Averting Climate Change catastrophe? Neoliberal environmental governance in Europe

The EU and the political economy of global disorder. Struggles for Survival, Climate and Energy Justice

3rd September 2022

Professor Sarah Bracking

Neoliberal environmental governance in Europe

1. Making markets: soft law, regulation, devolved arts of government

2. The private sector rules!: Green bonds, European Green Deal and sovereign superchargers

3. Re-enter the ghost of EU-ETS and the Carbon Border Tax

Revolutionary moment

Investors are passionate warrior heroes who will avert climate change catastrophe, save the biosphere from certain destruction, and ensure the survival of our children.

Investor: ‘It’s simple, the atmosphere needs decarbonising, the biosphere needs recarbonising. Let’s get on with it!’ (Blue Marine Foundation, 2021, tt 15.44).

In a July 2021 webinar on labelling, disclosure and taxonomies in environmental markets, hosted by *Environmental Finance (EF)*, a moderator asks:

‘Will just labelling stuff be enough to help the capital move to where it needs to go?’

The answer from a prominent member of the *European Platform for Sustainable Finance* is victorious and resolute:

‘I think we can do it with disclosure and targets! We can get quite close’ (2021b, tt 17.31 -17.33).

Soft regulation: EU relative autonomy

From 2010 to 2019 debate on the *Green Bond Principals* and the *Climate Bond Standards*, with the former seen as more lenient and flexible, and the latter more stringent but restrictive.

The former was drafted and promoted by European and US underwriting banks and the International Capital Markets Association (ICMA), while the latter were produced by the *Climate Bonds Initiative*, a London-based NGO

The European Union launched its *Strategy for Financing the Transition to a Sustainable Economy* in July 2021, including guidance on its European Green Bond Standard (EUGBS).

Press Release: 'the EU's global leadership in setting international standards for sustainable finance' (European Commission, 2021).

A leader of a standards NGO summarises that European policy makers 'want to lead the world in rule-making' because 'we are advanced' [EF, 2021b tt 15.10, 16.08]

YoY H1 issuer type comparison

Issuer type	H1 2021 value ($ M)	H1 2022 value ($ M)
Agency	93,459	69,589
Corporate	193,515	158,449
Financial Institution	86,569	94,495
Municipal	31,202	28,028
Sovereign	40,303	35,772
Supranational	117,317	55,082
Grand Total	**562,364**	**441,415**

EU Sustainable Finance Taxonomy, July 2021

A senior European Platform on Sustainable Finance representative:

> ‘To what extent are our IFRS IOSCO [International Financial Reporting Standards (IFRS) Foundation & International Organization of Securities Commissions] standards going to align with the US approach, or is a TCFD [Task Force on Climate-related Financial Disclosures] approach going to be the linking instrument across the US, IFRS IOSCO, and as a baseline in Europe? ..that’s ultimately the end we’re all trying to work towards, to try and maintain some global harmonisation there, but done in such a way that the additional disclosure expectations in Europe can easily connect to that international framework’ [EF, 2021b, 14.55 – 15.32].

Senior EPSF: “it’s time for government to deliver on the real economy side and the hope of course is that all of this can avoid a situation where governments start intervening directly in financial markets; where they are starting to direct capital and direct the closure of assets in very directive ways that don’t allow markets to make choices. That’s the risk of all of this that we move too slowly to come out with sensible transitions in terms of the, say environmental boundaries. And then you are back in the world of popular politics, reactive governments, non-market interventions and that’s the kind of scenario that we in markets want to avoid. Its why these market friendly disclosure and transparency regimes have such an important role, for now. [19.07]

Moderator: ‘So we have a window where markets can sort the problem out, otherwise it will be sorted out on their behalf? Basically

Senior EPSF: Absolutely [EF, 2021b, tt 18.02 -19.07]

Green bonds: Great Achievements?

