

CHART OF THE WEEK

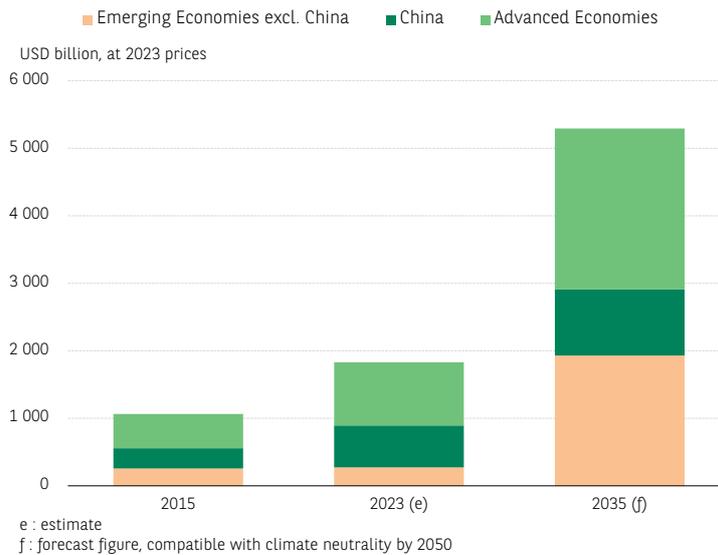


25 October 2023

CLIMATE NEUTRALITY: BEWARE OF A TWO-SPEED TRANSITION!

Jean-Luc Proutat

World annual investments in clean energy



Source: AIE, BNP Paribas

Faced with the urgency of climate change, many countries have begun their ecological transition, with the war in Ukraine only accelerating the movement. After soaring in 2022, investment in “clean” energies is set to reach a new record in 2023: around USD 1,800 billion worldwide, or 1.7 points of GDP, according to estimates by the International Energy Agency (IEA)¹. Although the search for new fossil fuels has not yet come to a halt, it is now mobilizing less capital (around USD 1,200 billion).

In the transformation that is taking place, China is leading the way, as much out of necessity as to assert its leadership in green technologies (batteries, photovoltaics, etc.). By 2023, it will be investing at least USD 600 billion in decarbonization, twice as much as all the other emerging countries combined. On both sides of the Atlantic, the greening of economies is embodied in the Inflation Reduction Act and the Next Generation EU scheme.

Compared to 2015, annual investment in the ecological transition has almost doubled (in constant dollars, see graph). However, this investment will need to triple by 2035 - and aim for some USD 5,300 billion a year - in order to limit global warming to 1.5°C (compared with the pre-industrial era). The remaining effort is substantial, and above all highly uneven. In the advanced countries and China, achieving climate neutrality by the middle of this century will not be easy, but is not out of reach either. In emerging countries outside China, where the starting point is much further away and where spending on decarbonization would have to increase sevenfold, the challenge is immense; without a substantial increase in financial transfers from the North, it would even appear insurmountable. The encouraging fact is that, by 2023, the USD 100 billion in annual transition aid provided for in the Paris agreements should finally be reached, three years behind schedule.

¹ All figures quoted in this article are taken from two reports published successively in 2021 and 2023 by the International Energy Agency (IEA), and have been updated to 2023 prices. Investments in “clean” energies are understood here in the broadest sense: investments in green technologies (wind turbines, photovoltaic panels, bioenergies, geothermal energy, dams, etc.), nuclear power plants, electricity transport and storage (grids, transformers, batteries, etc.), transport infrastructure and resources (electric vehicles, batteries, recharging stations, etc.), thermal insulation of buildings, etc. They exclude expenditure aimed at reducing greenhouse gas emissions from fossil fuels (e.g. replacing a coal-fired power plant with a gas-fired one).

IEA (2023) Scaling up Private Finance for Clean Energy in Emerging and Developing Economies, June

IEA (2021) Net Zero by 2050: A Roadmap for the Global Energy Sector, May.

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