

## Climate Capitalism

### Global Warming and the Transformation of the Global Economy

Can capitalism effectively respond to climate change? Do we need a different type of capitalism that is able to deliver growth but on a low-carbon basis? If so, how do we get there?

These are the ambitious questions addressed in this book. These are not just technical questions about whether the technologies or policies exist to confront these challenges. They are about questions of strategy, politics and power. How do we begin to assemble the alliances and coalitions that are necessary to transform the global economy? How do we get those with power to support efforts to fundamentally change the way we develop?

*Climate Capitalism* shows that new, interesting and surprising things are happening in the world of climate politics. Confronting climate change is now understood as a problem of 'decarbonising' the global economy: ending our dependence on carbon-based fossil fuels. This book explores whether such a transformation is underway, how it might be accelerated, and the complex politics of this process. Given the dominance of global capitalism and free-market ideologies, decarbonisation is dependent on creating carbon markets and engaging powerful actors in the world of business and finance. *Climate Capitalism* assesses the huge political dilemmas this poses, and the need to challenge the entrenched power of many corporations, the culture of energy use, and the inequalities in energy consumption across the globe.

*Climate Capitalism* is essential reading for anyone wanting to better understand the challenge we face. It will also inform a range of student courses in environmental studies, development studies, international relations and business programmes.

PETER NEWELL is Professor of International Development at the University of East Anglia. He has worked on climate change as a researcher, consultant, teacher and activist for over 16 years. He has undertaken work for international organisations such as the United Nations Development Programme and the Global Environment Facility, provided policy advice to a number of different governments and worked for non-government organisations such as Climate Network Europe and Friends of the Earth. He is an Economic and Social Research Council Climate Change Leadership Fellow and is the author of *Climate for Change* (Cambridge University Press, 2000), the first book on the role of non-state actors in global climate politics.

MATTHEW PATERSON is Professor of Political Science at the University of Ottawa. He has been researching climate change politics since 1989. He wrote the first book in political science focused solely on climate politics, *Global Warming and Global Politics* (Routledge, 1996), which is still widely used as a key text for understanding climate-change politics. His book *Automobile Politics: Ecology and Cultural Political Economy* (Cambridge University Press, 2007) won the prestigious International Political Economy Book Prize.

### Praise for *Climate Capitalism*:

'The question of whether and under what terms capitalism can cope with climate change is the most important and challenging of our age. *Climate Capitalism* addresses this issue in an accessible and timely manner. It is required reading for all.'

Sir David King, former Chief Scientific Adviser to the UK Government and Director of the Smith School of Enterprise and the Environment, University of Oxford

'This is the best book yet written on the complex connections between climate change policy, markets and capitalism more generally. Written in an impartial and balanced way, the work should become a standard text in the field.'

Professor Lord Tony Giddens, London School of Economics and Political Science, author of *The Politics of Climate Change*

'It is now clear that capitalism as usual is not up to tackling the challenge of climate change. Under what conditions might capitalism be transformed to generate growth through low carbon development? *Climate Capitalism* addresses this most pressing of issues in an informed and accessible way. It is essential reading for governments, businesses and concerned citizens alike.'

Rt. Hon Michael Meacher M.P. and former UK Minister of the Environment

'*Climate Capitalism* by Peter Newell and Matthew Paterson provides a comprehensive review of the market in carbon reductions as well as the challenges that tackling climate change poses to capitalism more generally. While accepting that the model of global capitalism being followed so far in most of the world may need to be changed to a new, more sustainable, paradigm in the longer term, we need to start from where we are and harness the positive forces of capitalism towards solving the climate change problem rather than exacerbating it. It is an excellent book that anyone interested in the economics of climate change should read.'

Saleemul Huq, Senior Fellow, Climate Change Group, International Institute for Environment and Development

'Climate change we know is intrinsically linked to the model of economic growth in the world. Neo-liberal economists today accept that climate change is the market's biggest failure. But still the world is looking for small answers to tinker its way out of the problem of growth. It is time we looked for new ways of "business unusual". This is why this book, *Climate Capitalism*, is timely. It helps us understand the crisis, but also provides the opportunity to reinvent growth without pollution. Read it because you must.'

Sunita Narain, Director of the Centre for Science and Environment, New Delhi

'Governments, businesses and people the world over are grappling with how to tackle climate change, preferably without sacrificing living standards and lifestyles. Is "green capitalism" possible or a contradiction in terms? Will emerging forms of governance manage the potential and pitfalls of carbon markets in ways that achieve climate justice? Informed by two decades of climate scholarship, the authors provide an accessible entry to these big policy questions of the day. Backed by careful research, their balanced analysis will help inform not only all those interested in climate regulation, but all those who see climate change as a harbinger of broader debates and choices about forms of global governance and the future shape of the global economy.'