Green issue still small relatively

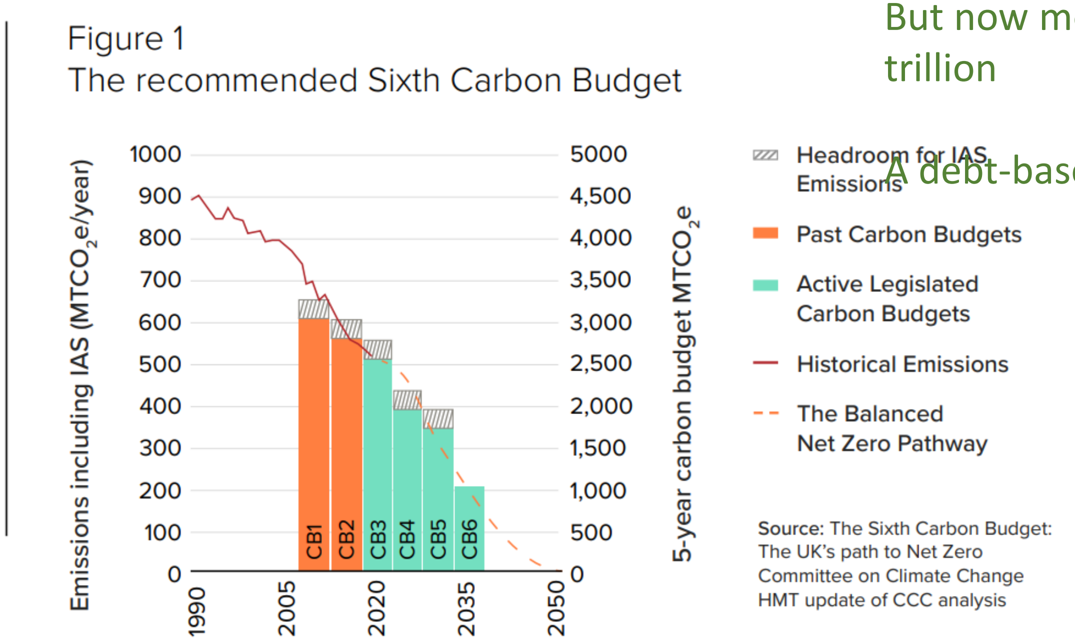
But now more than USD 3 trillion

A debt-based accumulation

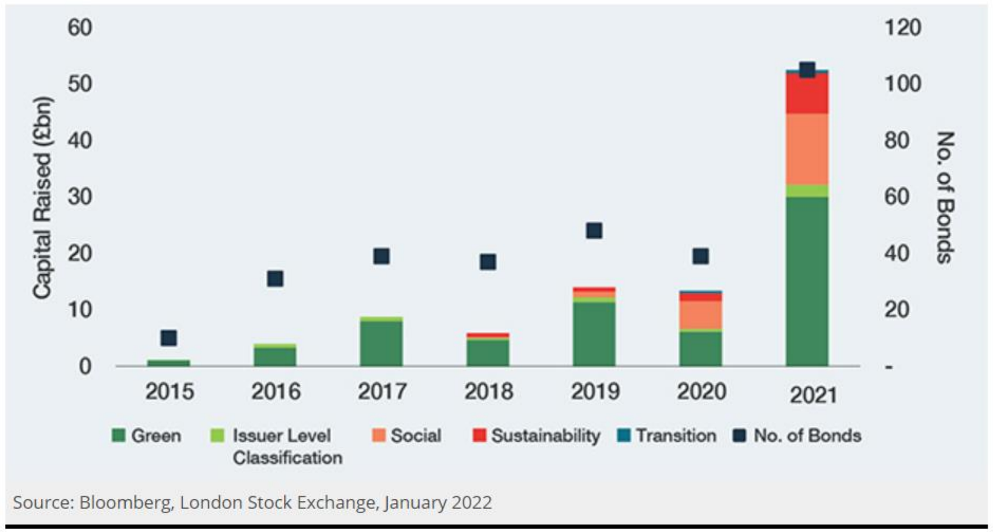
Top 10 Global Green Financial Centers

Center	Rank in 2021 (GGFI 8)	Rank in 2020 (GGFI 8)	Change in rank vs GGFI 7 (GGFI 8)
London	1	3	▲
Amsterdam	2	1	▼
San Francisco	3	5	▲
Zurich	4	2	▼
Luxembourg	5	6	▲
Geneva	6	7	▲
Stockholm	7	9	▲
Los Angeles	8	10	▲
Oslo	9	4	▼
Paris	10	11	▲

