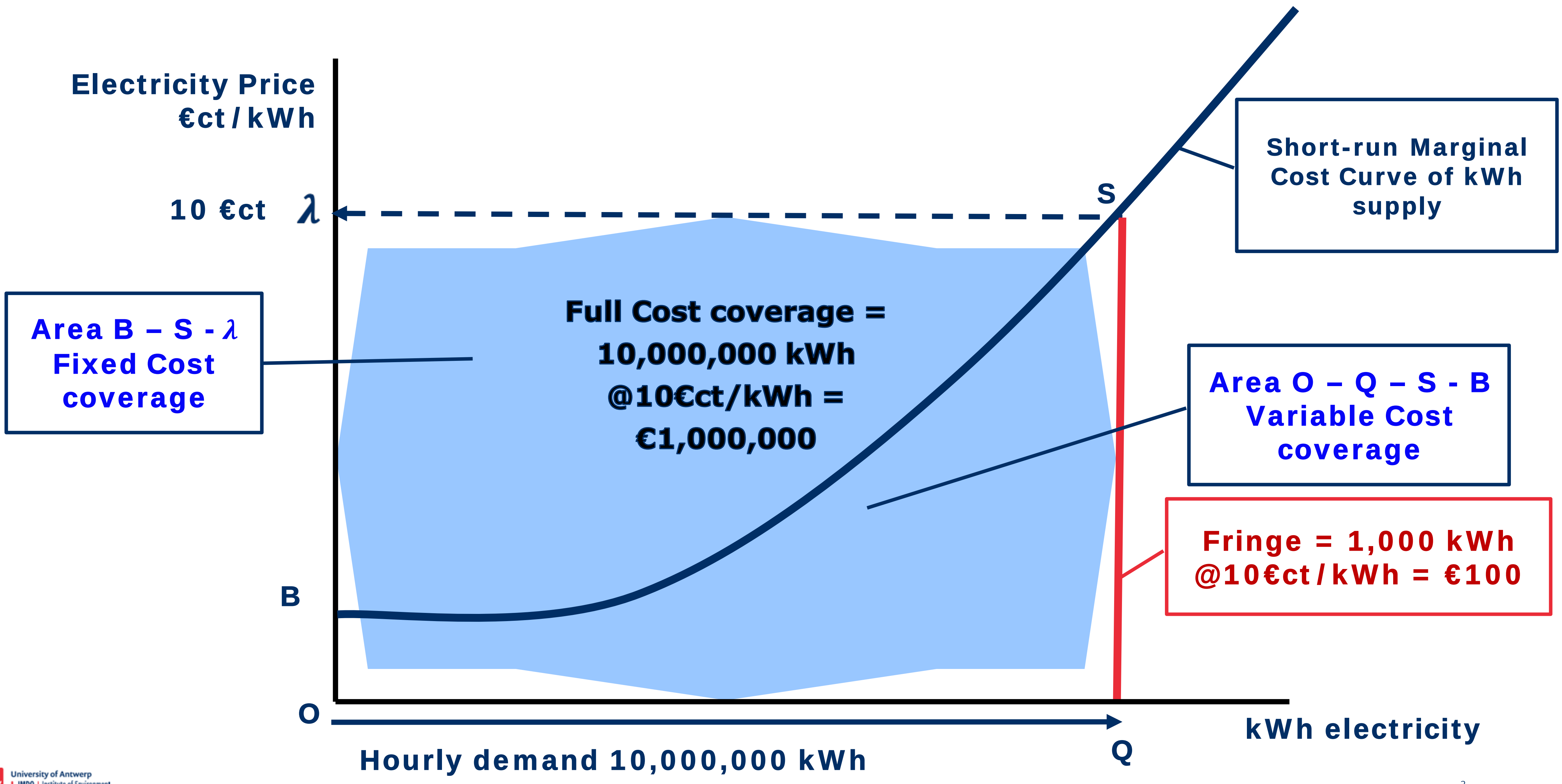
  > 'free market' has become a disguise, a façade for big money: 'free = unregulated', arbitrariness, no constraints

  > financial sector, detached from the real economy, is the accumulation vehicle

  > exchange plaforms (like EEX) are NOT markets; they post "fringe prices"

Fringe price is NOT a Marginal cost price λ

(electricity pricing as exemplary case)