Farhana Yamin, former Research Fellow, Institute of Development Studies, University of Sussex

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Peter Newell , Matthew Paterson  
Frontmatter  
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We dedicate this book to Ana and Freya, who have even more of a stake than we do in whether we manage to get climate capitalism, and what shape it takes.

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## *Preface*

Can capitalism effectively respond to climate change? Do we need a different type of capitalism that is able to deliver growth but on a low-carbon basis? If so, how do we get there?

These are the ambitious questions we address in this book. These are not just technical questions about whether the technologies exist to get us out of this mess or whether the right policies exist to confront these challenges. They are about questions of strategy, politics and power. How do we begin to assemble the alliances and coalitions that are necessary to transform the global economy? How do we get those with power to support efforts to fundamentally change the way our economies develop?

*Climate Capitalism* shows that new, interesting and surprising things are happening in the world of climate politics. Advances can be made when environmental activists get together with city financiers, or when carbon traders and development NGOs put their minds together to get money to flow into low-carbon development. This is not politics as usual. Nor can it afford to be. But like it or not, in the short- and near-term, responses to climate change will be shaped by the way that capitalism currently works. So it is crucial to understand how capitalism has shaped responses to climate change to date and to explore the different ways in which it might do so in the future.

Responses to climate change have so far been organised for the most part around the construction of markets in carbon emissions. The official aim behind these carbon markets is to ‘put a price on carbon’ – to make the costs of emitting carbon explicit to those polluting. But at the same time they open up climate politics to being manipulated by financiers for short-term profit. This has made many people very uneasy. We write this book at a time when the financial crisis and the climate crisis co-exist, and when the idea that financial actors

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might have a role to play in responses to climate change will seem an anathema to many. But responses to climate change, if they are to be effective, need to mobilise all actors in the business and financial community to bring about a transformation to a low-carbon economy.

Our aim is not to tell you what to think about these markets. It is more to understand the forces driving them, and the nature of the dilemmas we face. We want to allow you, the reader, to decide which proposals for change are worth supporting, which are not, and why. We don't, therefore, provide a blueprint for action. Many have already been produced. Most rapidly become outdated and irrelevant because of the pace of events in the contemporary world of climate politics. Instead, we end the book with a series of scenarios which sketch different ways in which carbon markets might develop. We finalised the book shortly after the UN Climate Change Conference in Copenhagen in December 2009. Such events show the futility of blueprints, but at the same time we believe it is nevertheless consistent with the broad argument we develop here.

We come to this book as academics who have spent nearly two decades researching and writing about climate change politics. We have been both highly critical of the responses of governments and business to the issue to date, and highly sceptical of the idea that capitalism can deliver either a socially just or sustainable future. But we also write as concerned citizens and activists that want to see urgent action within short time-frames. This means that post-capitalist futures, while in many ways very attractive, will not provide the political and social context within which we have to tackle this most pressing of issues. This gives rise to a series of dilemmas about working with or against carbon markets: strengthening the rules by which they operate or campaigning to abandon them; trying to ensure they deliver at least some benefits to the majority of the world's poor or decrying them as carbon colonialism, as an insidious attempt to regain control of developing countries' resources.

So the book is an attempt to get a grip on a story that is rapidly unfolding in new and challenging ways. It represents our effort to share what we have learned and observed about climate change since it hit the international political agenda in the late 1980s. It is an attempt to show that the issues we face are more complex than a simple battle between 'the good guys' and 'the bad guys', and to lay out the nature of the tricky dilemmas that anyone concerned with the issue must grapple with.



## *Acknowledgements*

Though this book has been fairly quick in the making, we have managed to accumulate a number of debts along the way.

Peter Newell would like to thank both Diana Liverman at Oxford University for allowing him the time and space to make progress on the book as a James Martin Fellow at the Environmental Change Institute and Bruce Lankford at the School of International Development at the University of East Anglia for enabling him to take up the fellowship. He would also like to acknowledge the support of the UK Economic and Social Research Council for his Climate Change Leadership Fellowship to work on areas closely related to the themes of the book. From PhD supervisor to collaborator, working with Mat has always been a pleasure and he is grateful to him for driving this project to conclusion when it could have fallen behind so many other competing commitments. Lastly, and most importantly, he would like to thank Lucila for her patience, love and support.

