

# Implications of the Paris Agreement for Stranded Assets in LAC

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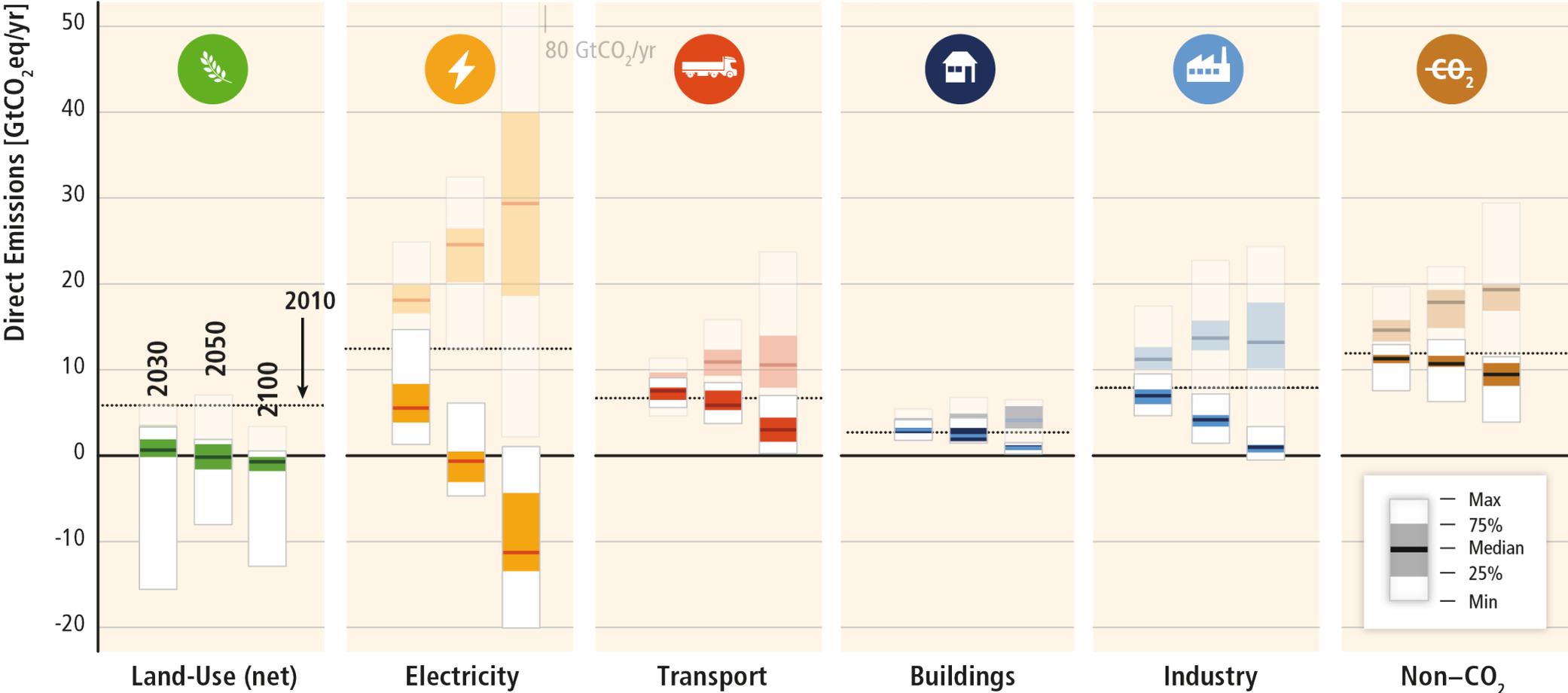
# The Paris Agreement establishes ambitious long-term goals

- ▶ The Paris Agreement brought countries together to submit Nationally Determined Contributions (NDCs) that outline near-term emissions reductions goals.
- ▶ The Agreement also establishes the longer-term goal to pursue efforts to limit the increase in global average temperature to well below 2°C.