Two cases of Fringe Pricing for big money

Europe's dystopia in pricing electricity (Sept.11, 2022 paper)

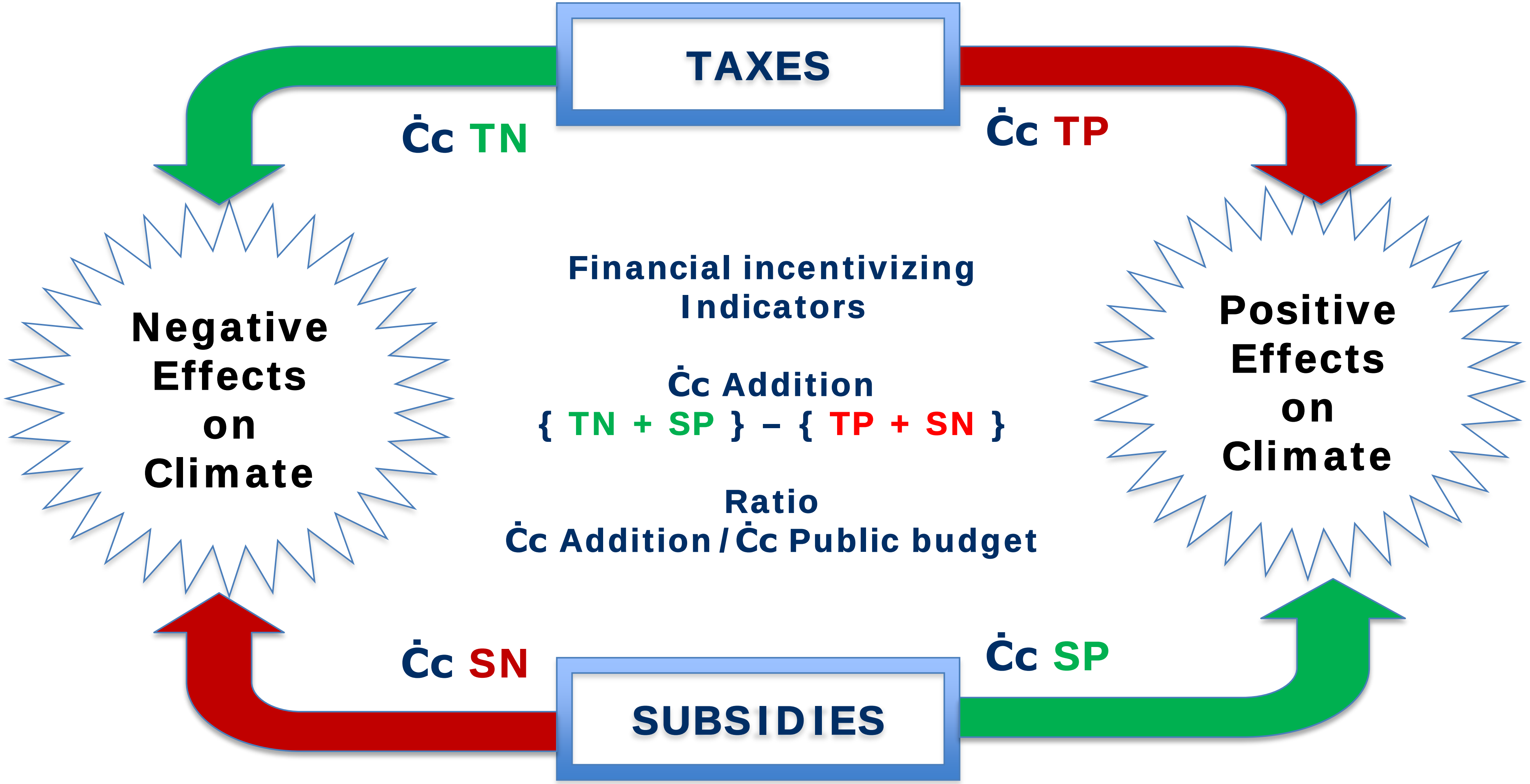
The Ukraine-related Natural Gas crisis affects European power systems

1. The natural gas fringe price at the gas exchange platforms is excessively high
2. Outlier gas prices wreck the 'optimal' composition of power generation systems
3. Outlier gas prices make electricity fringe prices excessively high
4. Deception: fringe prices are equated to "marginal cost prices" (textbook economics)
5. Extreme extortion of households, SMEs, public facilities (schools, hospitals, rail, etc.)

