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Latest climate policy & progress assessment from IPR

New catalyst for climate action: Race to the top emerging between China, US & EU

Trend from Glasgow COP26 positive through to global acceleration emerging in Q4 2022

LONDON: 25/01/2023 12:00 GMT: The EU and US are now primed for race to the top on clean technology as climate objectives take centre stage along with domestic economic and industrial needs. This is creating a new catalyst for climate action, paving the way for a clean energy acceleration as competition increases, the latest IPR climate report highlights.

'Race to the top on clean energy – The US and EU response to China's dominance' assesses the global impact of the US IRA & the EU response, foreshadowing an unwinding of international reliance on China, subsidies for clean energy and additional bilateral and multi-lateral trade agreements. Overall, the impact heralds a further divergence from the WTO system but adds a functional path for decarbonisation alongside the UNFCCC and Paris Agreement process.

Climate Policy Tracking since Glasgow

Since 2021 COP26 in Glasgow, IPR has undertaken a comprehensive distillation of 331 climate based announcements, with 211 significant enough to be relevant to IPR. A total of 162 policy announcements supported or confirmed of IPR forecasts of a 1.8C temperature outcome, 35 indicating increased international climate ambition and 14 signalling a decrease. Quarter 4 2022 to January 2023 reflected in acceleration in ambition on the positive momentum observed since Glasgow.

Quarterly Results

The latest Quarterly Forecast Tracker (QFT) period from October 2022 to January 2023 delivered the strongest quarterly result since IPR began tracking developments from COP26, confirming an increase in climate policy momentum. Of 117 developments tracked, 89 had sufficient credibility to include in the QFT, with 68 supporting or confirming IPR 1.8C forecasts, 20 that indicated increased ambition and 2 signalling a decrease.

Launched by the PRI post Glasgow, the QFT provides investors and policy makers with an ongoing assessment of key climate energy, land use, transition policy and technology developments. Announcements are weighted on relevance, credibility and impact against landmark IPR forecast scenarios of 1.8C and 1.5C temperature outcomes.

National Developments

Significant developments in Q4 included EU, US, Canada and Australia showing evidence of acceleration in policy ambition across clean power, industry, transport and buildings. Policies tackling methane from oil & gas operations and agricultural sources are beginning to emerge.

Negotiations on EU ETS and CBAM as well as ICE bans have concluded, as have agreements to fast-track renewables projects and include shipping in the EU ETS. In January 2023, European Commission President Ursula von der Leyen proposed a 'Net Zero Industry Act' partially in response to the US IRA.

The U.S. floated a carbon border adjustment tariff on steel and aluminum via cooperative climate clubs alongside approving a program scaling voluntary carbon markets amongst rural farmers and proposals to target federal emissions. In non-OECD countries, Just Energy Transition Partnerships (JETP) in South Africa, Indonesia and Vietnam could accelerate coal generation phaseout timelines if sufficient private capital can be deployed.

Brazil has recommitted to forestry protection and a COP 27 initiative aims to translate the Glasgow forests pledge into action. These along with complementary policies from the EU (e.g., targeting forest product imports) and financial flows into nature-based solutions (NBS) raise prospects for ending net deforestation by 2030, although firmer policies and commitments are still required.

China reaffirmed climate goals despite economic headwinds, announcing plans for performance standards to achieve carbon neutrality objectives, and drafting a national strategy for reducing methane emissions, however it also pushed back its target for peaking building sector emissions from 2025 to 2030.

Global Technology

Multiple announcements support or in some instances suggest an acceleration in innovation, deployment and cost reduction (e.g., for renewables, hydrogen, battery and storage technologies). Increased investment in infrastructure and storage capacity to manage increasingly decarbonized grid and EV penetration. Continued innovation in hydrogen technologies, including electrolyzers, new strategies and announcement for large projects.

Land Use / Food Systems

Several announcements on capital raised flow towards alternative funds focused on forestry and agriculture including carbon. Alternative proteins experienced significant growth and the US FDA approved a study on safety of cultivated chicken.

Climate Competition and Trade

Accompanying the QFT analysis is a special report for IPR by Kaya Advisory: *'Race to the top on clean energy – The US and EU response to China's dominance.'* sets the scene for major countries - in addition to China - to build clean energy capacity at scale using industrial policy with protectionist elements leading to clean energy construction beyond what leading climate scenarios have been forecasting. *Race to the top* explores this new dynamic in industrial, trade and climate policy between the world's major trading blocs.

Mark Fulton, Project Director, Inevitable Policy Response:

"The Race to the top in clean energy unleashed by the US IRA and being followed up by the EU Green Industrial Plan, combined with other positive policy announcements since COP27, point to an acceleration in clean energy deployment relative to recent expectations. IPR forecasts continuing pressure on policy makers via the COP stocktake and ratchet and increasing climate competition driving the acceleration and transition factors facing investors."

Daniel Gallagher, Head of Climate Technical Guidance, PRI:

"Assessing the pace and impact of the energy transition is an ongoing challenge for institutional investors. The IPR analysis of how global progress is unfolding against long-term, high-conviction transition forecasts offers valuable insight for investors, and is well placed support on their climate risk management and net zero investment strategies."

Brian Hensley, Partner, KAYA Advisory:

"China's own success in clean energy and critical raw materials leaves the rest of the developed world with production voids that need to be filled. The US has decided to decouple from China supply chains with the Inflation Reduction Act which has initiated a chain reaction of similar measures by other countries. The EU is compelled to initiate its own industrial policy support and is finding it hard to be as flexible as the US. All of this has enormous significance for private investors."

Supporting Documents:

Quarterly Forecast Tracker - Update of global energy/land policy and technology developments, Inevitable Policy Response. Sept 2022 – Jan 2023.

Race to the top on clean energy – The US and EU response to China's dominance, Report prepared by Kaya Advisory for the Inevitable Policy Response.

A Q3-Q4 2022 assessment of Just Transition elements in the Inevitable Policy Response, Assessment prepared by Grantham Research Institute on Climate Change and the Environment, LSE.

Documents are available for [download here](#).

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Notes for Journalists:

About Inevitable Policy Response (IPR): The IPR is a climate transition forecasting consortium that aims prepare institutional investors for the portfolio risks and opportunities associated with a forecast acceleration of policy responses to climate change. To help prepare markets and investors IPR then models in detail the impact of the forecasted policies on the energy system, food land use system and real economy. More information is [available here](#).

The IPR was commissioned by the Principles for Responsible Investment (PRI) in 2018 and is amongst international investor based initiatives supported by the PRI.

About the Quarterly Forecast Tracker: Produced on a quarterly basis for 2022, [the QFT](#) assesses global climate policy, technology and land use developments which drive the energy and land transition, determining any acceleration, deceleration, against 2021 IPR 1.8°C FPS and 1.5°C RPS scenarios.

2021 1.8°C Forecast Policy Scenario (1.8 FPS): The 2021 Forecast Policy Scenario (FPS) is IPR's current assessment of *what is expected to happen*, in terms of future policy developments and the subsequent impact on emissions reduction and temperature outcomes.

The 1.5°C Required Policy Scenario (1.5 RPS): The [2021 1.5C RPS](#) is IPR's current assessment of *future policy developments needed* to increase emissions reduction, close the existing gap, and hold global temperature increase to a 1.5C outcome. Unlike the FPS, the 1.5C RPS scenario works back from the goal of reaching 1.5C and asks what would be needed to get there, rather than what is likely to unfold given current political realities.

Acknowledgements:

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