# Analyses conducted by the IPCC suggest that achieving the long-term goals would require reductions in GHG emissions

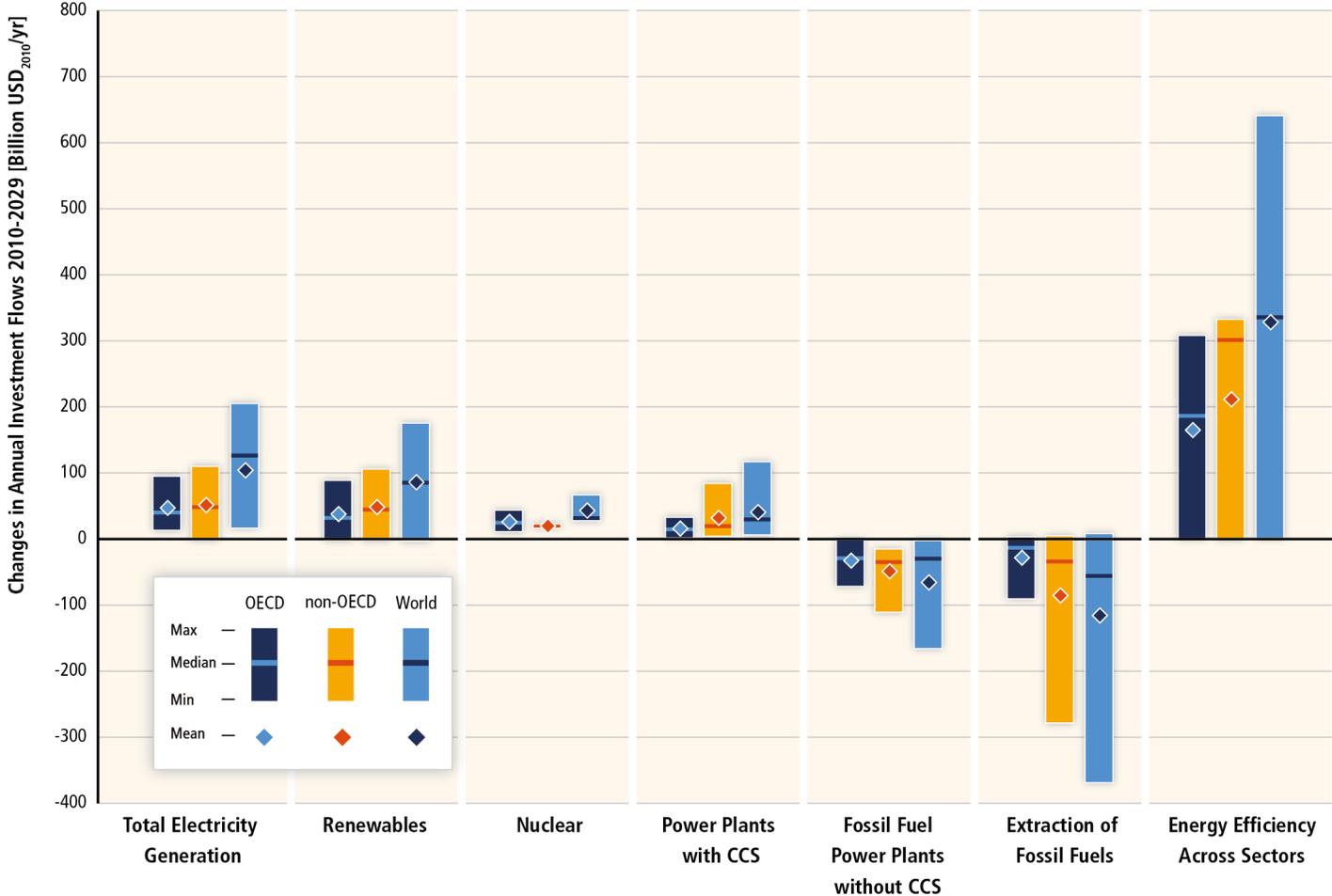
**GHG emissions in mitigation scenarios (dark) compared to emissions in baseline scenarios (light)**



Source: IPCC AR5, WGIII

# Emission reductions entail changes in investment patterns

**Change in average annual investment (2010–2029) in mitigation scenarios relative to baseline scenarios**



Source: IPCC AR5, WGIII

# What are stranded assets?



<https://www.greenbiz.com/article/state-green-business-stranded-assets>

- ▶ Implementing carbon mitigation policies would require a shift of the current methods of energy production from carbon-intensive sources to zero-carbon sources.
  - ▶ This could result in pre-mature write-downs, devaluations, and conversion to liabilities of carbon-intensive assets, referred to as “**stranding**” of assets.
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- ▶ In the context of climate change mitigation, stranded assets could manifest in various forms such as:
    - Pre-mature retirement of carbon-intensive capital
    - Fossil-fuel resources that cannot be burned