Gaming with surplus emission permits in the EU ETS

- "Market Stability Reserve (MSR)" manages the surplus of emissions permits (⇔ CAP)
- EITE (Emissions Intensive Trade Exposed) companies get all benchmarked permits free
- Eventually, EITE must buy a fringe
- EEX-ETS posts daily fringe prices: speculative prices around the MSR range
- Fringe prices used for charging the bulk of the 'ETS revenues' on non-ETS electricity users

Gauging financial incentivizing in climate change politics by Country-specific-currency (Ċc) money flows



Substitutes for utopian "Global Uniform Carbon Price", like uniform carbon tax, or emission permits trading covering heterogeneous sectors

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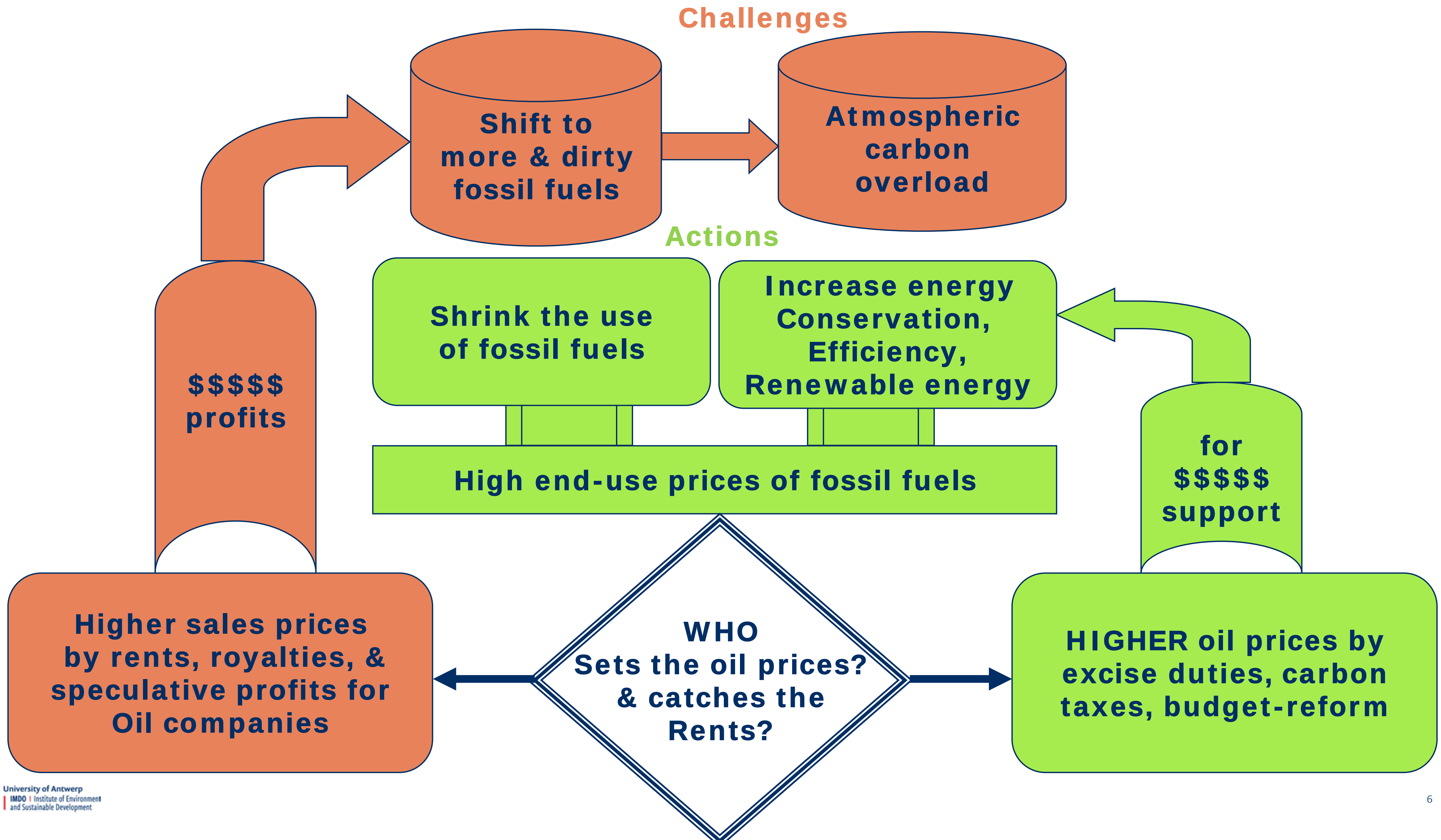
High end-use prices of oil (fossil fuels) helpful for climate change mitigation?



