



TRAVIS JONES

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Green ‘light:’ The EU’s approach to crypto balances eco-values with regulatory relevance

European policymakers have backed away from passing rules which would have unfairly targeted Bitcoin for environmental reasons.

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ANALYSIS

Last week, Bitcoin (BTC) dodged a regulatory bullet in the European Union when proposed cryptocurrency legislation was altered to not include a ban on proof-of-work- (PoW)-based crypto assets. Policymakers had raised a number of concerns about the relative anonymity of crypto transactions and their environmental impact. Some experts including Tim Frost, founder and CEO of Yield App, believe that the “climate change” angle reflects a hidden attempt to ban Bitcoin. But, why?

The proposed [EU regulation on Markets in Crypto Assets \(MiCA\)](#) can be seen as a hybrid approach, which sometimes treats crypto assets as securities and at other times treats them as currency. This has left legislators divided, as the European Council, composed of representatives of the respective countries, believes the European Banking Authority (EBA) should be the new crypto watchdog, while the European Parliament would hand that role to the European Securities and Markets Authority (ESMA).

Green protectionism and green deals

While an outright ban on proof-of-work, which would have hobbled Bitcoin, has been avoided, the environmental rhetoric surrounding the EU push for regulation remains. This reflects a trend towards “green protectionism” in EU regulation: The EU is attempting to protect its market and institutions (in this case, its currency, which is less than a decade older than BTC) using environmental concerns as a rallying cry.

This approach has already attracted the ire of the EU’s trade partners. In 2019, shortly after European Commission President Ursula von der Leyen assumed office, the EU officially declared its “Green Deal” goal of having net-zero greenhouse gas emissions by 2050. This followed a wave of greens winning in the European Parliament earlier that year. The idea of a “Green Deal” had originally been promoted by the United States Democratic Party but was opposed by former President Donald Trump, which prompted Europeans to borrow the concept.

The EU intends to pursue this goal by shifting to renewable energy sources for electricity generation, increasing housing energy efficiency and creating “smart infrastructure.” The price tag for the program was set as one trillion euros in the first decade. [According](#) to the Valdai Club, “The symbolic significance is as follows: the EU declares itself a global leader in promoting the climate agenda and sets new standards for cooperation between the state, business and society in countering climate change.”

Green — with envy? Bitcoin vs. euro

The European banking system has faced several major crises since the introduction of the euro as a common currency within the eurozone in 1999, notably the financial crisis in 2008, the 2011 euro sovereign debt crisis and the COVID crisis. Pervasive problems such as negative inflation and difficulties in coordinating monetary policy have often left the bloc relying on several stronger economies such as Germany to bail out weaker states such as Portugal, Italy, Greece and Spain in times of need. This has elicited questions about the long-term sustainability of the currency.

To make matters worse, austerity mandates have often empowered populist politicians such as Italy’s Five Star party to threaten withdrawal from the euro bloc. This has weakened Brussels’ aspirations to sell the euro as an alternative “world reserve currency” to the U.S. dollar. While trade in euros dwarfs the global volume of cryptocurrency transactions by several orders of magnitude, it’s understandable that eurocrats would want to avoid competition with a liquid medium of exchange.

Europe’s financial targets

According to Tim Frost, founder and CEO of fintech firm Yield App, “there has been little work undertaken to truly understand the actual environmental impact of mining cryptocurrencies, not least compared to the oil and gas industry that the EU and other global governments are still very happy to support through kickbacks and incentives.” He adds that “if regulators were seriously concerned about the environmental impact of industries, then cryptocurrency would surely be the last industry to be considered.”

Frost voiced suspicion about singling out of cryptocurrency in the environmental debate, which he said was “somewhat lopsided, if not suspicious,” given that the proof-of-work system originally targeted by legislators was an essential part of the architecture of Bitcoin, which accounts for the lion’s share of the cryptocurrency economy.

It can be said, however, that both the euro and cryptocurrency possess a unique set of political risks in that they are not tied to traditional states engaging in traditional monetary policy. EU regulators have already been accused of trying to “punish” the United Kingdom for Brexit as a warning sign to other potential leavers, so it’s not unfair to argue that attempts to hobble crypto could be driven more by self-interest than by environmental notions.

Brussels as an exporter of regulatory standards

Setting new rules involving trade is also seen as a win for European lawmakers in and of itself. During Donald Trump’s time in office, many opined that the U.S. could no longer be seen as “the leader of the free world” in terms of policy initiatives and was focusing on “America first.”

The United States, in the eyes of Europeans, had turned its back on global regulatory initiatives. The most poignant reflection of this was Washington D.C.’s decision to pull out of the Paris Agreement on climate change. Trump’s backtracking on the Iran deal was another indicator that the U.S. had switched to favoring unilateral policymaking and was willing to “weaponize” its role in the global economy as well as that of the dollar.

This left the EU with a window of opportunity to take a leadership role. While international formats such as the G-20 and Organization for Economic Co-operation and Development (OECD) had larger aggregate economies, they lacked the EU’s expertise as a consensus-based supranational union capable of establishing and maintaining standards.

In the late 1990s, when the internet and global banking were first coming into their own, the OECD had taken the lead in introducing new global regulations to prevent companies from utilizing low-tax jurisdictions. In 2000, the OECD introduced a “blacklist” of uncooperative tax havens and identified 31 such jurisdictions by 2002. At the time, the OECD countries accounted for the lion’s share of the global economy. These were able to force all of them to implement its standards of transparency and exchange of information.

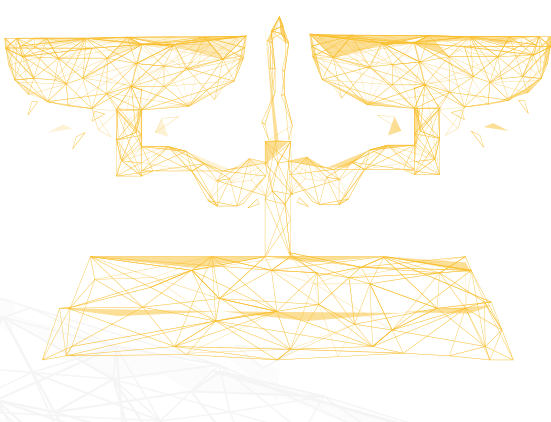
Taken together, these forces underlie what on the surface looks as the push to emphasize environmental concerns the EU’s emerging crypto regulation

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