CARBON MARKETS WILL NOT MAKE OUR PLANET GREAT AGAIN

Addressing climate change requires sound environmental policies, not more failed carbon markets

It is well documented that carbon markets have failed spectacularly in achieving their environmental objectives and that many carbon offset projects have a devastating social impact. In spite of this evidence, carbon markets remain the main policy tool to address climate change in Europe, based on the misguided hope that they will work "once the price is right".

Yet, beyond the well-known issues of excess permits and frauds, it has also been demonstrated that carbon markets have major conceptual flaws that cannot be fixed, such as the inability to provide a reliable price signal[i] or the fact that the climate impact of offset projects is not calculable.

When carbon becomes a new asset class for investors, carbon markets will be much more vulnerable than traditional financial markets to crashes and abrupt losses of confidence from investors, with a high risk of contagion to other asset classes and the wider economy.

Yet, new carbon markets are being created such as CORSIA, the carbon offset market for civil aviation emissions, or the one mooted under article 6 of the UN Paris Agreement to be finalised at COP25.

These irremediable issues mean that carbon markets will never be able to meet their environmental and social objectives and should be abandoned for more robust alternatives.

Mandating a progressive phasing out from fossil fuels complemented by targeted tax policies aimed at ensuring a fair sharing of the costs of a transition away from fossil fuel dependence would be far simpler, fairer and incomparably more effective in addressing climate change. Binding regulations have proven their effectiveness time and again, notably to address the hole in the ozone layer, prevent river pollution by effluents or reduce lead emissions from cars. Such a plan would of course be progressive and would mean finally starting to act, instead of continuing with the current inaction fostered by carbon markets.

Binding environmental regulations would also incidentally make finance sustainable with regards to climate change, as the risk-adjusted returns of all companies and economic activities would automatically adjust to the new regulations and capital would shift accordingly. In turn, this questions the current political focus softening financial regulation in exchange for a greening of bank balance sheets.

As carbon markets continue to prove their ineffectiveness while the incidence and amplitude of natural catastrophes increase and renewable energy prices continue to drop, public pressure is likely to make the current focus on carbon markets, as the central pillar of EU climate policy, gradually become politically untenable. Wasting another decade would only make the transition more abrupt with a far worse impact on climate and jobs.

We therefore call on policy makers to stop supporting new doomed carbon offset markets, notably at the COP25.

For more information read : '50 shades of green – the rise of natural capital markets and sustainable finance' available at www.greenfinanceobservatory.org

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[i] Carbon markets rely on the idea that a rising price of the permits to pollute will incentivise polluters to curb their emissions of greenhouse gases and switch from fossil fuel to renewable technologies. Yet It has been demonstrated that the wild fluctuations in prices make it impossible to observe any trend in prices and derive any useful information enabling

industries to plan a technology switch. The inexistence of a price signal means that carbon markets will never be able to incentivise a change in technology and behaviour.