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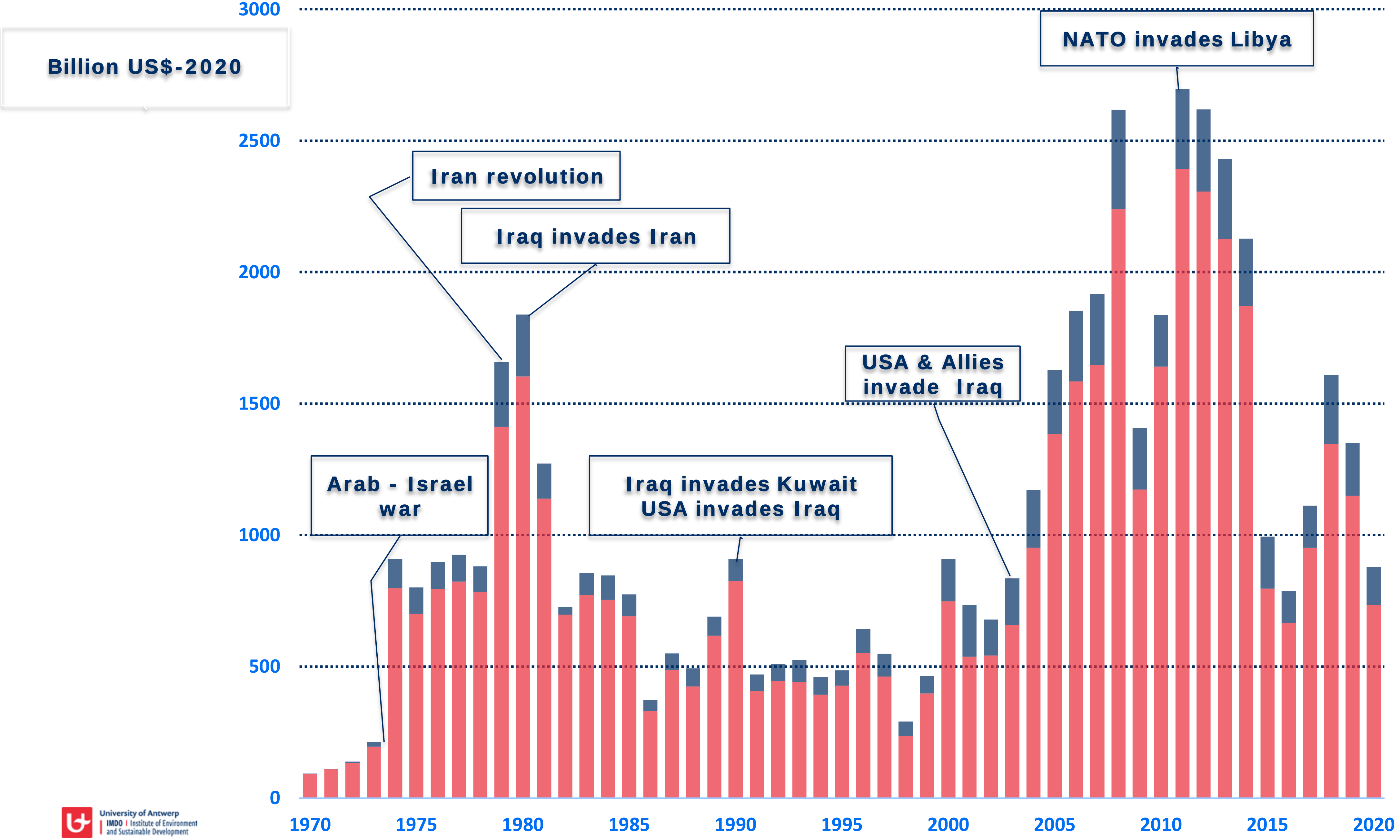
Oil (red) & Gas (blue) rents in billion US$-2020 (period 1970-2020)



