Energy transition

Access, availability, and affordability

Last year's theme of climate mitigation and adaptation has narrowed to energy transition. There are two driving forces: (1) decarbonising energy is increasingly seen as the key unlock to delivering on climate commitments, and (2) the impact of war has made energy security a critical issue, resulting in measures to protect existing energy supplies and accelerate the development of diversified sources of clean energy. Slow progress on fossil fuel phase-out jeopardises the 1.5°C net zero scenario.

Policy trends

Insufficient fossil fuel phase-out

The critical role of energy systems was recognised in unprecedented commitments made at COP28 and the G20 to transition away from fossil fuels. This comes on the back of sustained private sector pressure to allow finance for decommissioning without excessively penalising it, particularly as transition finance frameworks emerge. However, ambiguities on commitments to phaseout, fossil fuel demand rising and prices falling, and conflicts between investor appetite and climate goals are slowing implementation plans. Multilateral initiatives such as JETPs are also progressing slowly on the political and technical complexities of the managed phaseout of coal fired power plants.

Growing renewables financing

Progress on renewable energy expansion has accelerated, with further cost reductions continuing to contribute towards risk-return profiles that can attract institutional money. Some progress has been made on quick wins, such as project pipeline, preparation and risk-sharing mechanisms. However, larger and more substantial issues around infrastructure (particularly grid expansion) remain to be solved, which are essential to ensure renewable energy is cost-competitive and stable/secure. Avoiding the "crowding out" of the private sector and using of carbon credits as funding mechanisms remain essential.

Increased litigation

Climate litigation has more than doubled since 2017. Its use as a tool to drive greater corporate action and prevent greenwashing, and to preserve access to finance for high-emitting industries, continues to raise risks around industry memberships/commitments, as well as provoke the "greenlash" and "greenhushing" in equal measure.

What can we expect in the next 18 months?

Diverging regulation

The US and Europe's increasing shift to the right in elections could see a further scale back or recalibration of pro-climate policies, such as the EU's withdrawal of the controversial pesticide ban. Greater ambition remains in place (e.g., the EU's 90% emissions reduction target for 2040) but corresponding policies will be slow due to ongoing farmers' oppositions. In contrast, Asia's initiatives on green taxonomies and disclosure rules are taking shape, including the ASEAN Taxonomy for Sustainable Finance that aligns with the EU's taxonomy and captures the coal phase-out criteria. We continue to expect the roll-out of international standards (ISSB, Basel) to face differences in implementation and gold-plating.

1.5°C viability

The world warmed at 1.45°C in 2023 (+/-0.12%). The lack of progress on energy transition and government inaction/reprioritisation are shrinking the window to keep 1.5°C within reach. This will be compounded as governments prioritise "keeping the lights on" in election-bound markets and hesitate to advance climate policies which prove less popular among voters than addressing cost of living concerns. Growing demand for batteries and EVs will become contentious as sanctions and anti-subsidy probes result in increased tariffs on cheap imported EVs.

Advancing carbon markets

Many countries are putting in place legislation to support the development of domestic carbon markets, which should be encouraged, but their effectiveness will depend on the interoperability between countries and fungibility of the credits traded. The development of carbon markets will be industry-led, as more governments, including the UK and Singapore, are seeking to endorse and align with Integrity Council for Voluntary Carbon Markets' (ICVCM) Core Carbon Principles (CCPs). Amid activity to establish carbon markets and develop market infrastructure, carbon pricing will remain a much-discussed policy tool but with little international consensus on price or mechanism.

A shift to nature

The focus on energy has been driven by global policy settings based in hydrocarbon-based economies over the past two years. The upcoming COP16 in Colombia (2024) and COP30 in Brazil (2025) will put nature, indigenous people, and local communities centre stage. Protecting carbon sinks (e.g., ocean, forests, soil) will dominate the policy conversations, with carbon markets aiding this effort. Further progress is expected on the implementation of the Global Biodiversity Framework (GBF) and countries' National Biodiversity Strategies and Action Plans (NBSAPs). The anticipated forestry country packages – intended to be JETPs for forests – will help scale up investments in the forestry and land-use sector.