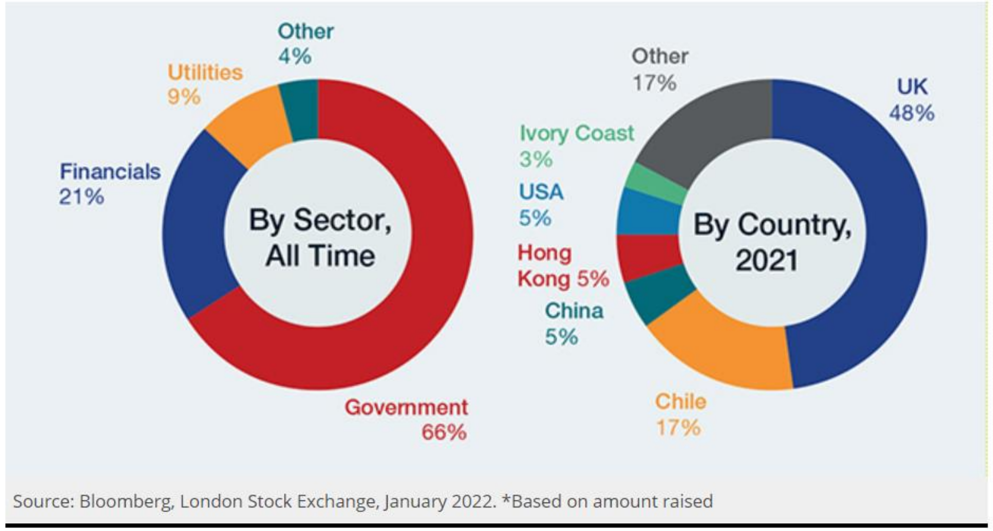
Date accessed Oct. 20, 2021.
GGFI = Global Green Finance Index
Source: Z/Yen's Global Green Finance Index 8



Sustainable Bond Market Issuance since 2015



Sustainable Bond Market breakdown*



United Kingdom Biennial Finance Communication to the United Nations Framework Convention on Climate Change December 2020: UK Government, December 2020; p5
Green Bond Framework; Harry Pelligrini feed

London Stock Exchange: **Supporting companies on the road to net zero, 16th February 2022,**
https://www.environmental-finance.com/content/the-green-bond-hub/supporting-companies-on-the-road-to-net-zero.html

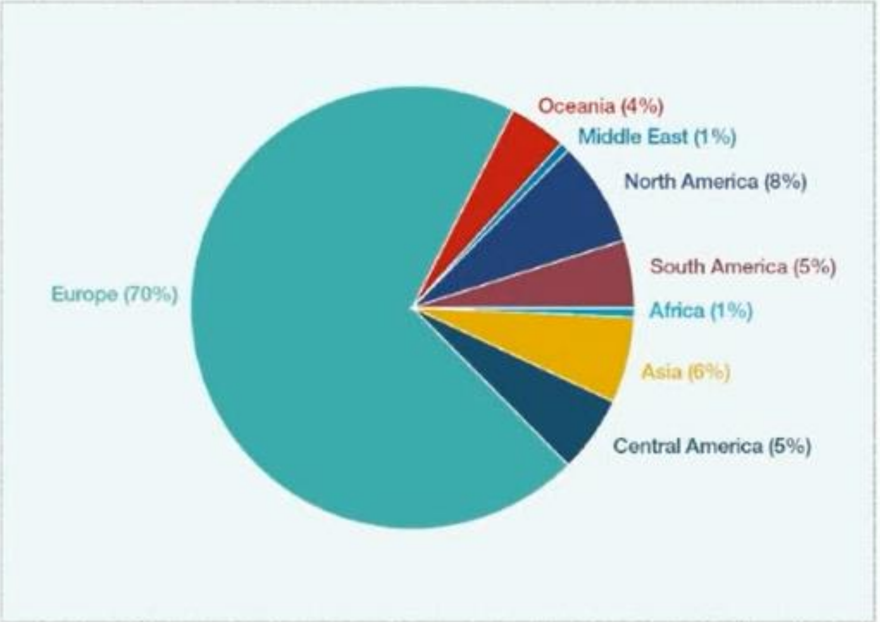
EU sovereign ‘super-charger’