The USA classifies nations with exportable oil & gas sources as:
Friendly I Undecided I Hostile

"Friendly" means open for dominating role of Western oil & gas multinationals:

USA & NATO nations + Gulf Cooperation Council (Saudi Arabia, Emirates, Qatar, Bahrein)

"Hostile" means nationalistic; subordinate Western multinationals:

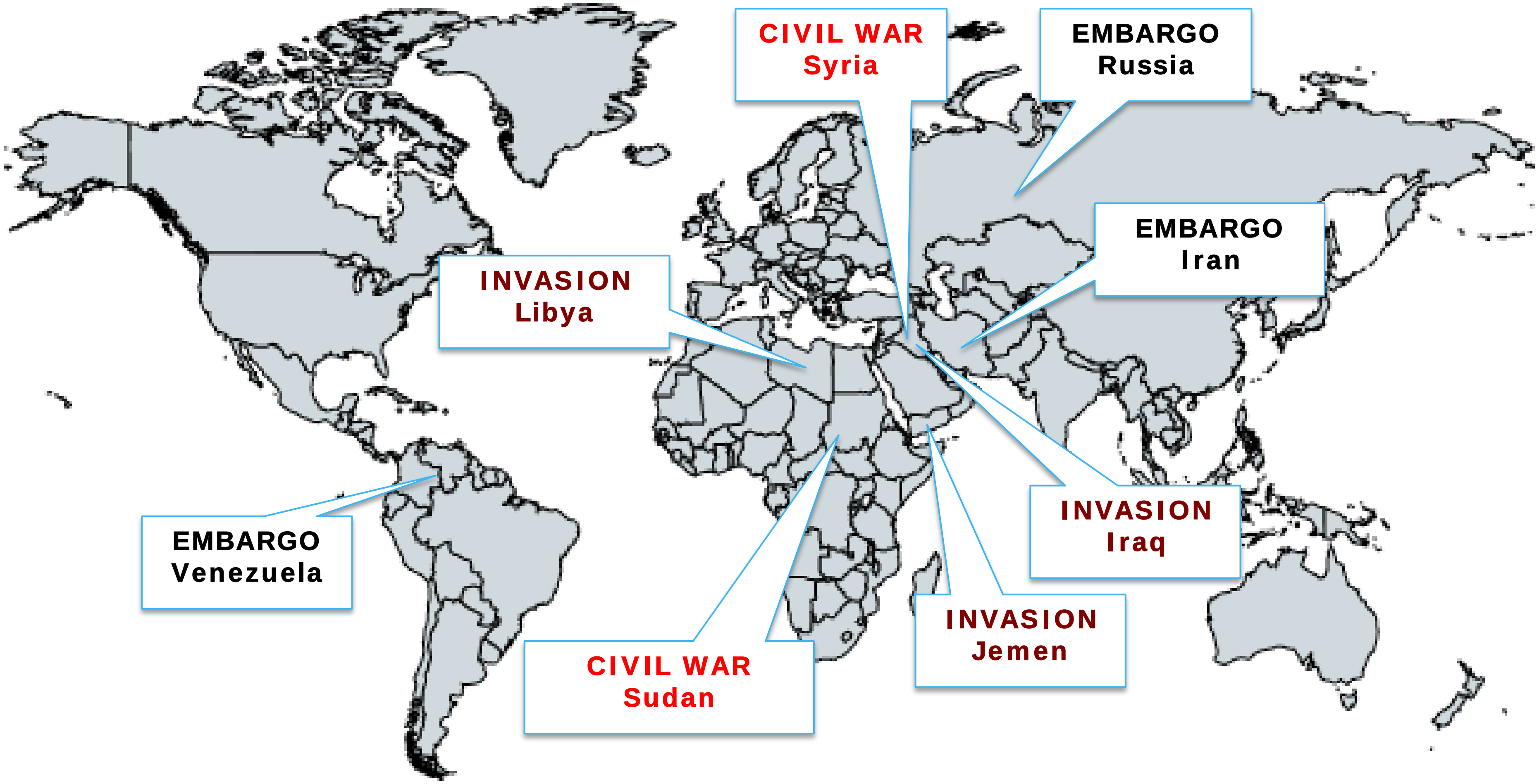
Iran, Venezuela, Ecuador; before invasion: Iraq, Libya; Russia,... (Nordstream 2)

