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The real fight against emissions is being waged by markets

By
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There were tears, there was a standing ovation, there were hosannas in the media. If only the deal produced by the UN climate conference in Paris had lived up to the emotions of the closing session.

Corbis
Laurent Fabius: the conference chairman claimed the Paris climate agreement was an historic victory

Now the hype has faded and the truth is clear. The serious progress in fighting climate change is being made not in bureaucratic conference halls but by markets and investors.

The Paris conference was certainly not short of theatre. The 21st UN Climate Change Conference of the Parties, COP21, attended by the cream of the political crop from 195 states including the Vatican and Vanuatu, was high on PR stunts (climaxing in faux 11th-hour suspense) but short on economic substance.

Late on December 12, the conference chairman, French foreign minister Laurent Fabius, waved a paper in his hand, calling it “the Paris agreement”, and asked rhetorically if “any one in the room disagreed with its content”. With sobs between the words, he then declared an “historic victory” and brought his gavel down on the climate change deal, adding that "with a small hammer, you can achieve great things".

It was a combination of Inspector Clouseau and Neville Chamberlain but The Financial Times lauded the “formidable French diplomat”. The Guardian hailed the Paris Agreement as “the world's greatest diplomatic success” and Reuters termed it “the landmark climate accord”.

In reality, the Paris Agreement is one of the most verbose collections of wishful thoughts ever compiled since Alice went down the rabbit-hole. The accord purports to restrain the rise in temperatures to “well below 2 degrees Celsius above pre-industrial levels”, a symbolic level that experts fear could be a tipping point for irreversible damage to our environment.

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This grand objective is predicated upon an assumption – that UN member-states, including high polluters such as China, the US, India, Brazil, Canada, Russia, Indonesia and Australia, which generate more than half the world’s greenhouse gas emissions, will somehow drive down their carbon pollution voluntarily and assiduously without any binding enforcement mechanism to measure and control CO2 emissions at any level from factory to state, and without any specific penalty gradation or fiscal pressure (for example a carbon tax) to discourage bad behaviour. A shining example of what Roman lawyers called circular logic: an agreement (or argument) presupposing in advance what it wants to achieve.

COP21 could have yielded a much better accord with mutually binding obligations for all signatories if Fabius and President François Hollande had devoted more time and energy to engaging with the “climate-sceptic” (Republican-dominated) US Congress and Chinese Politburo early on.

Instead, they chose to spend the first 10 months of the year visiting Pacific Island nations and meeting policy makers across Latin America and Sub-Saharan African, leaving Washington and Beijing till one month before the Paris meeting and thus antagonising respectively the legislative and executive branches of the two most powerful nations.

But not everything is bleak, despite the hype and disappointment of the Paris Agreement: long before the French government’s efforts in Paris, private sector giants in New York, Palo Alto, London, Paris, Amsterdam and Stockholm had quietly taken concrete, quantifiable measures to reduce substantially their carbon footprints – "steered" by the expectations of citizen-consumers, and, more importantly, by the increasingly vocal requests of institutional assets owners.

From that perspective, there was considerable progress in 2015: three of the largest Danish pension funds, worth €20 billion, decided to divest totally from coal, tar sands, deep-water oil and gas production; California state legislators passed a bill forcing pension powerhouses CalPERS and CalSTRS, with assets totalling $290 billion and $180 billion respectively, to dump shares of coal companies across the board; and the British Association of Member Nominated Trustees (AMNT) adopted ambitious Red Lines voting guidelines 'with teeth' against environmentally negligent corporate board members and CEOs, thus setting an important precedent in the world's second-largest pension market.

Tellingly, even the new manifesto from the UK Conservative Party insists: "We set ourselves the goal of being the first generation to leave the natural environment of England in a better state than that in which we found it.

This is a big ambition", a remarkable statement for a party whose leadership has taken its inspiration for the past 40 years from Milton Friedman, who wrote that "if anything is certain to destroy our free society, to undermine its very foundation, it would be a widespread acceptance by management of social responsibilities in some sense other than to make as much money as possible. This is a fundamentally subversive doctrine".

For Friedman, carbon pollution was simply an "externality" to be ignored by the chief executives of emitting companies and by institutional investors, not a key "environmental metric" to be integrated in the production and investment processes of private sector players.

The Friedman stance has become culturally unacceptable and financially costly in the boardrooms of pension funds and industrial firms in Europe and North America – where state and local public pension funds, Ivy League endowments and Silicon Valley billionaires are now pouring billions of dollars every quarter into clean tech and renewable energy companies.

The only two surviving bastions of the Friedman doctrine of "greed-is-good" capitalism seem to be the rapidly declining Texan oil industry and an ossified Republican Party that is splintering dangerously along irreconcilable ideological lines: satiated country club elitists vs. Trump's angry America Firsters.

But, in the coming months, the disproportionate political clout Dallas oilmen have enjoyed in Washington will probably dwindle, as their lobbying 'share of voice' will start reflecting the weakened market capitalisation of their companies, dwarfed by the likes of Amazon, Apple, Google and Tesla.

I suspect whoever wins the Republican primaries in July 2016 will make it a priority to court cash-rich campaign contributors from California, Kansas, Colorado and Ohio, to say nothing of Wall Street private equity firms, most of whom have vast vested interests in clean tech, low-carbon ventures in America and abroad.

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