

Can Financial and Legal Elites Start the Climate Revolution?

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Argument

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Can Elites Start the Climate Revolution?

Financial capital and the courts are quietly creating the conditions to stop global warming—if politics does its part, too.

By Adam Tooze, a professor of history and director of the European Institute at Columbia University, as well as a columnist at *Foreign Policy*.



Two men talk after the end of the ExxonMobil annual shareholders meeting on May 28, 2008 in Dallas, Texas. A total of 19 resolutions were voted on today by shareholders. (Photo by Brian Harkin/Getty Images)

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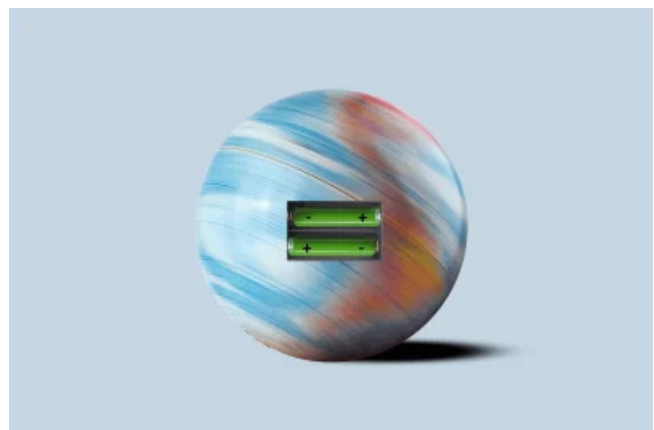
Will the spring of 2021 prove to be a pivotal moment in the climate crisis? Last week, the management of both Exxon Mobil and Chevron lost battles with green activist shareholders. A third oil major, Shell, was ordered by a Dutch court to dramatically step up its climate effort. This followed a damning judgment in April by the German supreme court on Berlin's plan for decarbonization. The International Energy Agency (IEA), formerly a bastion of the fossil fuel industry, laid out a demanding path to net-zero greenhouse gas emissions. And to cap it all off, Ford launched its F-150 electric truck.

It is hard to exaggerate the symbolic significance of these events. The F-150 is the most widely used vehicle in the United States. Eight percent of American workers are thought to use an F-series vehicle at their job every day. Making it electric doesn't make this behemoth any less dangerous to pedestrians. Its huge electric engines still suck vast amounts of energy. The batteries that drive the F-150 Lightning electric truck are large enough to power a house for three days. This is not what the future of sustainable mobility looks like. We need to get smarter in the way we use power, not find new "green" ways to do the same dumb things. Nevertheless, with its brutish appeal, the new F-150 might just transform the electric-vehicle market in the United States.

If Ford defined the age of automobile, Exxon—the main heir of Standard Oil—is a pillar of the oil business. Like no other firm, it embodies the link between capitalism and environmental destruction. Exxon was once a corporate bastion of climate denial. Now, capitalism is delivering its verdict on Exxon. An ill-judged venture into shale just as the bottom fell out of the oil market in 2014 has turned a solid blue-chip stock into a destroyer of shareholder value. After 92 years in the Dow Jones Industrial Average, Exxon was dumped from the index of major companies in 2020.

What the activist shareholders are demanding is that Exxon recognize the scale of the challenge posed by climate change to its basic business model. They would not have prevailed if it had not been for backing of big money. Nor was it just the progressive public pension funds that voted against the management. The giant asset managers Blackrock and Vanguard supported the dissident shareholder vote. Behind them stand tens of trillions of dollars, all of them with environmental and social mandates. If Exxon's management can be challenged, anyone's can.

Unlike Exxon, Shell fancies itself as a climate leader. It has a plan for net-zero by 2050. But the Dutch court wants more. Agreeing with a case brought by nongovernmental organizations and 17,000 citizen plaintiffs, it ordered Shell to cut its emissions by 45 percent by 2030. Shell must take responsibility for all the emissions created by the use of its fuels, and it must be responsible for them wherever they are burned in the world.



The question raised by the events of last month is whether oil is about to go the way of tobacco. In the 1990s, the American cigarette business was upended by giant lawsuits that resulted in a settlement figured in the hundreds of billions of dollars. The oil majors certainly have enough skeletons in their closet. Since the 1980s, their own scientists have been warning them about the risks of their business model.

