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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)

1. Public and Private Pricing
2. Fringe price is NOT a Marginal cost price
3. Gauge financial incentivizing politics in MONEY terms
4. High end-use oil prices: WHO sets the price & captures the rents?
5. Trillion oil&gas rents (= super-profit = profit without effort)
6. Oil & Gas geopolitics based on facts
7. EU ETS: Façade vs. Reality
8. Fit for 55
9. Democratic deficit of opaque EU ETS systems
10. When is Carbon Taxing a helpful instrument?
11. EU ETS amplifies the Climate Crisis

Public & Private Pricing

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

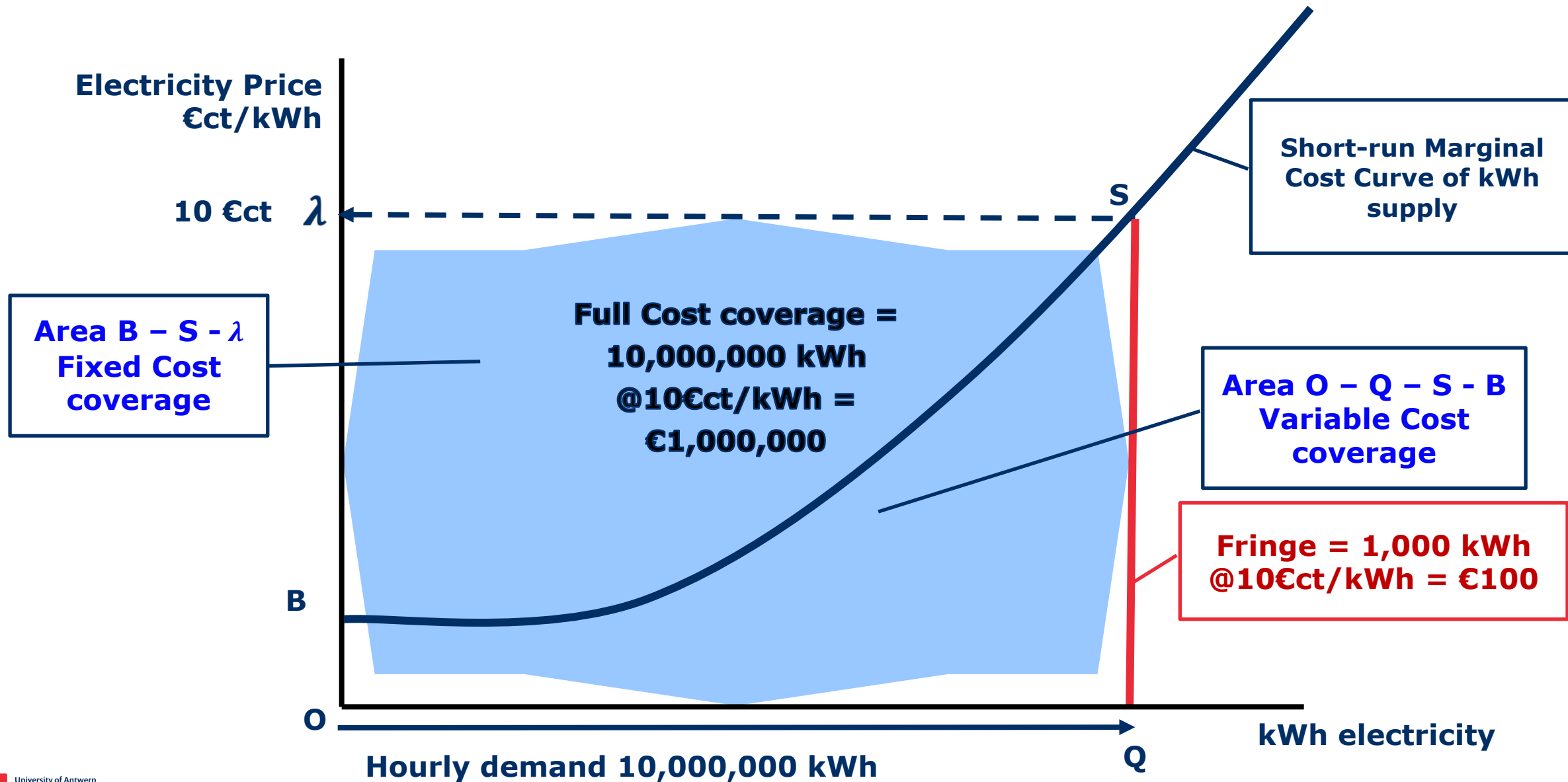
- **Collect money for public treasuries**
- **Incentivize actors to change activities, engage more/less in particular activities**
- **Compensate or regulate the use of commons / public goods**

