

# The Relationship Between Greenflation and Rising Energy Prices

Globally, energy prices are reaching new highs – is this the result of greenflation?

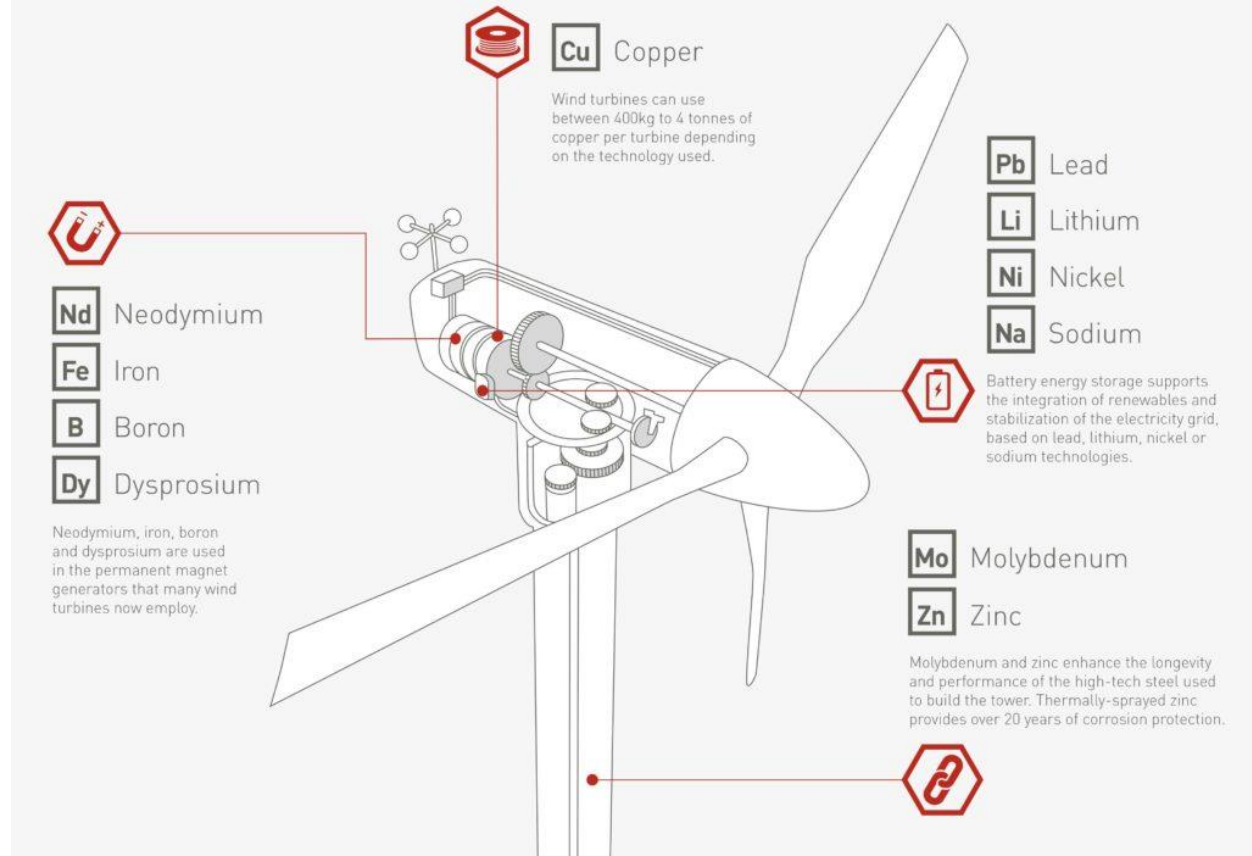
To understand if this constitutes greenflation, it is important to first understand what greenflation is.

Greenflation [is a term](#) used to describe the rising commodity prices associated with going green due to a higher demand for materials caused by the increased production of renewable energy technologies.

A commonly discussed example is the rising cost of [precious metals](#) needed for renewable technologies (i.e., lithium for batteries or copper/zinc for solar panels). Implementing more carbon-neutral regulations and increasing environmental, social, and governance (ESG) practices may contribute to these rising costs.