Significantly, when the business-backed Climate Leadership Council first offered its support for carbon pricing in 2017, this came with a demand that the parties to the agreement be exempt from liability “for damages from past emissions that were legal at the time.”

If courts can humble businesses, they can call governments to order, too.

Germany is often treated as a green champion. Even a casual glance at the emissions statistics shows that that reputation is ill deserved. For all its solar panels, Germany’s industrial sector is too power-hungry and its coal-fired power stations too large. The coal exit plan carefully stitched together in 2019 calls for the last coal-burning power plant to be shut down only in 2038. Now, Germany’s own constitutional court has called its bluff. It has ruled that the lack of specific climate policy targets from 2031 onward means that Germany’s current climate policy does not adequately consider the constraints it will impose on future generations. The court makes this ruling in the knowledge that on its current course Germany will have largely exhausted its permissible carbon budget by 2031. If Germany’s current climate laws were required to spell out an adjustment path all the way to 2050, beyond 2030 they would be extraordinarily draconian. By requiring a comprehensive plan, the court is effectively forcing Berlin to increase its ambition over the next 10 years.

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Conservative commentators have spluttered about judicial activism and the diktat of climate correctness. But the mainstream political parties do not dare to flout the court’s ruling and the wave of enthusiasm it has unleashed. For candidates, going into the election that will decide the successor to Chancellor Angela Merkel as a climate laggard would be political suicide. Alternative for Germany is the only party that ignores the mainstream scientific consensus on climate change, and it is in danger of falling below 10 percent in the polls. The Greens, who are on course for a big success in the September

Toward Deep Decarbonization: Some 70 percent of today’s CO2 emissions belong to countries with net-zero commitments, but tangible policy action to those ends continues to fall short. Batteries and hydrogen have emerged as two promising technologies for enabling this next level of economy-wide deep decarbonization. This FP Analytics’ Special Report examines the state of the technology, investment trends, and strategic collaborations that are driving decarbonization in some of the hardest-to-abate sectors.

general election, are campaigning on a 500 billion-euro (over \$600 billion) investment program, equivalent to about 1.5 percent of GDP per year, and a carbon price of 60 euros (\$73) by 2023.

Once, those figures would have seemed outlandish. Today, the European Union's Emissions Trading System—which covers industry and power generation accounting for about half of Europe's total emissions—already prices a metric ton of carbon emissions at over 50 euros. In addition, in 2019 Germany introduced a national carbon levy to cover transportation and domestic heating, the main sectors exempted from the Emissions Trading System. To address the concerns of the supreme court judgment, the tax will likely be increased. This summer, Europe is set to follow Germany's lead and to set a timetable for widening the system to cover all major sources of emissions.

Put all these elements together and you have the fantasy of an enlightened energy transition. Politics, the law, and capital come together to engineer a dramatic change. It is late in the day, but perhaps it's not too late to escape the nightmare of runaway global heating. Not for nothing, such senior business figures as Joe Kaeser, a former CEO of Siemens, are endorsing the Greens. The long-promised coalition for green modernization may finally be taking shape.

It would be churlish to deny the scale of the shift. In Europe and in large parts of public and business life in the United States, climate protection is now mainstream. That matters. Expectations of the future are formed collectively. The more widely the expectation of net-zero by 2050 is shared, the more credible individual commitments to that goal become. So long as politicians are committed, decarbonization becomes a one-way bet for markets and investors. The more private money is committed, the easier it becomes for politicians to sign up, too. Energy transition becomes a self-sustaining collective movement, backed up by legal measures, political will, big money, and rapid technological change, which makes green solutions cheap and popular.

But are the breakthroughs we are currently seeing enough? Do we have enough time? And once the adjustment really begins to bite and demands sacrifices, will it be sustained? For all the excitement in the current moment, there is reason to be cautious.

Europe talks a good game, but where is the investment? The NextGenEU recovery package, in which 30 percent of the resources are devoted to climate policy, has finally been approved. It took a year. It could take several more months for funds to be actually disbursed. Given the ambitious targets set for 2030, nine years from now, delay on this scale is a serious matter. In terms of actual climate spending, the crisis of 2020 was largely a bust. More money went toward supporting fossil-fuel sectors than new energy solutions. Far from accelerating, spending on new solar and wind installation in Europe has flagged in recent years. Planning regulation and NIMBYism stymie efforts to build wind farms and roll out transmission lines. For Europe to meet the demand for green electricity implied by net-zero, there needs to be a huge step up in the pace of investment. And energy consumption has, as far as possible, to be squeezed. Investment alone will not suffice.