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 platforms (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)

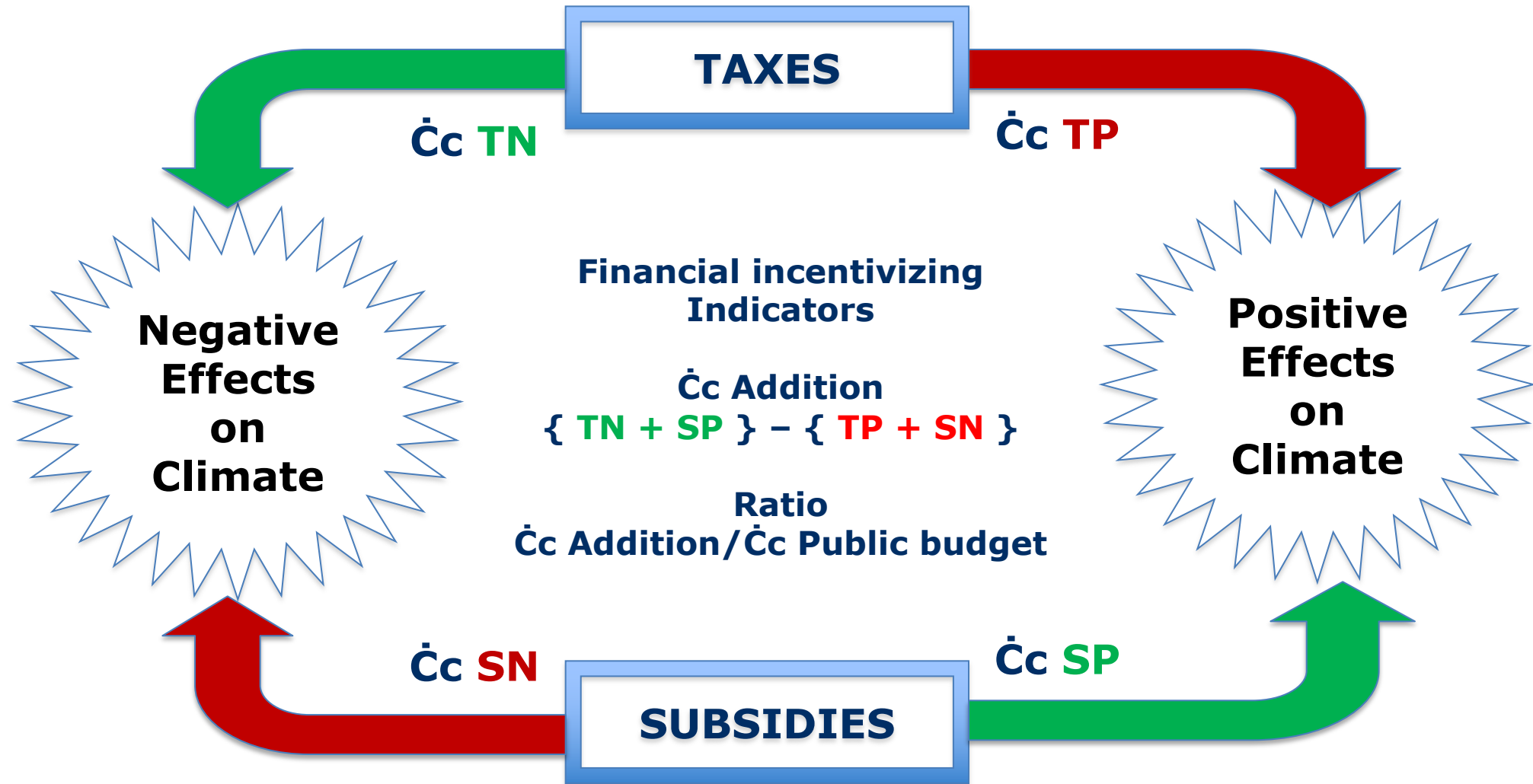
The Ukraine-related Natural Gas crisis affects European power systems

