Curbing climate change requires more efficient methods than emissions trading

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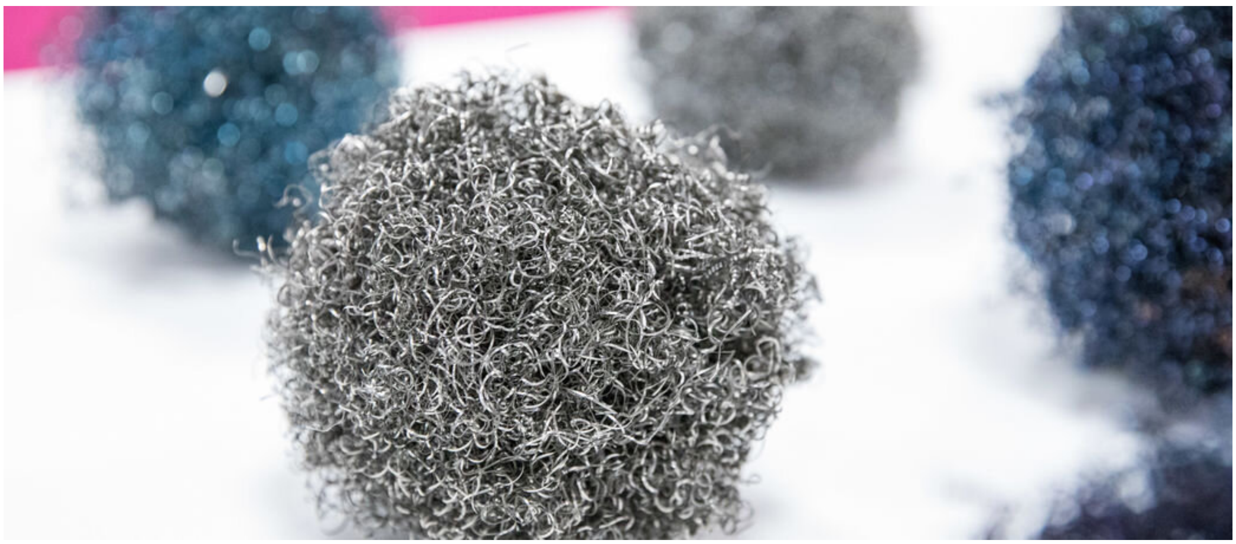

Credit: Mikko Raskinen / Aalto University

In her dissertation in the field of international business, Lotta Aho, LL.M.,M.Sc. (Econ.), examines the effectiveness of market mechanisms in climate change mitigation. The thesis addresses the changing power structures between nation states and large multinational corporations, the dominant role of neoclassical economics in determining policies and measures, as well as alternatives to current policies.

'If we want to restrict climate change to 1.5 degrees, this means that radical reductions in emissions are needed in the near future. In order to achieve these reductions, other instruments than market mechanisms must be used. Moreover, a better understanding of the importance of ideologies and power in climate policies can accelerate the shift towards climate policies, where reducing emissions would be the main goal of the policies,' Lotta Aho said.

Climate change is a serious global threat that requires an urgent global response. It is an unprecedented problem in the history of mankind. Climate science has long been demanding significant reductions in greenhouse gas emissions to avoid the most serious consequences of climate change. Although the link between economic growth and emissions has been clearly demonstrated, even climate policies are based on the quest for eternal economic growth, which in turn prevents a radical reduction in emissions.

Lotta Aho's thesis explores the reasons for the lack of ambitious climate policies to reduce emissions. The thesis illustrates the mutually reinforcing interaction between mainstream economics and neoliberal ideology, which creates foundations for a climate policy that prioritises economic growth. This, in turn, strengthens the influence of large corporations in the design and implementation of both international and national climate policies.

An examination of climate policies shows that globalisation, with an emphasis on economic growth as the main goal and, in particular, the growing political influence of multinational companies, have all influenced the choice of market mechanisms as the main instrument of climate policies.

The energy sector has a key role to play in slowing down climate change

According to Lotta Aho, several years of emissions and financial data from the world's largest oil and electricity companies show that emissions from the energy sector did not decrease in a statistically significant manner during the period under review. This is despite the fact that the energy sector has a key role to play in slowing down climate change.

'There were no statistically significant differences in the development of emissions during the period under review between energy companies in countries that either used or didn't use market mechanisms. EU emissions trading also did not reduce emissions, or affect their development compared to countries where a binding market mechanism was not applied,' Aho explained.

Market-based regulation does not appear to reduce emissions in the energy sector, nor does it negatively affect the profitability of these companies. It is therefore likely that companies have been able to influence and shape regulation to a large extent and that companies have also been 'overcompensated' for the presumed disadvantages of regulation.

'The findings of my thesis are significant because they challenge the argument of mainstream economists and companies that market mechanisms are the most effective way to reduce emissions. They also show that companies can use their political power both to block legislation and to promote their own economic interests instead of emissions reduction in the design and implementation of emissions trading systems,' Lotta Aho said.

Provided by Aalto University

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