Mr. Vice President,

The European Commission, through its President, has just confirmed with the announcement of the Green New Deal that the transition of the European Union towards a sustainable society would be the priority of your mandate. You are personally responsible for this. It is a great honour and an even greater responsibility. Having worked on these issues for several decades, I would like to share with you my concerns about this announcement and proposals that I believe are crucial to the success of the ambition.

Europe's idea of carbon neutrality by 2050 can lead to serious misunderstandings. Are they CO2 emissions on European territory or emissions resulting from Europeans' overall consumption, including grey energy incorporated in the production, transport or disposal of our goods and services produced outside European territory? This distinction is, as you know, decisive. The French High Council for Climate Change, set up by Emmanuel Macron, published its first report last June. It illustrates the importance of the distinction: since 1995, import-related CO2 emissions have doubled while those related to domestic production have decreased by only 20%. In short, it is not energy efficiency efforts that explain the CO2 emission reductions in Europe, but its deindustrialisation and the transfer of energy-intensive production to other countries. In 2019, the report says, the total energy footprint, i.e. the CO2 emissions necessary to maintain our current standard of living, is 11 tonnes per person per year in France, while emissions on the national territory are only 6.6 tonnes per year. These figures are valid, mutatis mutandis, for the whole of Europe. Efforts to prevent energy-intensive industrial activities from leaving Europe are quite hypocritical: first, because most of them have already left Europe, which contributes to an increase in the share of grey energy in total energy consumption; and second, because the setting of a carbon-neutral target for internal emissions encourages them to keep oving away rather than to return them to Europe.

Once this ambiguity has been resolved, the Green New Deal raises the question of how to achieve the ambitious targets for reducing our greenhouse gas emissions. Let us begin by acknowledging that the measures adopted over the past 30 years have been ineffective. To be convinced, just read the tenth edition of the United Nations Environment Programme's Emission Gap Report. It updates the curve of CO2 emissions that has already been well known for fifty years, confirming that the correlation between global emissions and global gross domestic product remains total: it is economic crises that cause a slowdown in emissions growth and not the policies that have been implemented. The figures are cruel but the conclusions are unambiguous.

Year after year we are presented with identical curves, modern variants of the sign hanging at the hairdresser's: tomorrow we shave for free. Tomorrow, suddenly, we will see a sudden reduction in emissions to reach the global warming target of less than 2° or even less than 1.5°. The only thing that changes from year to year is the slope of this curve, which is steeper as time passes. The conclusion is of course that the means implemented so far are strictly inappropriate.

What about the European New Deal? It continues, as far as we can read, to be subordinated to economic thinking that has been shown to be ineffective. Let us review the three tools mentioned in the presentation of the Green New Deal: a massive investment programme; the price of carbon; and carbon adjustment at borders, possibly linked to the strengthening of the European carbon market.

The first tool is a massive investment program. The 1000 billion mentioned are obviously loans and not grants. However, by 2019, 17 trillion negative rate investments already exist. The additional 1000 billion, despite the apparent enormity of the figure, does not change the fundamental financial data. If the scale of these negative-rate investments is unique in history and if all the central banks' efforts to drown commercial banks with liquidities are equally ineffective, if not in creating real estate bubbles, it is because solid projects with reasonable or even low profitability do not exist. This is particularly true for energy efficiency projects or the development of renewable energy production. In the case of France, it has been shown that, given the price of energy, investment in energy efficiency has an extremely long payback period and even does not translate into the selling price of housing.

The second tool is the internal increase in the carbon price, possibly supplemented by a carbon adjustment at borders to avoid simply shifting production activities outside Europe. As the yellow vest crisis in France and the urban revolts in many countries more generally have shown, the increase in the carbon price is very badly accepted by the working classes for the simple reason that it is socially unfair: the "fossil energy budget" grows with household income but at a slower pace than this: the elasticity is clearly lower than 1. Moreover, there is a wide dispersion of energy budgets among the middle and upper middle classes, reflecting the fact that once basic needs are met, the increase in consumption is largely linked to lifestyle choices. The carbon price is therefore equivalent to a very strongly regressive tax, weighing much more on the poor than on the rich, which leads to a paradox: it has barely been decided to increase its price that it is necessary at the same time to provide for compensation measures that will practically offset its effect.