Top 16 largest bonds of H1 2022

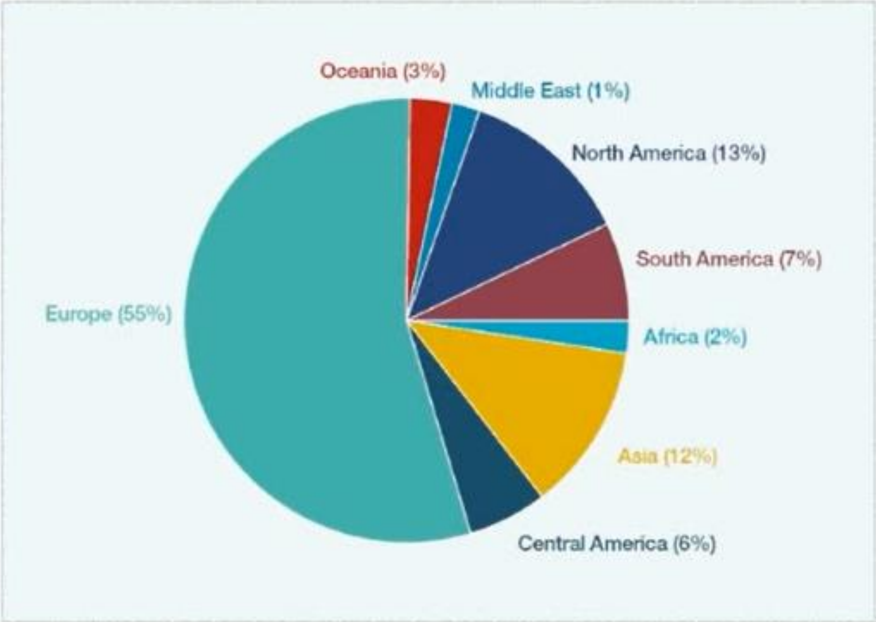
Issuer	Labels	Value (M)	Currency	Dollar Value (M)	Issuer Type
Cades	Social bond	6,000	EUR	6,628	Agency
European Union	Green bond	6,000	EUR	6,604	Supranational
Cades	Social bond	5,000	EUR	5,369	Agency
European Union	Green bond	5,000	EUR	5,270	Supranational
Dutch State Treasury Agency	Green bond	5,000	EUR	5,227	Sovereign
Federal Republic of Germany	Green bond	4,000	EUR	4,293	Sovereign
Republic of France	Green bond	4,000	EUR	4,283	Sovereign
Republic of Austria	Green bond	4,000	EUR	4,258	Sovereign
European Investment Bank	Green bond	4,000	EUR	4,167	Supranational
Government of Canada	Green bond	5,000	CAD	3,972	Sovereign
Cades	Social bond	3,500	USD	3,500	Agency
KfW	Green bond	3,000	EUR	3,162	Agency
Cades	Social bond	3,000	USD	3,000	Agency
IBRD	Sustainability bond	3,000	USD	3,000	Supranational
European Union	Green bond	2,500	EUR	2,831	Supranational
United Kingdom	Green bond	2,250	GBP	2,772	Sovereign

Environmental Finance Data

SLB carbon/GHG emission KPIs: issuer region - number of bonds



All SLBs: issuer region - number of bonds



- European issuers dominate total SLB issuance (55%) and to an even greater extent SLBs issued with Carbon/GHG emissions reduction KPIs (70%)

22:48

UK eg: Use of Proceeds

What is ‘green’ in Green Bonds?

