

## Acceleration of Decarbonization Driven by the War in Ukraine

Rolando Morillo, *Portfolio Manager, Thematic Investing*

Jose Garza, *Senior Investment Analyst, Thematic Investing*

Russia's invasion of Ukraine has resulted in untold human suffering and destruction. While the situation remains highly fluid and uncertain, the outbreak of war has quickly galvanized the European Union's commitment to reduce its reliance on Russian energy, as well as hasten its plans to increase the region's renewable energy capacity. In this commentary, we review the short- and long-term implications of this dynamic and the investment implications.

### A Decarbonization Call to Arms

Even before the outbreak of war, European energy costs were soaring due to the quick return in demand post-pandemic, a hot summer, and a number of one-off dynamics in available electricity supply. While certain benchmarks had already been established to transition away from oil and gas, these plans have accelerated, not only due to higher prices and shortages, but also for national security reasons. To be sure, this won't happen overnight, as roughly 45% of the European Union's gas and almost 40% of its total gas consumption were imported from Russia last year.<sup>1</sup> That said, ambitious goals have recently been announced, including:

- The European Commission's plans to curb imports of Russian gas by two-thirds by the end of the year.
- Germany's Renewable Energy Act, which previously sought to achieve a net zero emissions before 2050, was pushed forward to 2045. This includes reaching up to 110 gigawatts (GW) of onshore wind capacity by 2035 (double the current amount), 30 GW of offshore wind and 200 GW of solar capacity, both nearly four times more than current levels.<sup>2</sup>
- The UK has accelerated the deployment of wind, new nuclear, solar and hydrogen—in addition to domestic oil and gas production—which could lead to 95% of its electricity being low carbon by 2030.<sup>3</sup>
- Belgium is reconsidering its exit from nuclear power, while Italy and the Netherlands are accelerating efforts to install wind power.

### Short- and Long-term Implications

There's no question there will be short-term pain in Europe from increased Russian sanctions and surging energy prices. As Europe sources energy supplies from other countries, it could lead to a temporary increase in coal power and rising greenhouse-gas emissions in other parts of the world. Although there are also numerous financing, regulatory, labor and supply chain hurdles that must be cleared, investing in new fossil fuel infrastructure may only perpetuate existing geopolitical risks and increase the threat of climate change. However, the long-term benefits to the environment and the ability to become less dependent on outside sources for carbon-based energy are immeasurable. Despite progress in recent years to deploy cost-efficient and scalable renewable energy, electrification, and energy efficiency solutions, achieving long-term targets will depend on a comprehensive set of policies in order to transition to a low carbon economy.

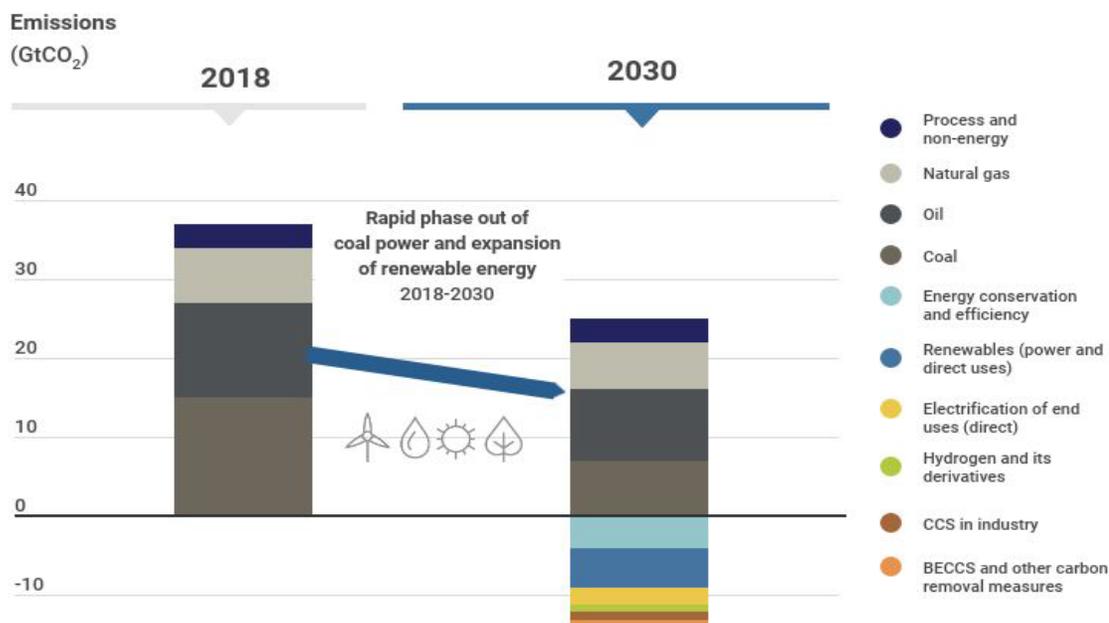
<sup>1</sup> <https://www.ica.org/news/how-europe-can-cut-natural-gas-imports-from-russia-significantly-within-a-year>