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

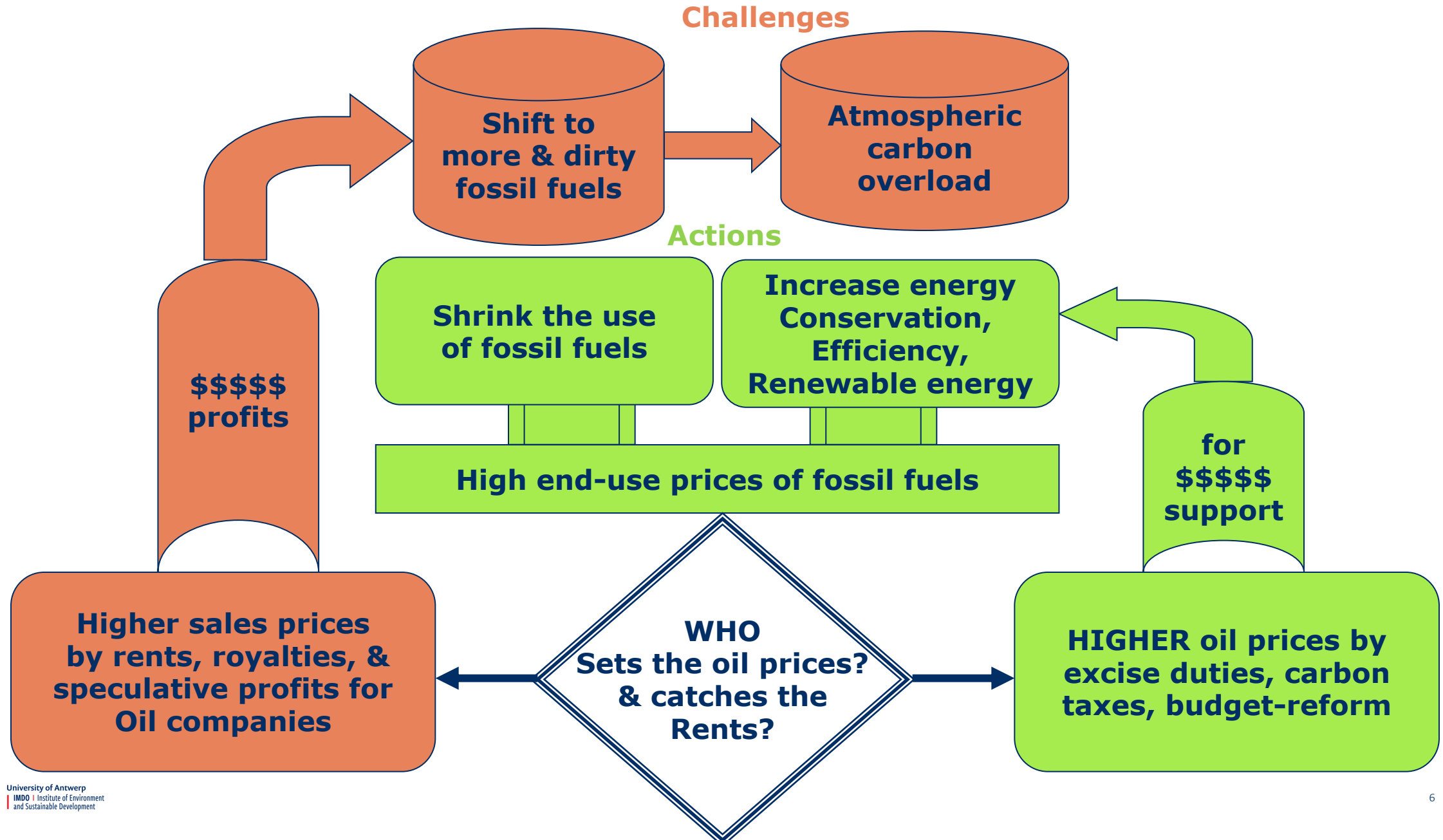
- "Market Stability Reserve (MSR)" manages the surplus of emissions permits (\Leftrightarrow CAP)
- EITE (Emissions Intensive Trade Exposed) companies get all benchmarked permits free
- Eventually, EITE must buy a fringe
- EEX-ETS posts daily fringe prices: **speculative prices around the MSR range**
- 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 (Ĉc) money flows