‘green’ is currently determined by two main qualifications:

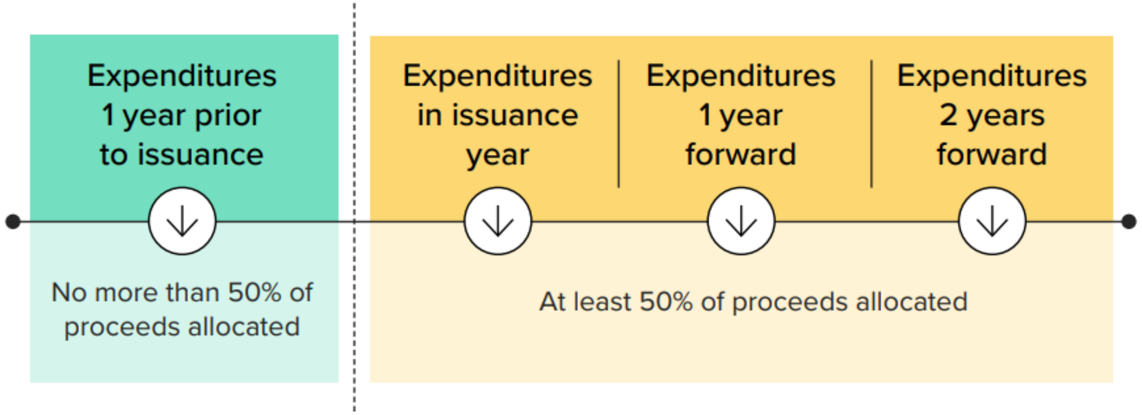
- either the proceeds of the bond are ring-fenced for environmentally beneficial projects – called ‘*use of proceeds*’ bonds;
- and/or the issuers themselves badge them as ‘green’ with an accompanying narrative – called ‘*self-labelled*’ bonds .

The list of Eligible Green Expenditures for Green Financing in the UK

Schroders

Eligible Green Expenditure	UK Taxonomy Objective	Sustainable Development Goals	Examples
Clean transportation	Climate change mitigation	11: Sustainable cities and communities	Zero-emission buses
Renewable energy	Climate change mitigation	7: Affordable and clean energy	Renewable Heat Incentive Scheme to support the cost of installing and running renewable heat technologies
Energy efficiency	Climate change mitigation	7: Affordable and clean energy 9: Industry, innovation and infrastructure	Public Sector Decarbonisation Scheme to fund heat decarbonisation and energy efficiency within public sector buildings
Pollution prevention and control	Climate change mitigation Pollution prevention and control Transition to a circular economy	12: Responsible consumption and production	Carbon capture, usage and storage infrastructure
Living and natural resources	The protection and restoration of biodiversity and ecosystems Sustainable use and protection of water and marine resources Climate change mitigation Climate change adaptation	2: Zero hunger 6: Clean water and sanitation 14: Life below water 15: Life on land	Future Farming and Countryside Programme to reward environmentally sustainable farming
Climate change adaptation	Climate change adaptation	13: Climate action	Flood defence programme

