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# OUTLOOK & CONVICTIONS

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# ENERGY INDEPENDENCE AND TRANSITION GO TOGETHER



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With the Ukraine war raging and fossil energy prices scaling the heights, energy independence is a major concern, and especially in Europe. Energy transition means focusing on reducing our dependency on fossil fuels -currently around 80% for the global economy -to accelerate the decarbonisation process. Linking energy transition and independence therefore strikes us as more than ever essential.

## THE TIME FOR ACTION IS NOW

“Three years to act to keep our world liveable.” This was the alarm call in the latest GIEC<sup>1</sup> report released in 2022. Bear in mind that our

daily carbon footprint will last on average for the next hundred years. Temperatures have already risen by 1.1°C on average since the pre-industrial era. We are now rapidly moving towards +1.5°C. This means icecaps melting, advancing deserts, islands disappearing under water and heat domes making some regions uninhabitable. There are also tensions and even wars over

- ▶ **We need to take urgent action on climate issues. The IPCC says we only have three years to preserve the world as a place worth living in for the greatest number**
- ▶ **Energy efficiency is a key solution as the best energy is the energy we do not use and renewable energy sources mean independence**
- ▶ **The good news is that investors now have increasingly reliable climate methodologies and monitoring tools**



water supplies and some species are facing extinction. Increasingly frequent extreme events show that global warming is already with us. A Stanford University study in 2017 calculated that there was a 93% chance temperatures would rise by 4°C by the end of this century if carbon emissions remained stuck in a “business as usual” scenario. **If we fail to stop this trend, the world will even become impossible to insure.** This catastrophic scenario would hit every part of our economy and society, especially in emerging countries where the global population is concentrated. By 2050, it is estimated that 1 billion people living in coastal areas would be affected by rising water levels or sea flooding, and that \$10 trillion-worth of infrastructure could be at risk from exceptional flooding. To act, the simplest solution is to embrace energy sobriety and efficiency, just like generations of wise men before us.

## ENERGY EFFICIENCY IS THE KEYWORD

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Today’s geopolitical tensions have contributed to soaring fossil energy prices, exposing the extent of Europe’s energy

dependency. Given this highly unsettled background and the fact that nobody knows how long the situation will last, **the best energy is obviously the energy we do not use.** Acting on energy demand and consumption can actually be a rapid process. As we saw in Japan after the 2011 Fukushima crisis, reductions in energy consumption can run to double digits. Japan cut energy consumption by 16% in absolute value between 2010 and 2019<sup>2</sup>. **Solutions and results depend both on technological advances but also on how much people, companies and governments embrace energy sobriety.** Fortunately, there are a number of useful actions like insulation, sustainable mobility, electricity distribution optimisation and heat pumps. Installing a heat pump can slash a household’s energy bill by 60%. And ADEME, France’s ecology transition agency, says cutting heating by 1°C helps save 7% on bills. Energy efficiency and sobriety are thus the same levers across all sectors and they also concern construction, industry and transport. In transport, for example, the European Environment Agency estimated in 2020 that a plane’s carbon footprint amounted to 285g/km per passenger, or 20 times more than a train. In construction,

aid packages are being introduced to fund removal of energy escape routes. To sum up, energy efficiency is the best short and long-term solution as it will help to save the planet by 2100 while enabling consumers to spend less on bills.

## INCREASING THE USE OF RENEWABLE ENERGY

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The energy transition also means moving from fossil to renewable energy sources. There are almost **innumerable amounts of renewable power sources like wind farms on land and at sea, solar, hydraulic, geothermal, biomass, biomethane and green hydrogen**. Barely 20% of final energy consumption in the world comes from renewable energy sources (IAE, 2022)<sup>3</sup>, although renewable energy has been gaining ground depending on its end use. For example, electricity production has seen the biggest rise with 83% of net renewable capacity additions in 2020 coming from renewable sources (REN21, 2022)<sup>4</sup>. Heating and transport, in contrast, have been much slower in making the change. Moving towards a low-carbon economy and energy independence will require the installation of more renewable energy parks. They also have **the social advantage of reshoring more sustainable, qualified and less qualified jobs, helping to revive economically abandoned regions**. Note, however that “Not In My Backyard” (NIMBY) campaigns have slowed the arrival of renewable energy sources in Europe, especially wind farms and biomethane units.

## COMPANIES AND INVESTORS NOW HAVE MORE RELIABLE TOOLS.

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Another positive factor is that we now have more efficient tools to measure carbon footprints. The period when vague carbon assessments under scope 1 and 2<sup>5</sup> were the norm is increasingly a distant memory.

Similarly, **we are seeing genuine progress on scope 3 emissions<sup>6</sup>**, the elephant in the room as they represent around 80% of total emissions, and scope 4<sup>7</sup> criteria which are essential in assessing the carbon footprint of an entire value chain. Independent entities with rigorous methodologies help companies assess their carbon footprint and provide investors with the means to align portfolios with the Paris Accord. **Investors are increasingly better equipped to shape their portfolios** and take real action against climate change.

## ACTING FOR A JUST TRANSITION

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Faced with energy dependency and the climate emergency, we should activate levers to drive energy efficiency and the development of renewable energy sources. Quite simply we need to consumer less and better. Energy transition is tricky to roll out as our societies have depended on fossil energy since the 19th century. Another challenge in ensuring success is to accompany transition with social measures. Hence the notion of a just transition. France’s gilet jaune disruptions in 2018-19 were a stark reminder of reality. Efforts will therefore be required to revive and maintain employment through job conversions in regions, for example, which depend heavily on traditional, internal combustion, vehicle manufacturing.

**By recognising the complexity of managing short and long-term views while integrating environmental, social and economic pillars, investors are an important part of the movement towards a sustainable economy.**

1. IPCC The Intergovernmental Panel on Climate Change, Sixth Assessment Report, February 2022.  
2. International Energy Agency, “Japan 2021 – Energy Policy Review”, March 2021.  
3. International Energy Agency, “Tracking SDG7 - The Energy Progress Report 2022”, June 2022.  
4. REN21 Renewables Now, “Renewables 2021 Global Status Report”, June 2021.  
5. Scope 1 concerns direct emission and scope 2 indirect emissions from energy.  
6. Scope 3 covers other indirect emissions.  
7. Scope 4 covers avoided emissions.

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