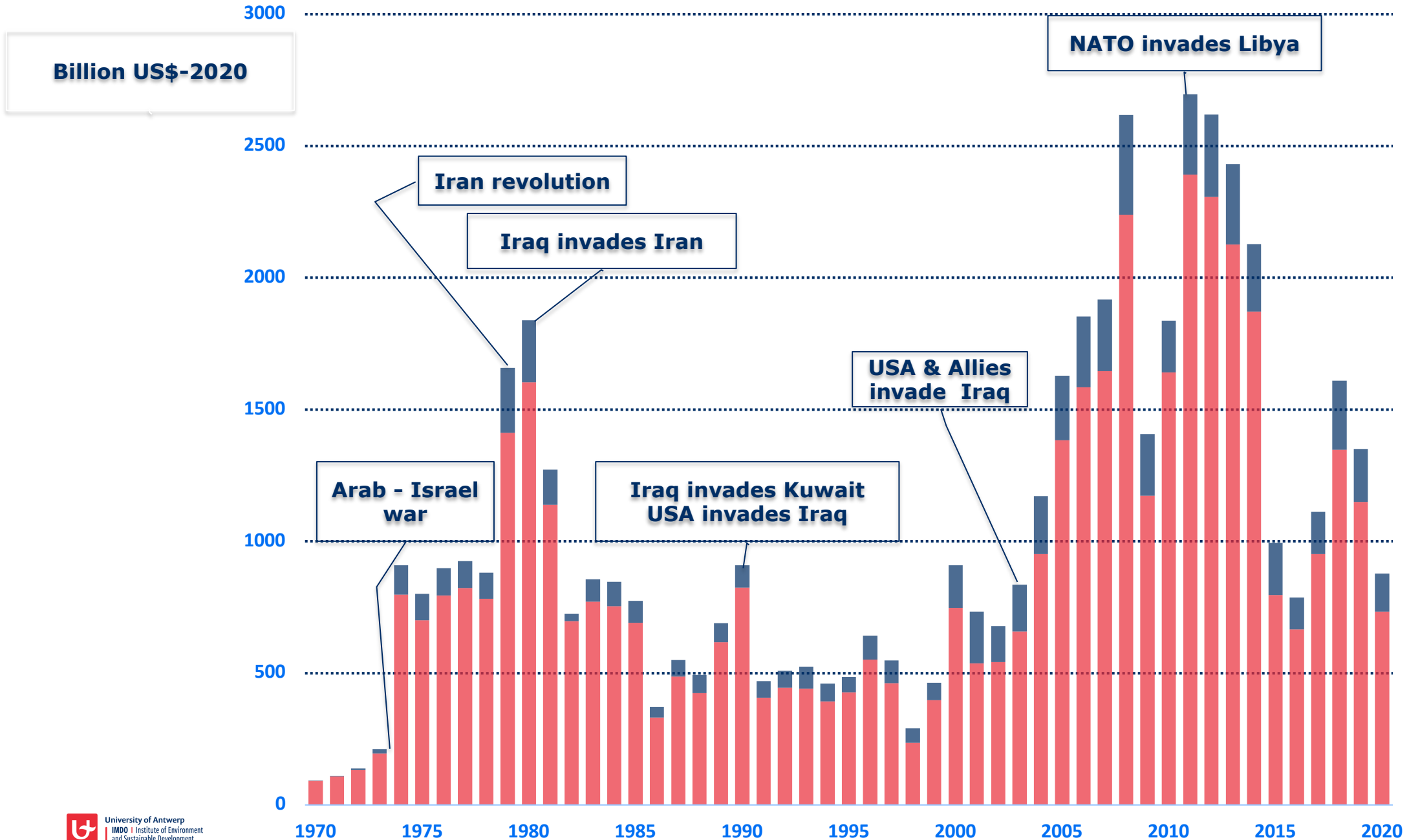


Substitutes for utopian "Global Uniform Carbon Price", like uniform carbon tax,
or emission permits trading covering heterogeneous sectors