# PROVIDING EFFICIENT, LOW CARBON ENERGY

ICMM  
International Council  
on Mining & Metals



Source: [International Council on Metals & Mining](#)

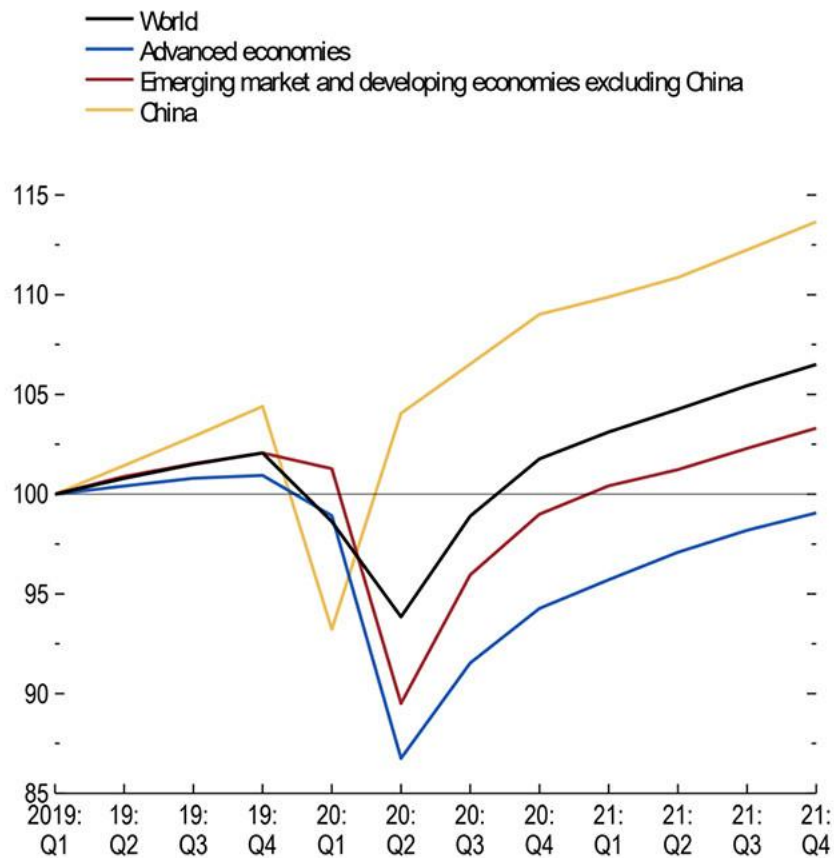
Now the question is - is the current rising cost of producing renewable energy technologies linked with the global rise of energy prices. Gas, coal, and electricity prices have risen to their highest levels in decades.

A combination of factors has caused these increases, but [according to IEA](#), it is [inaccurate and misleading](#) to lay the responsibility at the door of the clean energy transition.

## Global Surge of Energy Prices

After the historic plunge in global energy consumption in the early months of the pandemic, it has since rebounded strongly. This is mainly due to a rapid global economic recovery and backlogged supply chains. In 2022, the global economy was on track for the fastest post-recession growth [in 80 years](#).

## Quarterly World GDP (2019:Q1 = 100)



Source: IMF staff estimates.

Source: [International Monetary Fund](#)

Natural gas prices have seen the largest increase in European and Asian markets. US month-ahead natural gas prices also [tripled by the end of 2021](#) to reach their highest level since 2008. Also, international coal prices are around five times their level a year ago. Furthermore, coal power plants in China and India, the world's two largest coal consumers, had meagre stocks ahead of the winter season in 2021.

