HOW WILL THE CURRENT ENERGY CRISIS AFFECT THE WORLD'S PATHWAY TO DECARBONIZATION?

Philippe Waechter
Head of Economic Research

THE UKRAINE INVASION – A WARNING SIGN

Russia's invasion of Ukraine has shone a stark light on Europe's energy dependency. The European economy relies heavily on power purchases from non-European energy-generating companies. Low-priced and readily available energy had been in abundant supply since the two oil crises.

The current episode should set the alarm bells ringing for two reasons. On the one hand, it reflects the **new world political order**. The coordinated globalization we have witnessed over the past 20 years no longer stands. Europe must now carve out its place in this new balance and forge greater independence, including on power supply. On the other hand, these events are a glaring reminder that the **economy must transform and press on with the energy transition**.

This involves two dimensions of the fight against climate change and the importance of moving towards a pathway that curbs the temperature rise at 1.5C above the pre-industrial era. Firstly, carbon neutrality: the planet must achieve net zero carbon emissions by 2050, with all CO2 emitted fully absorbed. Secondly, **we must get ready to stage this shift to a net-zero world as soon as possible**. No miracle technologies will let us maintain our current lifestyles: we need to prepare right now. The IPCC's latest report (April 4th, 2022) stipulates that **carbon emissions must peak by 2025** – in other words, right now.

The war in Ukraine must serve both as a wake-up call for Europe's political construction and a further reminder of the urgency of staging the energy transition. This transition must be incorporated into our lifestyles without delay.

Stéphane Déo
Head of Market Strategy

ENERGY AND AGRICULTURAL POLICIES SEVERELY LACK AMBITION

The **Ukraine crisis** has a particularly severe impact as it has **emerged against a backdrop of overall weakness in the world economy** while the energy transition severely lacks ambition.

Countries will obviously need to resort to an expedient approach in the **short term,** with **several European states reopening coal-fired power stations for example, and thereby relegating their climate goals** to the sidelines. Meanwhile in the **medium term,** this crisis will inevitably drive **efforts to diversify fossil fuel sources, structurally pushing up their prices**: the market was expecting a long-term crude oil equilibrium price of $60, yet the figure is now closer to $80. This is the infamous price signal that economists have long sought. With an insufficient carbon tax, the market is indirectly applying this measure itself.

Unlike the oil crisis in the 1970s, there is now a credible alternative to this energy source. By way of example, the cost of solar-powered energy has been divided by a factor of 300 in the space of 45 years. In the future, this **price distortion is set to offer a further incentive to invest in renewables**.

The immediate impact of the current crisis is that it highlights **lackluster energy transition policies as well as listless agricultural policies**. It also fuels tension between the short-term effects – we are set to fall even further behind on our CO2 emissions goals – and the long-term impact i.e. ultimately an acceleration in the transition.
Will this acceleration help make up for lost time? There is definitely room for skepticism.

Nathalie Pistre
Head of Research and SRI

LOW-CARBON TECHNOLOGIES WILL NOT BE ENOUGH

Publication of the third instalment of the latest IPCC report has again sparked off the debate on the role that technologies can play in making our way out of the climate stalemate i.e. high energy-density batteries that support electric vehicles that emit much less CO2, electrolyzers for green hydrogen, alongside renewable power, etc.

However, hydrogen is currently primarily derived from technologies that are not low-carbon, while technological innovations still require more research and funding. **Carbon capture and storage technology capacities should not be overestimated**, for example artificial carbon sinks. Some offsetting actions can also have major repercussions for biodiversity as a result of damage to ecosystems, thereby hindering efforts to fulfil several sustainable development goals. So it is crucial to closely scrutinize ESG assessments for companies that develop these solutions.

Finance has a clear role to play in funding these innovative technologies. Additionally, **investors and asset managers are a driving force in encouraging companies in high-emissions sectors to invest in low-carbon energy technologies and sources via their engagement efforts.** However, public authorities also have a crucial part to play as the research phase for emerging technologies is rarely profitable in the short term.

Lastly, the latest report from the IPCC highlights the importance of a just transition. **Climate policies are likely to lead to energy insecurity, which must be actively tackled** to ensure that we avoid a major social crisis.

ADDITIONAL NOTES

Ostrum Asset Management

Asset management company regulated by AMF under n° GP-18000014 – Limited company with a share capital of 48 518 602 €. Trade register n°525 192 753 Paris – VAT : FR 93 525 192 753 – Registered Office: 43, avenue Pierre Mendès-France, 75013 Paris **www.ostrum.com**

This document is intended for professional, in accordance with MIFID. It may not be used for any purpose other than that for which it was conceived and may not be copied, distributed or communicated to third parties, in part or in whole, without the prior written authorization of Ostrum Asset Management.

None of the information contained in this document should be interpreted as having any contractual value. This document is produced purely for the purposes of providing indicative information. This document consists of a presentation created and prepared by Ostrum Asset Management based on sources it considers to be reliable.

Ostrum Asset Management reserves the right to modify the information presented in this document at any time without notice, which under no circumstances constitutes a commitment from Ostrum Asset Management.