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



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)**

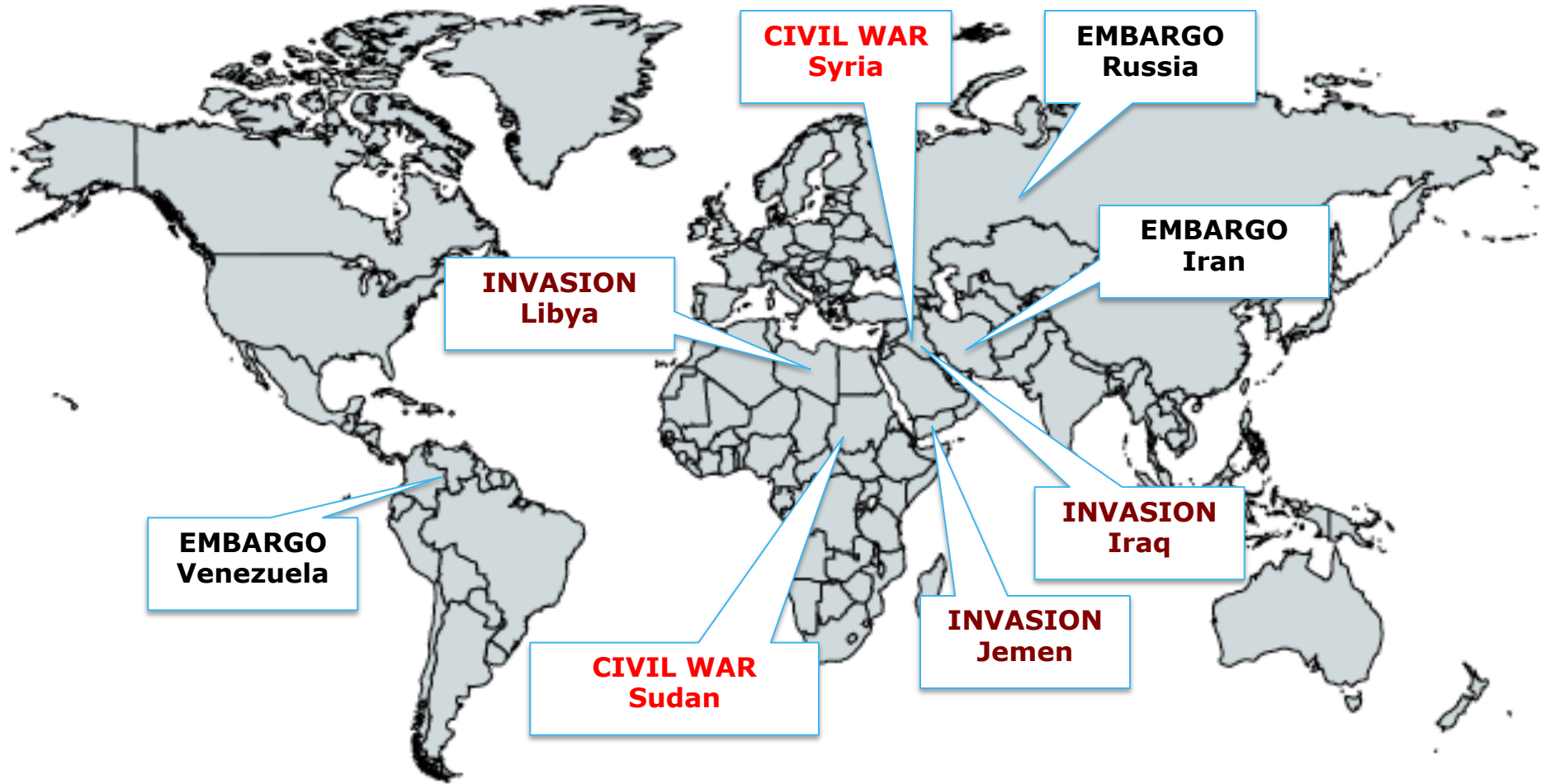
**“Hostile” means nationalistic; subordinate Western multinationals:
Iran, Venezuela, Ecuador; before invasion: Iraq, Libya; Russia,... (Nordstream 2)**

