

POINTS OF VIEW

1 question, 3 experts

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



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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
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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.



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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.

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