Matthew Paterson's research for this book has been supported by a Social Sciences and Humanities Research Council grant, as well as by the University of Ottawa in supporting his application for teaching release. He thanks both institutions. He also thanks Peter for initially suggesting working together on a book with the theme of 'climate capitalism,' and for being such a fun person to work with. Finally, he thanks Jo for bullying him with reasonableness, a steady stream of ideas and articles from the new social media sources he resists unreasonably, and for the constant companionship of daily life which make writing feel easy.

Both would like to thank the following people. Firstly, Matt Lloyd for his encouragement and commitment to the book and hands-on approach to editing. Matt read the manuscript and gave extensive comments which have helped enormously to tighten the

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text. Second, Anice Paterson (Matthew's mum – our guinea-pig lay-reader!), who meticulously poured over an earlier draft of the manuscript and highlighted areas of academic jargon and climate-ese which we have sought to make accessible for the non-specialist reader. We are truly grateful for the effort she made. Four readers for Cambridge University Press commented on various chapters and helped us clarify various parts of the argument. We have benefited from research assistance on different chapters by Koffi Yenkey, Robert Macneil, Philippe Descheneau and from Helen Colyer in putting together the glossary. We interviewed a great many people during the research for this book – carbon traders, officials from government and international organisations, corporate executives, environmental activists – and we owe them a debt of thanks for their time, generosity, information and insight. Some of them are named here, many others are, however, anonymous.

Abbreviations

AAU	Assigned Amount Unit
AIJ	Activities Implemented Jointly
BA	British Airways
BP	British Petroleum
CCB	CCBA standards
CCBA	Climate Community and Biodiversity Alliance
CCX	Chicago Climate Exchange
CDCF	Community Development Carbon Fund
CDM	Clean Development Mechanism
CDP	Carbon Disclosure Project
CERES	Coalition for Environmentally Responsible Economies
CERs	Certified Emissions Reductions
CFC	chlorofluorocarbon
CFL	compact fluorescent light
CICERO	Center for International Climate and Environmental Research – Oslo
CO <sub>2</sub>	carbon dioxide
CO <sub>2</sub> e	CO <sub>2</sub> equivalent
COP	Conference of the Parties to the UNFCCC
CSR	Corporate Social Responsibility
DEFRA	Department for Environment, Food and Rural Affairs
DNA	Designated National Authority
DNV	Det Norske Veritas
DOE	Designated Operational Entity
ERU	Emission Reduction Unit
EU	European Union
EU ETS	Emissions Trading Scheme
EUA	European Union Allowance
FACE	Forests Absorbing Carbon Emissions

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FERN	Forests and the European Union Resource Network
FSC	Forestry Stewardship Council
GATT	General Agreement on Tariffs and Trade
G77	Group of developing countries (originally 77 that signed a declaration in 1964)
G8	Group of eight countries – Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United States
GCC	Global Climate Coalition
GDP	Gross Domestic Product
GEF	Global Environment Facility
GHG	greenhouse gas
GM	genetically modified
GNP	Gross National Product
GWP	Global Warming Potential
HFC	hydrofluorocarbon
ICCR	Interfaith Centre for Corporate Responsibility
IEA	International Energy Agency
IETA	International Emissions Trading Association
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
ISO	International Organization for Standardization
JI	Joint Implementation
LFG	landfill gas
LULUCF	Land Use, Land-Use Change and Forestry
MDG	Millennium Development Goal
NAFTA	North American Free Trade Area
NGO	Non-governmental Organisation
N <sub>2</sub> O	nitrous oxide
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
PCF	Prototype Carbon Fund
PDD	Project Design Document
PEMEX	Petroleos Mexicanos
PP	Project Participant
PR	public relations
REDD	Reducing Emissions from Deforestation and Forest Degradation
RGGI	Regional Greenhouse Gas Initiative
SEC	Securities and Exchange Commission (US government)

SME	Small and Medium Enterprises
SGS	Société Générale de Surveillance
SO <sub>2</sub>	sulphur dioxide
SRI	Socially Responsible Investment
SUV	Sports Utility Vehicle
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNEP FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
UNICE	Union of Industrial Employers' Confederations in Europe
UNICEF	United Nations International Children's Emergency Fund
USA	United States of America
VCS	Voluntary Carbon Standard
VCU	Voluntary Carbon Unit
VCM	Voluntary Carbon Market
VER	Verified Emissions Reductions
WBCSD	World Business Council for Sustainable Development
WMO	World Meteorological Organization
WRI	World Resources Institute
WTO	World Trade Organization
WWF	World Wide Fund for Nature