Squeezing consumption will ultimately mean raising prices. And this raises the specter of the French “yellow vest” protests. They were triggered by a horribly misjudged combination of a hike in the price of diesel and a tax cut for the rich. To avoid a repeat, the obvious thing to do is to redistribute the funds generated by the sale of emissions permits and carbon taxes to compensate those on low incomes who are hit hardest by energy price increases. But in the European Union, control of the revenue from the sale of emissions permits is jealously guarded by the member states, as are decisions over welfare spending. A Europe-wide carbon dividend scheme will likely be regarded as a Trojan horse for fiscal federalism.

The Biden administration came in promising that climate was key to its entire agenda. But the one big spending plan it has actually delivered, the \$1.9 trillion American Rescue Plan, contained next to nothing on climate. The much-hailed infrastructure program is struggling in the U.S. Congress. There can be no proliferation of electrically powered trucks unless charging stations are rolled out. And the power they deliver has to be green. A fleet of megatrucks powered by coal- or gas-burning power plants would be utterly counterproductive. President Joe Biden’s team promises to introduce a clean energy standard that will ensure that all electricity utilities are carbon-neutral by 2035, but they have to walk a tightrope in Congress. And even in the best case, if the Biden administration gets all it wants, that still leaves the United States without a carbon pricing system.

In the United States right now, neither the right nor the left likes the idea of carbon pricing: the right because it threatens what they regard as the American way of life, and the left because it is seen as a license to pollute for the most affluent. But there is no plausible scenario for comprehensive decarbonization without carbon pricing. Regulations can tackle the most egregious sources of pollution. Investment can help lower the cost of green energy. The problem is that it can also encourage an offsetting increase in energy consumption. A carbon tax will help to squeeze dirty energy consumption out of the entire system. A cap-and-trade system, like the European Emissions Trading System, is even better, because it sets an upper limit to total emissions.

Exxon’s weakness right now is an effect of the 2014 oil price shock and a high-risk investment strategy. But it is not dead yet. The oil price has bounced back to close to \$70. If that is sustained, by the end of this year Exxon will be in much better shape and so too will a large part of the U.S. shale industry. What we need is a hike in prices for consumers to cut back demand while ensuring that prices for producers stay low, so as to halt new investment and run down the fossil fuel sector. What drives in the wedge between rising consumer prices and falling producer price is a tax, or its analogue in the form of an emissions trading system. As the IEA argues, in its surprisingly radical report, we need an immediate cessation of all new investment in oil and gas exploration. To have that effect, the price squeeze has to be sustained not over years but decades.

According to the IEA, the price for consumers needs to rise to \$130 per metric ton of carbon emissions by 2030 and \$250 by 2050. To wind down the oil and gas sector, the price for producers needs to fall below the average of the 2020 COVID-19 recession and stay there. For coal, the target price by 2050 is less than half its depressed level in 2020.

That is a large adjustment. Even for a rich country like the United States, where energy production is a small part of the economy and energy consumption is a small part of household consumption, it is a tough proposition, requiring sectional interests to be outmaneuvered and the right offsetting welfare payments to be put in place. For the world as a whole, where energy-hungry economic development is still a necessity and budgets are less generous, the adjustment is even more difficult. But without a global adjustment there can be no solution to the climate crisis.

Though we may celebrate the fact that the Western energy majors are on the back foot, they are no longer the major sources of oil, gas, and coal production. Large state-owned energy firms in the emerging markets dominate the future outlook for energy. Western consumers account for a dwindling share of global emissions. Important as the new Ford may be, an even bigger challenge is steering motorization in the emerging markets away from petrol and diesel and toward sustainable electric vehicle solutions. Decarbonization must be a global process, and it implies a significant rebalancing of the world economy. The other news that came out this May is that thanks to its pandemic economic recovery, driven by heavy industry, China's carbon dioxide emissions reached an all-time high. Over that 12-month period, China's emissions exceeded those of the entire OECD rich country club. In 2019, India overtook Europe as the No. 3 emitter of carbon dioxide.

We should welcome the signs that the energy transition is beginning to gather momentum in Europe and the United States, at last. But we should not mistake their import. We are no longer in the 1990s. We are well past the point at which the West decides the future of the world's climate.

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