Source: HM Treasury and UK Debt Management Office, June 2021. 601838



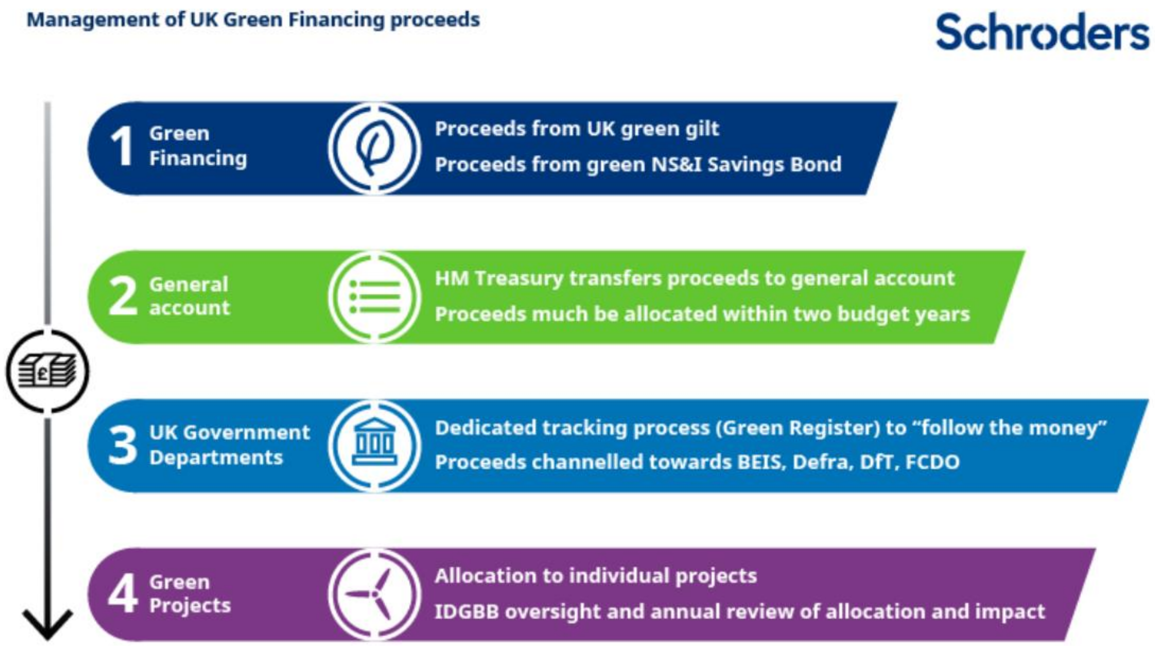
References to ‘years’ in this graphic relate specifically to budget years.

Ensuring the quality and exclusivity of the projects selected

How much is exclusively spent on green projects?

Refinancing, additionality and ring-fencing

Weaknesses in the Green Bond Principles



Source: HM Treasury and UK Debt Management Office, June 2021. 601838

The Framework is aligned with the four core components and the key recommendations of the ICMA Green Bond Principles, which are:

Core components

Use of Proceeds	The proceeds of the issuance of the bond instrument must be utilised for eligible green projects, which are projects that contribute to the environmental objectives set out in the ICMA Green Bond Principles
Project Evaluation and Selection	The issuer's environmental sustainability objectives, the process by which the issuer determines that projects fit within the eligible green project categories and complementary information on processes by which the issuer identifies and manages perceived social and environmental risks associated with the relevant project(s) should be communicated to investors
Management of Proceeds	The net proceeds of the bond issuance, or an amount equal to these net proceeds, should be tracked by the issuer in an appropriate manner, and attested to by the issuer in a formal internal process linked to the issuer's lending and investment operations for eligible green projects
Reporting	Information on the use of proceeds, including allocation and expected impact, should be provided regularly to investors, and updated annually until full allocation