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**

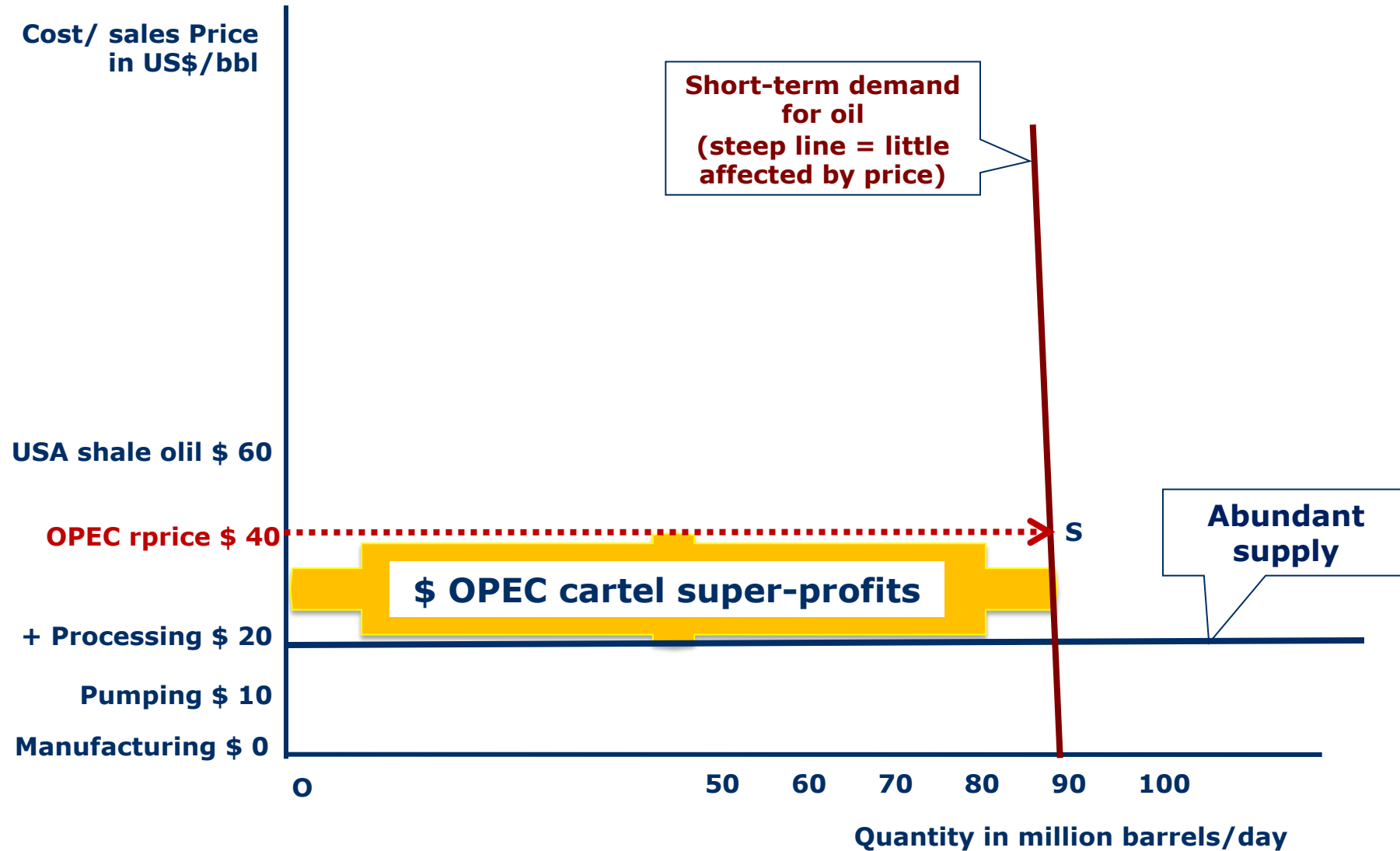
Shrinking oil & gas use = geopolitical conflicts

