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Why the Current Climate Strategy was Doomed to Fail

Part 2: Unrealistic funding expectations

As with yesterday's post, the must-read article titled *The Troubled Energy Transition published by* Foreign Affairs magazine is the source of much of the information.

Today we illustrate why the needed funding was never going to materialize.

Simpler times

- Yesterday we reviewed past energy transitions and the 100+ year timelines required to achieve them.
- That's daunting enough, but this transition has unique and more challenging characteristics:
  - The article notes that past transitions like wood to coal promised process improvements and lower costs. More importantly, those benefits occurred quickly. Conversely, the shift to clean energy has yet to translate into lower costs. In fact, electric bills are escalating.
  - The other complicating factor is the level of complexity. The world was a simpler (and less expensive place) when society moved from wood to coal and from coal to oil. Today, the variables are so complex it's impossible to estimate the transition costs with any certainty.

The question is not whether the cost to transition to clean energy will be expensive.

The question is just how expensive it will be.

The problem is no one really knows.

We only know it's crazy expensive

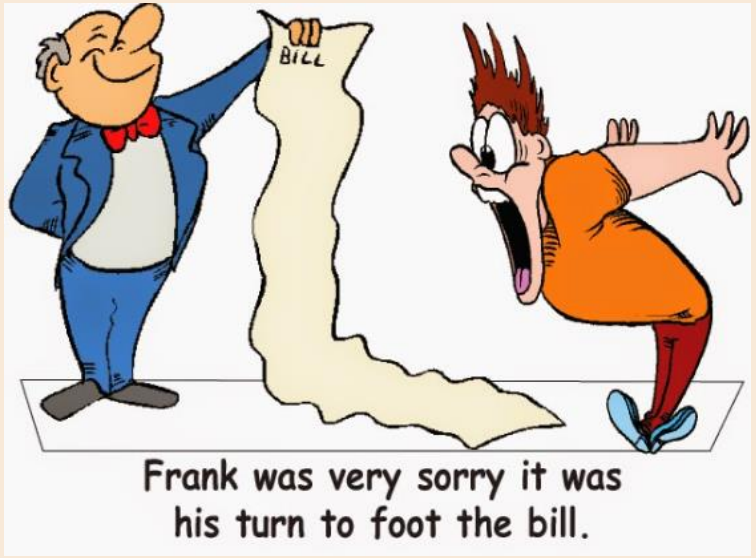
- One of the latest estimates of the cost to achieve net-zero comes from the Independent High-Level Expert Group on Climate Finance.
  - It projects the required global investment between $6.3 trillion and $6.7 trillion annually to 2030, increasing to as high as $8 trillion by 2035.

Let's put that into context

- It equates to about 5% of global GDP through 2050.
- The U.S. spends about $820 billion annually on defense. That only comes to about 3.3% of US GDP.

And it gets worse

It’s the North vs the South again



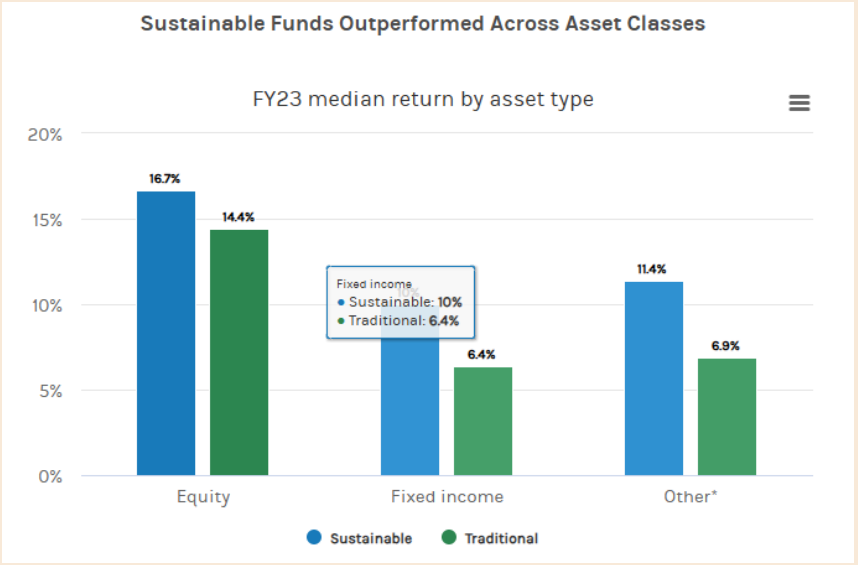
Approximately 750 million people in the world don’t have access to electricity – most of which reside in Africa.

And here’s a real eye opener:
3 billion people (about half of the developing world) use less electricity per capita than the average American refrigerator.

- In the climate community this falls under adaptation, which among other things, factors in the relative impact from climate change and a country’s resources, including its ability to pay.
- With funding, the assumption is that the global North will foot the bill for the global South.
- Under that assumption, the cost to developed nations escalates to 10% of GDP.

Why would anyone consider that realistic?

There is a small green shoot



Private investments is where I diverge from the article's portrayal.

The authors note that "ESG funds in the United States have seen capital outflows in the last couple of years because of underwhelming returns."

That's a misleading perspective.

- According to Morgan Stanley and the Institute for Energy Economics and Financial Analysis (IEEFA) sustainable investment funds have outperformed traditional fundings (12.6% versus 8.6%)
- Another source - research firm Preqin acquired by BlackRock – found no statistically significant difference in performance between ESG funds and all private capital funds.
- Here's the rub: 87% of all assets under management for sustainable funds reside in Europe. Only 10% are in the Americas.

Marketed correctly, this presents an opportunity to bolster private funding. Still, it wouldn't come close to filling the enormous public sector gap.

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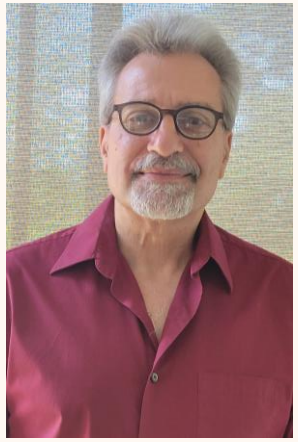

Advising Greentech companies to help maximize growth

Unbiased and Unfiltered

- An honest assessment of the climate change effort.
- I cover what's working – but more important - the issues/roadblocks that the industry would prefer to ignore.
- A must-read for anyone with a desire to understand what's really going on with renewable energy and climate change.

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