Oil & gas geopolitics based on facts

- ⇔ **Depletion story telling: conflict & war to obtain scarce oil & gas resources**
- **Facts: conflict & war to exclude oil & gas exports of hostile nations**

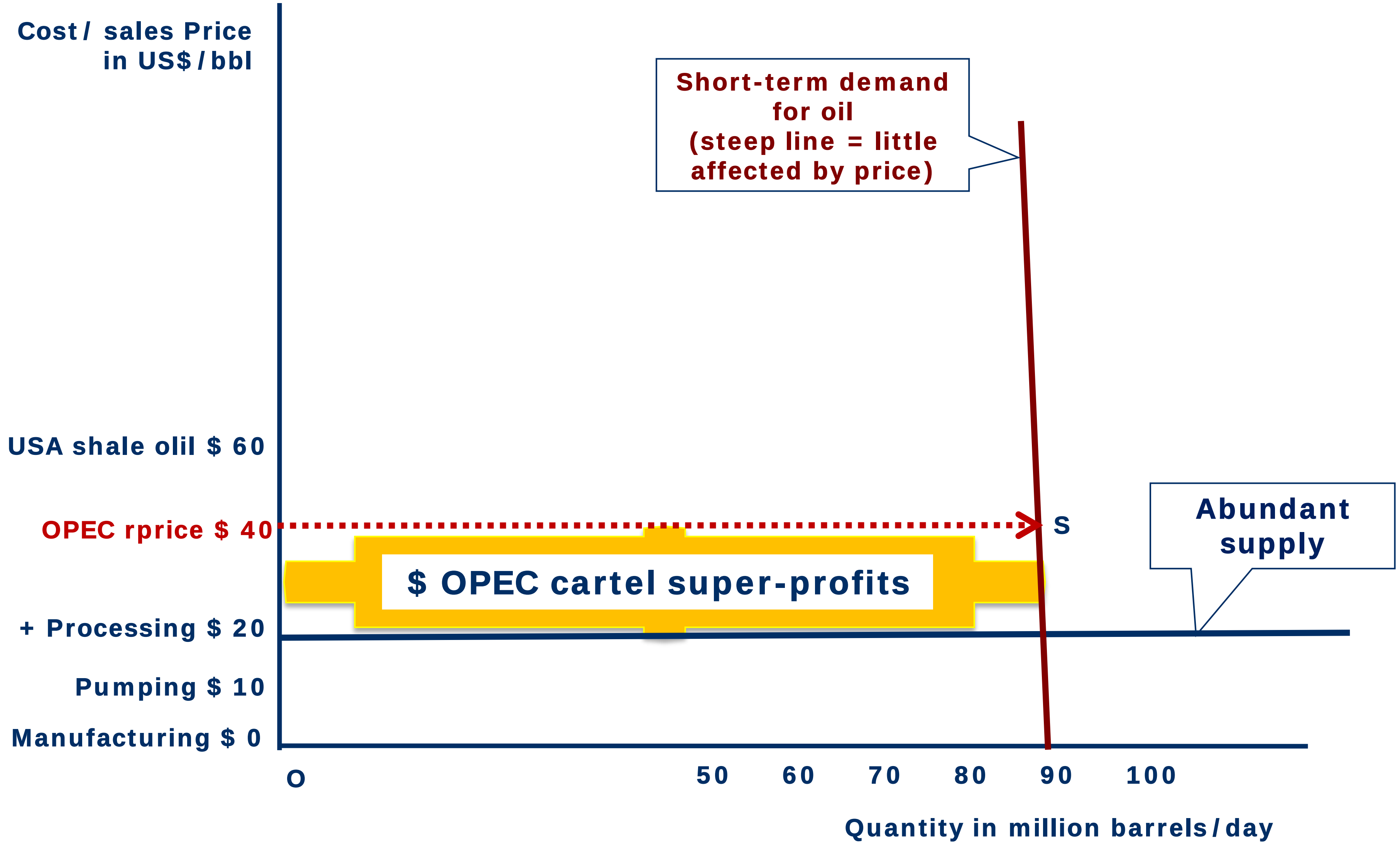
Shrinking oil & gas use = geopolitical conflicts

EMBARGO – INVASION – CIVIL WAR



USA, Oil&Gas multinationals, Gulf states claim the lion share of oil & gas sales

One day crude oil market WITHOUT sanctions & embargo's: all nations free to export OPEC cartel captures super-profits