# Why are stranded assets important?

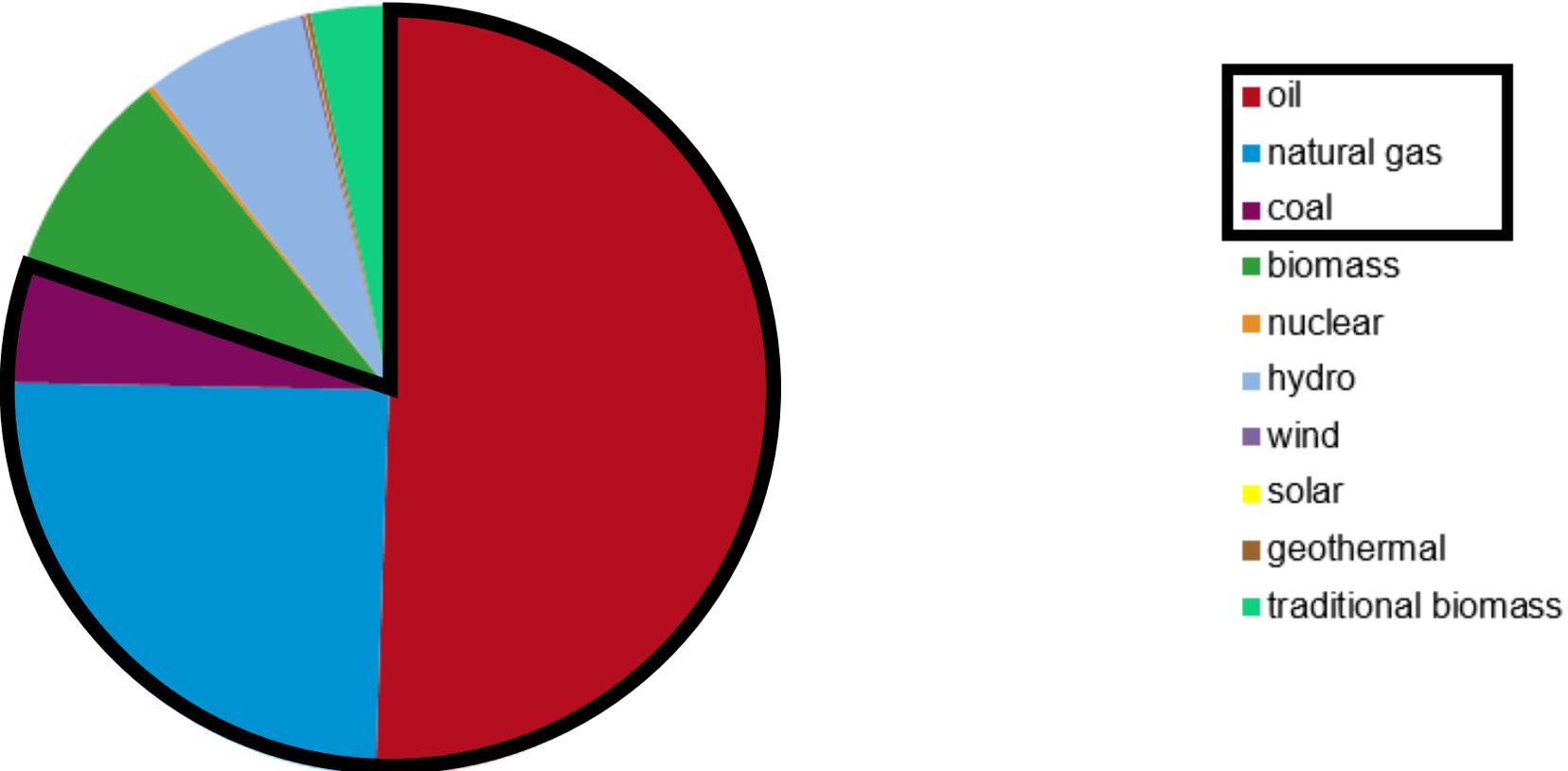
- ▶ Stranded assets could create financial and political threats:
  - **Economic risks:** Financial risks that could arise for parties that have suffered loss and damage from climate change mitigation.
  - **Political economy risks:** Stranded assets create loss of wealth for few and could result in lobbying and rent-seeking behavior.