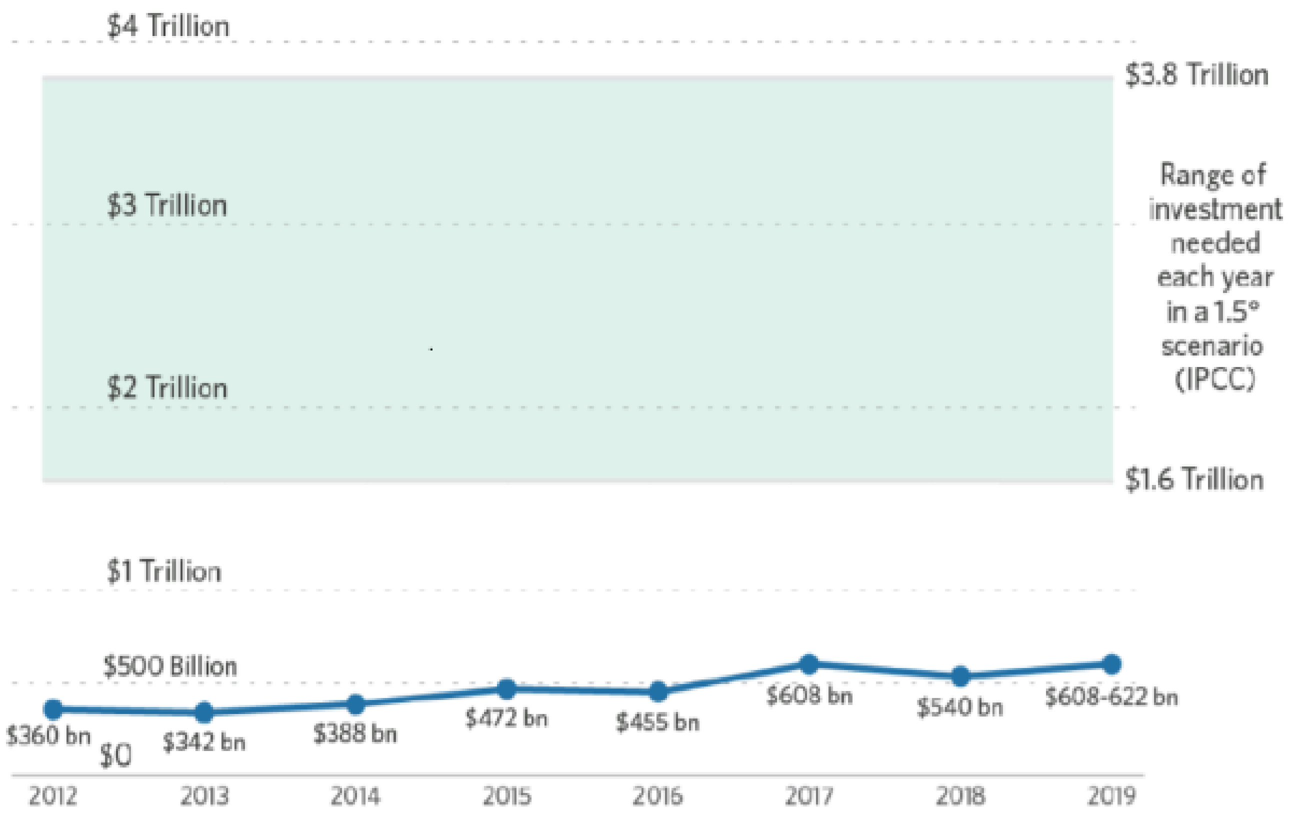
Green Bond Framework, p. 13

The Carbon Border Adjustment Mechanism (CBAM)

- Under current plans, the European Commission will introduce an import levy, called *the Carbon Border Adjustment Mechanism* (CBAM), on certain goods produced in third world countries with lower environmental standards by 2026.
- The EU claims it will accelerate global climate action by preventing businesses from transferring production to non-EU countries with less strict climate rules - dubbed 'carbon leakage': iron and steel, cement, fertiliser, aluminium, and electricity generation (EUObserver, 2021).
- However, this does nothing to mitigate the hypocrisy of the current carbon accounting standards of scope 1,2 and 3 emissions, which essentially shift the carbon footprint of the wealthy onto the country accounts of the producers, rather than the consumers of goods and services.

- An African carbon export tax would also 'level the playing field'!
- Reparations by historic polluters would be a logical way to spend revenues raised by CBAM, if such liabilities were recognised.

Investment needed to keep warming within 1.5°C limit



Source: Climate Policy Initiative (2020, 9)

- There is a *financing gap to* keep below 2 degrees of warming

- Why is green bond issuance not larger?

The problem of the foregone policy choices: the counterfactual

Green bonds: sufficient if mainstreamed?

‘So they want to know that their green bonds are pure and clean. But actually, the pure and green, clean, green bonds are not the stuff that really matters. What matters is getting the dirty stuff clean right? So we need to transition all this stuff. And so we need to finance it’

(Member of Board of Johannesburg Stock Exchange, June 2021).