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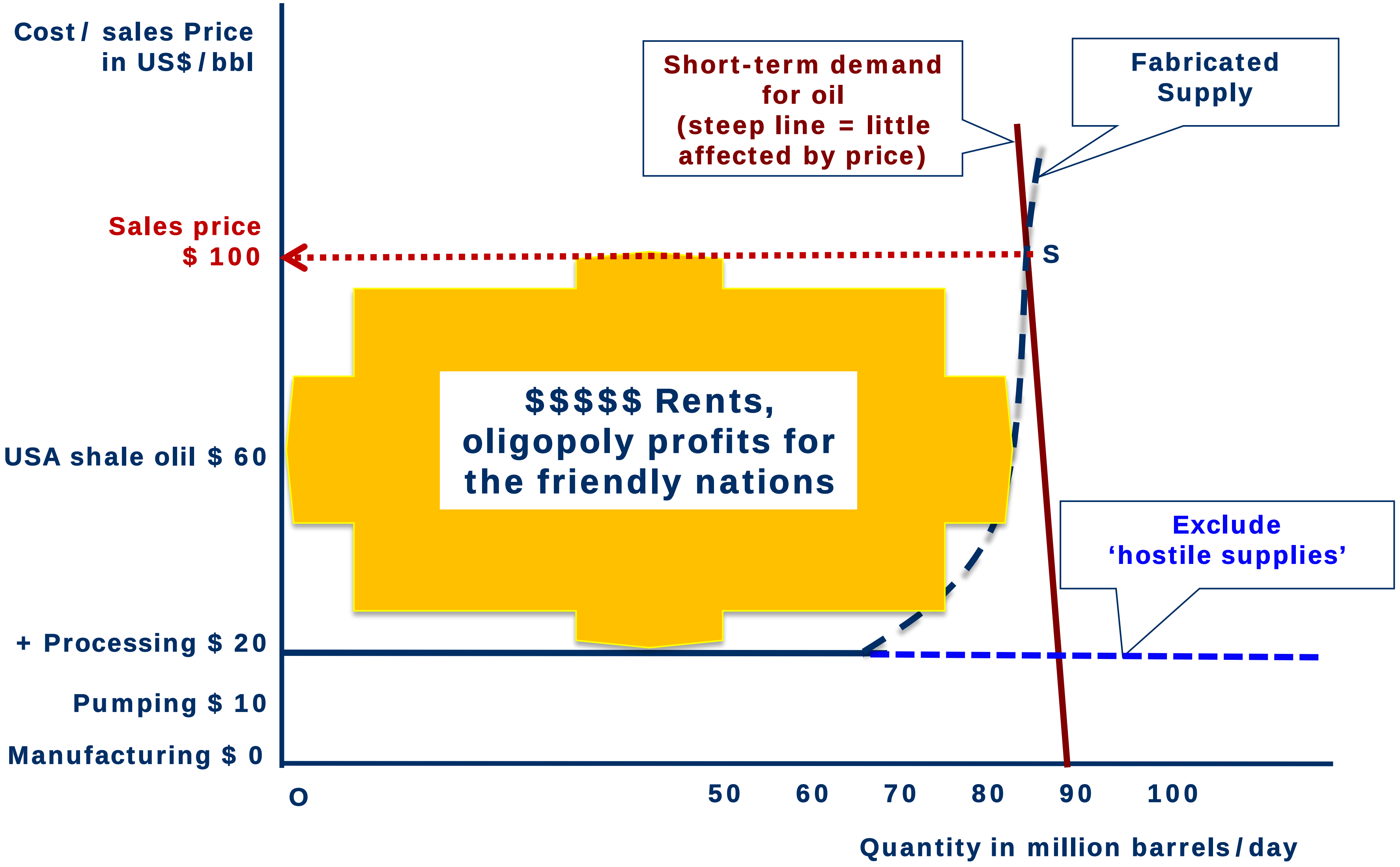
One day crude oil market WITH sanctions & embargo's: hostile nations' export excluded
Rents, oligopoly profits by geopolitical power rearranging market basics