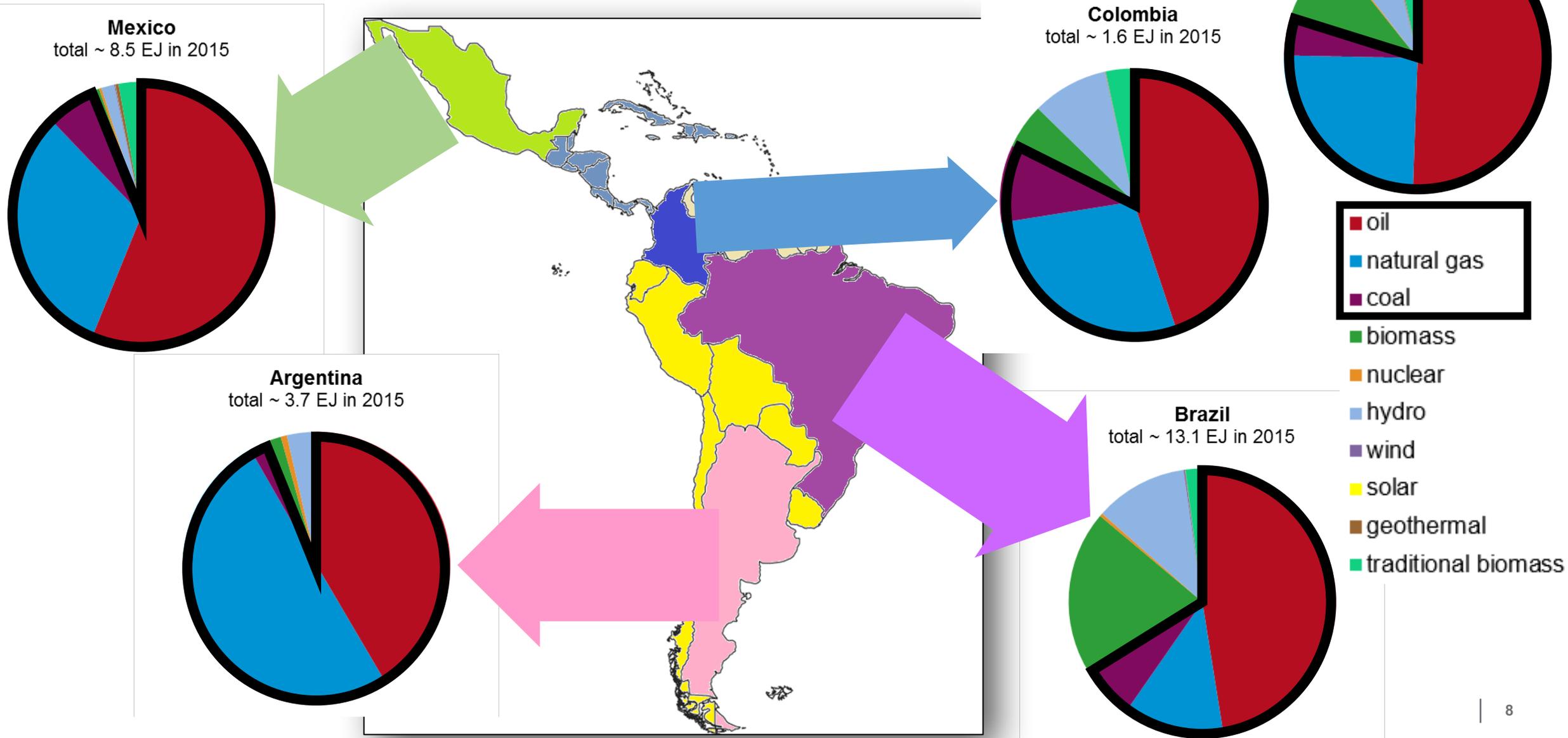
<https://www.reminetwork.com/articles/climate-risk-raises-stranded-asset-potential/>

# LAC's energy mix is dominated by fossil fuels

LAC Primary Energy Consumption  
total ~ 39.7 EJ in 2015



# Primary energy fuel mixes vary by country but are largely dominated by fossil fuels



# In the absence of policies, fossil fuels are expected to dominate future energy system