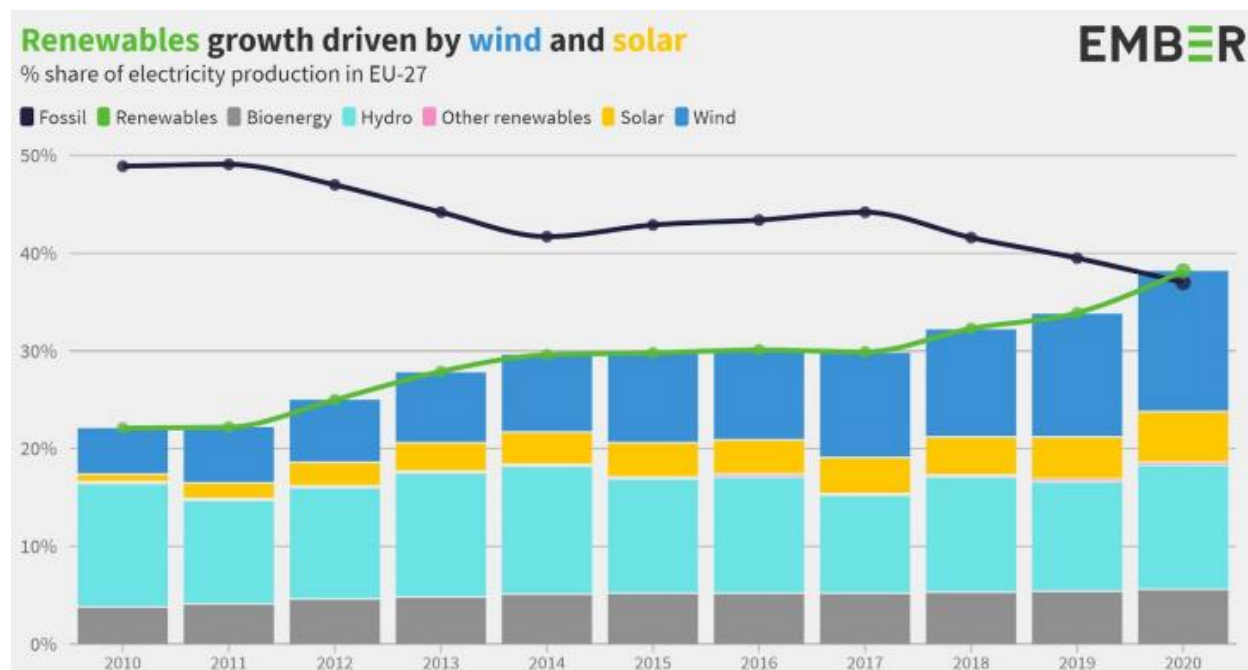
The dramatic increase in natural gas prices has prompted many countries to use coal as an alternative. The increased use of coal is causing an increase in carbon dioxide emissions from electricity generation globally.

The higher gas and coal prices, combined with rising European carbon prices, have resulted in higher electricity prices globally, directly affecting household energy bills and costs of living.

Some people see the energy transition as the culprit for this increase, but the volatility of the gas market is the leading cause for hikes in electricity prices.

## Greenflation: Risk to renewable energy?

While power prices in Europe were steadily increasing, wind & solar were doing a lot of the work contributing to [peak loads](#) in July and September of 2021. The share of fossil fuel output was the lowest since 2016.



Source: [Euractiv](#)

According to the [Executive Director of IEA](#), the blame on renewables is baseless. Instead, the energy transition that will make markets more stable. He further said that if we fail to address the current imbalance in energy investments, the world will continue to face market turbulence and rising energy prices. If the world begins to quickly invest in clean energy (i.e., three times the current amount by 2030), we will be on track for a pathway consistent with limiting global warming to 1.5 degrees Celsius while reducing energy market volatility.

More substantial investments in low-carbon energy will push the world out of the current uncertain energy market. However, this needs to happen quickly. Energy efficiency is a powerful tool for governments, businesses, and consumers to reduce their exposure to fuel market volatility and enhance resilience.

## The Impact of Rising Energy Prices on Asia

Rising gas prices and coal shortages are driving up energy prices in Asia as countries try to recover from the pandemic successfully.

The largest economies, like China and India, have many more tools than smaller markets to facilitate this recovery. Smaller and less developed countries are at risk of falling further into poverty.

Without improving energy security, Asia will likely struggle to increase the standard of living and reach universal rates of electrification. Countries need to [reduce their dependence on fossil fuels](#) to create long-term, successful economic growth.