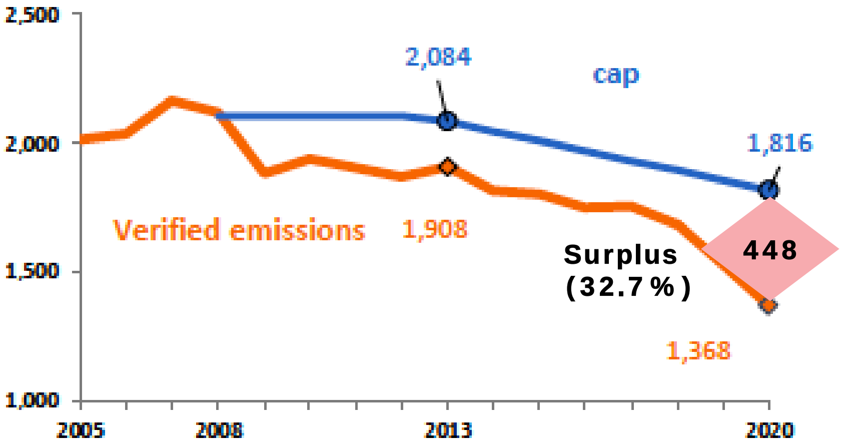


EU ETS Façade vs. Reality

EC(2000) CAP&TRADE Façade

2005-2020 Reality

EFFECTIVE reduction of emissions by stringent CAPS



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

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

Free permit donations (grandfathered, then benchmarked) … continue in phase IV [2021-2030] for EITE activities

Speculation with surplus permits is not 'carbon trade'

Permit price set by market forces

Administrative price fixing via Market Stability Reserve

Uniform price-induced innovation for decarbonising activities

Declining emissions by external economic factors and by competitive RE technologies, developed by FiT outside ETS

No bureaucracy, market allocates

Incredible mess. Hidden ownership, transactions, money flows

Fairness, Polluter Pays Principle

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

Fit for 55 (4053 pages package July 14, 2021)

- **Continues + expands EU ETS + additional ETS for vehicles and buildings**
- **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 sqeeze money out of vehicle 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.**

Democratic deficit of opaque EU emissions trading systems

EU ETS & Fit for 55 evolve from shielding industry's Business-as-Usual

to systems taxing non-ETS electricity and energy users, for covering

the expenses of stranded assets (like coal plants, LNG terminals),

and of new investments in industry's decarbonization ('Innovation' funds)

Hence, the so-called 'carbon markets' metamorphose in tax raising systems.

However, taxing is the exclusive right of politics, democratically authorized by their constituencies paying the taxes [Magna Carta, 1215]

+ Full transparency & accountability on the money flows

'ETS Polluter Pays Principle' = loading the burdens on non-ETS energy users

When is Carbon Taxing a helpful instrument?

Not helpful: bulk taxing of carbon emissions of companies

> **'make industry pay' is an understandable request of poor, extorted people**

⇔ **The burdens are anyhow rolled-off on end-users, consumers**

⇔ **Tax havens would cause 'carbon leakage'**

Well helpful: contextual, diverse, short-cycled, taxes/subsidies

> **designed for [1] Fairness, [2] Effectiveness, [3] Efficiency**

[1] Fairness: very diverse composition of constituencies requires commensurate diverse levies, support, taxes/subsidies ⇔ UTOPIA of 'Global Uniform Carbon Price'

[2] Effectiveness: iff alternatives are available, taxes/subsidies help to push people over the ridge from old practices and technologies to new ones, e.g.,

- Historically (1980s): shift from leaded to unleaded gasoline
- Crucial success of Feed-in-Tariffs (DK, DE, ...) for developing solar and wind power technology
- Nowadays: shift to electric mobility

[3] Efficiency: kaleidoscopes of specific taxes and subsidies in a polycentric, multi-level climate policy architecture are the only efficient financial instruments

EU ETS amplifies the climate crisis

- It dilutes 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
- Major issues
  - Carbon Pricing and Money
  - Neoclassical economics illusions (uniformity; price-induced innovation; fringe pricing)
  - Bewildering discursive power of Stakeholder Masterminding
  - CAP & TRADE theory conceals opposite practices
- EU's 'Fit for 55' package adds an additional ETS for fuels used in transport & buildings, supervised by fossil fuel suppliers
- End-users pay the 'revenues' of the system
- Likely "on hold" as long as excessive oil& gas rent skimming continues (you cannot squeeze the same lemon twice)