The analyses and opinions referenced herein represent the subjective views of the author(s) as referenced, are as of the date shown and are subject to change without prior notice. There can be no assurance that developments will transpire as may be forecasted in this material. This simulation was carried out for indicative purposes, on the basis of hypothetical investments, and does not constitute a contractual agreement from the part of Ostrum Asset Management.

Ostrum Asset Management will not be held responsible for any decision taken or not taken on the basis of the information contained in this document, nor in the use that a third party might make of the information. Figures mentioned refer to previous years. Past performance does not guarantee future results. Any reference to a ranking, a rating or an award provides no guarantee for future performance and is not constant over time. Reference to a ranking and/or an award does not indicate the future performance of the UCITS/AIF or the fund manager.

Under Ostrum Asset Management's social responsibility policy, and in accordance with the treaties signed by the French government, the funds directly managed by Ostrum Asset Management do not invest in any company that manufactures, sells or stocks anti-personnel mines and cluster bombs.

Natixis Investment Managers

This material has been provided for information purposes only to investment service providers or other Professional Clients, Qualified or Institutional Investors and, when required by local regulation, only at their written request. This material must not be used with Retail Investors.

To obtain a summary of investor rights in the official language of your jurisdiction, please consult the legal documentation section of the website (im.natixis.com/intl/intl-fund-documents)

In the E.U.: Provided by Natixis Investment Managers International or one of its branch offices listed below. Natixis Investment Managers International is a portfolio management company authorized by the Autorité des Marchés Financiers (French Financial Markets Authority - AMF) under no. GP 90-009, and a public limited company (société anonyme) registered in the Paris Trade and Companies Register under no. 329 450 738. Registered office: 43 avenue Pierre Mendès France, 75013 Paris. Italy: Natixis Investment Managers International Succursale Italiana, Registered office: Via San Clemente 1, 20122 Milan, Italy. Netherlands: Natixis Investment Managers International, Nederlands (Registration number 000050438298). Registered office: Stadsplateau 7, 3521AZ Utrecht, the Netherlands. Sweden: Natixis Investment Managers International, Nordics Filial (Registration number 516412-8372- Swedish Companies Registration Office). Registered office: Kungsgatan 48 5tr, Stockholm 111 35, Sweden. Or,

Provided by Natixis Investment Managers S.A. or one of its branch offices listed below. Natixis Investment Managers S.A. is a Luxembourg management company that is authorized by the Commission de Surveillance du Secteur Financier and is incorporated under Luxembourg laws and registered under n. B 115843. Registered office of Natixis Investment Managers S.A.: 2, rue Jean Monnet, L-2180 Luxembourg, Grand Duchy of Luxembourg. Germany: Natixis Investment Managers S.A., Zweigniederlassung Deutschland (Registration number: HRB 88541). Registered office: Senckenberganlage 21, 60325 Frankfurt am Main. Belgium: Natixis Investment Managers S.A., Belgian Branch, Gare Maritime, Rue Picard 7, Bte 100, 1000 Bruxelles, Belgium. Spain: Natixis Investment Managers, Sucursal en España, Serrano n°90, 6th Floor, 28006 Madrid, Spain.

In Switzerland: Provided for information purposes only by Natixis Investment Managers, Switzerland Sàrl, Rue du Vieux Collège 10, 1204 Geneva, Switzerland or its representative office in Zurich, Schweizergasse 6, 8001 Zürich.

In the British Isles: Provided by Natixis Investment Managers UK Limited which is authorised and regulated by the UK Financial Conduct Authority (register no. 190258) - registered office: Natixis Investment Managers UK Limited, One Carter Lane, London, EC4V 5ER. When permitted, the distribution of this material is intended to be made to persons as described as follows: in the United Kingdom: this material is intended to be communicated to and/or directed at investment professionals and professional investors only; in Ireland: this material is intended to be communicated to and/or directed at professional investors only; in Guernsey: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Guernsey Financial Services Commission; in Jersey: this material is intended to be communicated to and/or directed at professional investors only; in the Isle of Man: this material is intended to be communicated to and/or directed at only financial services providers which hold a license from the Isle of Man Financial Services Authority or insurers authorised under section 8 of the Insurance Act 2008.

In the DIFC: Provided in and from the DIFC financial district by Natixis Investment Managers Middle East (DIFC Branch) which is regulated by the DFSA. Related financial products or services are only available to persons who have sufficient financial experience and understanding to participate in financial markets within the DIFC, and qualify as Professional Clients or Market Counterparties as defined by the DFSA. No other Person should act upon this material. Registered office: Unit L10-02, Level 10 ,ICD Brookfield Place, DIFC, PO Box 506752, Dubai, United Arab Emirates

Natixis Investment Managers International
Société anonyme au capital de 51 371 060,28 euros - RCS Paris: 329 450 738 - Agréé par l’Autorité des Marchés Financiers (AMF), sous le numéro GP 90-009 - 43 avenue Pierre Mendès France 75013 Paris
www.im.natixis.com

www.ostrum.com