The third type of measure is the extension of the carbon market, which is now limited to large companies or a few sectors of the economy, by gradually reducing the allocated allowances. This limited carbon market, the complexity and risks of fraud and perverse effects of which have been observed, presupposes, in order to ensure a level playing field, carbon adjustments at the borders -BCA. It is to be hoped, with a subtle dialectic aimed at convincing our partners that it is not an import tax, that we can succeed in showing the compatibility of the BCAs with the general rules of the WTO or with the exceptions provided for in Article 20 thereof, but we must expect difficult negotiations, threats of retaliatory taxation of European products and, as a result, a gradual reduction in the scope of these adjustments, which will severely limit their benefits.

The emphasis on these three types of ineffective or poorly effective measures comes from the refusal, increasingly incomprehensible to me, to look reality in the face or if you want the elephant in the room. The beautiful radical inflection curves of the emission trajectories invite us to reason as visibly as the nose in the middle of the face: they indicate to us the ceiling of annual emissions not to be exceeded at the global level and the way in which this ceiling will decrease year after year, which clearly means the global rationing of fossil energy use.

This global rationing must be done between nations or geopolitical groups, within them between territories and then between households. Rationing is infinitely more effective and socially just than any other measure. It allows energy efficiency efforts to be immediately profitable, either for the most energy-efficient by selling surplus allowances to others or by avoiding the need to buy them at high prices. Then energy efficiency projects with guaranteed profitability will automatically flourish, all the more predictably since we know in advance - just look at the emission reduction curve - the reduction in allowances from one year to the next. And the huge cash flows in search of limited but certain profitability will be easy to mobilize without the need for public intervention, except to help communities invest in transport infrastructure. The market for allowances allocated to large companies seemed to resemble this mechanism, but the allowances allocated, if only because they concerned a small part of the production system, had nothing to do with the global quota logics.

The second obvious advantage of such a generalised quota mechanism is that it automatically incorporates grey energy without raising the question of WTO compatibility or the risk of trade retaliation in any way. It can only lead to the introduction of such quotas in other parts of the world, which is exactly the aim pursued. A classic objection to the introduction of such quotas is that consolidated accounting for fossil energy consumed at all stages of production and distribution is difficult to establish. This argument is no longer admissible for several reasons.

First of all, it can be pointed out that this consolidated accounting system is no more difficult to establish than consolidated value-added accounting: it is not because it was easy to establish that a value-added tax was created almost everywhere in the world, but on the contrary because this tax was created that consolidated accounting mechanisms have been put in place ! the same will apply to quotas.

Secondly, the creation of quotas reveals an obvious fact: fossil energy is a full fledge currency: unit of account, means of payment and even reserve value. The creation of allowances is equivalent to the creation of an electronic currency "emission per tonne of CO2", distributed to everyone at the beginning of the year in translation of allowances, debited as purchases are made, so that fossil energy expenses throughout the production process must necessarily be "reimbursed" by buyers, allowing companies and public services to continue to operate. If, at first, the other regions of the world, starting with China, did not play the game of traceability through consolidated accounting of fossil energy consumption, it is easy to determine the necessary energy currency based on the most energy-intensive production methods, in the same way as lost motorway tickets lead motorists to pay the highest price.

Finally, and this is the third reason, the combination of a widespread mobile phone payment and new techniques such as block chains, whose energy cost will probably drop drastically in the near future, creates the technical conditions for traceability. Contrary to those who believe that technological advances will solve the problem of emissions, by sequestering CO2 or even reintroducing it into biochemical cycles, it is less in this direction than in the one that will allow simple management of consolidated CO2 emissions accounting.

Following the regular debates between economists on the strategies to be implemented, I am literally appalled to note that almost all of them revolve around these evidences, being careful not to look them in the face to evoke solutions that are as sophisticated as they are ineffective.

Europe, as all the leaders of the European Union repeat at will, is the largest unified market in the world. The Union has so far failed to make good use of its formidable market power. And yet it allows it to take the unilateral initiative to set up this negotiable quota mechanism. It will be such a deterrent to all countries that want to trade with Europe and are not prepared to make the same efforts in terms of energy efficiency that this negotiable quota mechanism would quickly spread to the whole world. A few years ago, I had many contacts with China, who even suggested that they were already looking closely at this type of solution. China itself has an interest in seeing grey energy incorporated into the goods it exports deducted from its contribution to global warming and it knows that this is the only way to direct its own development towards sustainable territories. But it is obvious that it will not be the first to set up this rationing system. Europe must do this. Europe can do it. It has the right ambition to become the world leader in the fight against global warming. It will only be by this economic and political boldness. Bold in the eyes of conformist economists. Common sense for the European population. The failure of the Madrid COP shows everyone the need for Europe to act.

This is what I wanted to share with you and with the President of the Commission.

Please accept, at my highest consideration.

Pierre Calame