EMBARGO – INVASION – CIVIL WAR



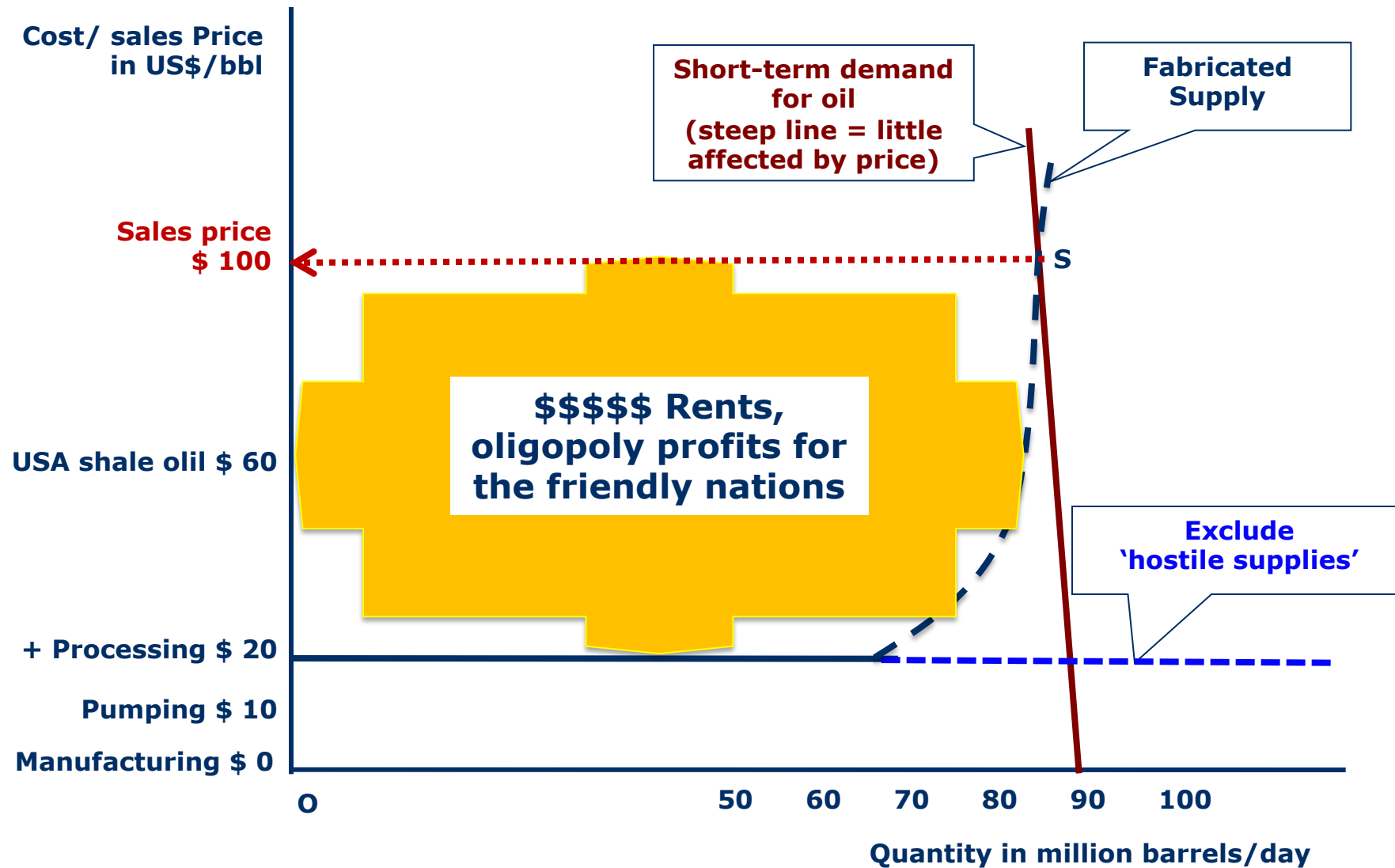
USA, Oil&Gas multinationals, Gulf states claim the lion share of oil & gas sales

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



One day crude oil market WITH sanctions & embargo's: hostile nations' export excluded

Rents, oligopoly profits by geopolitical power rearranging market basics



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**

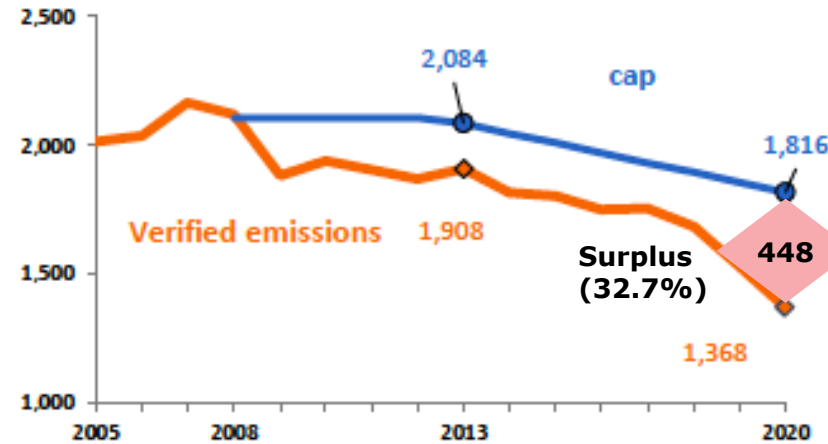
Permit price set by market forces

**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 'carbon trade'**

Administrative price fixing via Market Stability Reserve

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

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 (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 squeeze 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)