<sup>2</sup> <https://www.euronews.com/green/2022/02/28/germany-to-speed-up-renewable-energy-push-amid-ukraine-invasion>

<sup>3</sup> <https://finance.yahoo.com/news/uk-energy-strategy-bills-091021294.html#:~:text=Under%20the%20government's%20new%20strategy,away%20from%20oil%20and%20gas.>

<sup>4</sup> <https://www.ipcc.ch/report/sixth-assessment-report-working-group-3/>

According to the International Renewable Energy Agency (IRENA), ramping up on renewable energy along with an aggressive energy efficiency strategy, while reducing coal fired power generation, is the most realistic path towards halving emissions by 2030. At the same time, we must acknowledge the recent report from the Intergovernmental Panel on Climate Change (IPCC) which urges society to rapidly decarbonize the global economy to avoid the worst effects of climate change.<sup>4</sup>



**The impact on emissions of replacing fossil fuels with renewables and increasing energy efficiency through 2030**

Source: World Energy Transitions Outlook 2022



### Investment Opportunities and Risks

Whether its wind turbines, solar panels, hydropower, EV chargers, nuclear, or a myriad of other decarbonization initiatives, there are literally trillions in expenses that will be incurred in Europe, let alone the rest of the world. Identifying those companies across the renewables value chain that stand to benefit the most will take specialized experience and thorough research. In our view, the elevated inflationary environment favors companies that can quickly and efficiently pass along prices to customers, reducing the impacts to their margins and cash flows.

From a geographical perspective, Europe currently offers the most promise, as it has a larger impetus to drive renewable energy adoption as a way to secure energy independence. Established players that can choose which projects to participate in based on favorable economics could be the largest beneficiaries. In particular, companies with scale and operating prowess will continue to have their pick of the highest-returning projects. We also expect long-term, stable purchase power agreement (PPA) projects to be further adopted by corporate energy users across Europe. Meanwhile, from a risk perspective, some European utilities have been forced to cap what they can charge customers, pressuring their profitability. In addition, given rising interest rates, less established companies could experience financing pressures to fund their operations.

## Conclusions

Building a bridge from fossil fuel to decarbonization will take a multi-decade commitment and significant resources from governments, corporations, and consumers. The war in Ukraine has intensified the need for this transition to the front burner, leading to investment opportunities that appeared to be further on the horizon just a few years ago. Picking the global winners from the losers will require thoroughly vetting of individual companies that can most efficiently deliver products and services to reduce the world's carbon footprint and allow for increased energy independence.

---

### *rockco.com/RAM*

This information has been prepared by Rockefeller Asset Management, a division of Rockefeller Capital Management and provided solely for informational purposes only and is not a research report. The information and opinions herein should not be construed as a recommendation to buy or sell any securities, to adopt any particular investment strategy, or to constitute accounting, tax, investment or legal advice. The views expressed are those of Rockefeller Asset Management's senior investment professionals as of a particular point in time and are subject to change without notice. The views of Rockefeller Asset Management's senior investment professionals may differ from or conflict with those of other divisions in Rockefeller Capital Management. The information herein does not constitute an offer to sell or a solicitation of an offer to buy interests in any Rockefeller Capital Management investment vehicle or product or service. Although the information and opinions presented herein have been obtained from, or are based on, sources believed to be accurate and reliable, they have not been verified. This material is based on financial, economic, market and other conditions prevailing as of the date of these materials and are subject to change. Forward-looking statements, including those presented here, are inherently uncertain, as future events may differ materially from those contemplated, and past performance is not a guarantee of future performance. Investing involves risk, including risk of loss. No investment strategy can guarantee a profit or avoidance of loss. Although the information provided is carefully reviewed, Rockefeller Capital Management is not responsible for any direct or incidental loss resulting from applying any of the information provided. This material may not be copied, reproduced, or distributed without Rockefeller Capital Management's prior written consent and is not valid without a consultation with a representative of Rockefeller Capital Management.

Any information presented is general in nature and is not intended to provide personal investment advice. The information does not take into account the specific investment objectives, financial situation and particular needs of any specific person who may receive it. Investment decisions should be made based on an investor's individual objectives and circumstances and in consultation with his or her advisors.

Rockefeller Capital Management is the marketing name of Rockefeller Capital Management L.P. and its affiliates. Investment advisory, asset management and fiduciary activities are performed by the following affiliates of Rockefeller Capital Management: Rockefeller & Co. LLC, Rockefeller Trust Company, N.A., The Rockefeller Trust Company (Delaware) and Rockefeller Financial LLC, as the case may be. Rockefeller Asset Management is a division of Rockefeller & Co. LLC, a registered investment adviser with the U.S. Securities and Exchange Commission (SEC). Rockefeller Financial LLC is a broker-dealer and investment adviser dually registered with SEC. Member Financial Industry Regulatory Authority (FINRA); Securities Investor Protection Corporation (SIPC). The registrations and memberships above in no way imply that the SEC has endorsed the entities, products or services discussed herein. Additional information is available upon request.

© 2021 Rockefeller Capital Management. All rights reserved. Does not apply to sourced material. Products and services may be provided by various affiliates of Rockefeller Capital Management.