‘we’d like to see that increase over time[green labelling, as not enough] and there’s no reason why every asset shouldn’t have an adaptation resilience certification – I mean, why would you want to live in a building that isn’t [green certified]’

(Leading certification and verification NGO, Interview, June 2021, 18.55)

"The only way we get to net zero and stay there is if the entirety of the economy moves on a global basis ... we need to make a much more radical shift to what I describe as ESG as BAU [business as usual],"

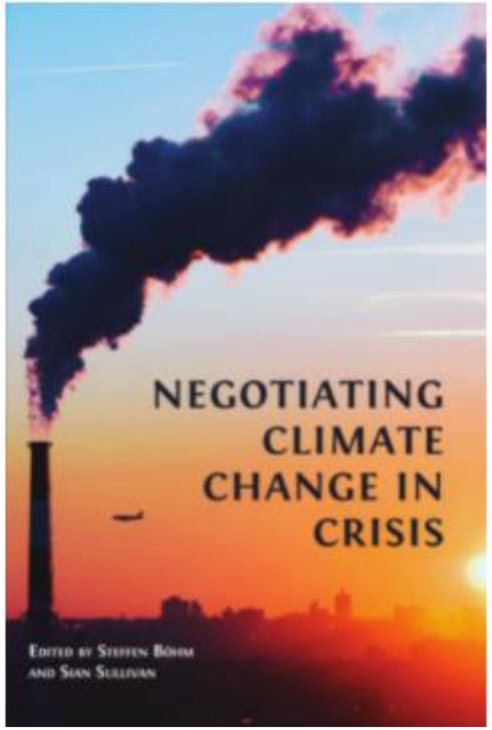
(Hoggett, CEO of London Stock Exchange, 16th February 2022).

‘UKs first Green Gilt: ISSUED! Further to go but more to come.’

(Harry Pelegrini, UK Treasury, 21st September 2021)

The counterfactual

- Green bonds relate investing or spending money to a notional financing gap: what it would cost to rebuild, retrofit or decommission aspects of our current built environment, infrastructure, energy systems, housing stock and agriculture and so forth.
- It locks in ideas of change, with ideas of investing money and accumulating debt
- But transformational change is found in changing the way humans, more-than-human species, and Nature relate to each other, within complex transition opportunities, losses and damages
- change 'at scale' would come with regulatory and mandatory law: capital seeks opportunities comparatively between the premiums offered on different types of assets, so if some are no longer legal significant capital shifts would have to occur.
- The 'disclaimer' of the Green Gilt could be the starting point of legal initiative.



Climate Finance and the Promise of Fake Solutions to Climate Change
https://www.openbookpublishers.com/product/1488

European environmental governance

Soft law not enough

European Green Deal and green bonds:

- Refinancing for a new phase of accumulation?
- Where is ecological justice and the polluter pays principle?
- Where is additionality and ring-fencing?

Carbon Border Tax

- Postcolonial logic

***The problem of the* the counterfactual.**

Typical disclaimers (eg from UK)

- Ringfenced? exclusively to items specified in the use of proceeds narrative. The ‘disclaimers’ to the Investor presentation.
  - “While it is the intention of HM Treasury to apply an amount equivalent to the proceeds of any Green Financing to Eligible Green Expenditures and to report on the Eligible Green Expenditures as described herein, there is no contractual obligation to do so. There can be no assurance that any such Eligible Green Expenditures will be available or capable of being implemented in the manner anticipated and, accordingly, that HM Treasury will be able to use the proceeds for such Eligible Green Expenditures as intended. Furthermore, no assurance is given that any projects or uses the subject of, or related to, Eligible Green Expenditures will be completed as expected, that the stated aims and/or impacts of any projects or uses the subject of, or related to, any Eligible Green Expenditures will be met or made”

Lack of litigable definition of 'green'

"There is currently no clear definition (legal, regulatory or otherwise) of, nor clear market consensus as to what constitutes, a "green" or "sustainable" or equivalently labelled project or as to what precise attributes are required for a particular project to be defined as "green" or "sustainable" or such other equivalent label" (p.30. 5. Green Financing and Legal Considerations)