

2 August 2022

## Climate policies: globally, CO<sub>2</sub> emissions continue to rise

*Dieter Wermuth, Economist and Partner at Wermuth Asset Management*

For a long time, I had been someone who was rather relaxed about the climate. Progress was visible all around, and it seemed only a matter of time that the increase of average temperatures would stop in reaction to declining CO<sub>2</sub> emissions. This looks quite naïve to me now.

Two observations have caused my change of mind. Number one, global emissions continue to grow in spite of all the efforts of green activists and concerned citizens. The annual rate has slowed somewhat over the past decade, but it is still at 0.5%. The catching up of the poorer part of the world – home of 85% of the world's population - with the rich countries of the OECD region is accompanied by a rapid increase of the consumption of fossil fuels. Who can deny poor Indians to buy air conditioners and cars and to live like us? This implies that they are on the road to burn more than four times the amount of coal, oil and gas than today. In the past five years, both India and China have increased their CO<sub>2</sub> emissions by about 14%. For the time being these trends are stronger than the annual reductions in Western Europe, North America and Japan. Global CO<sub>2</sub> emissions will rise further.

### CO<sub>2</sub> emissions in 2021 (top 20 countries)

	total	per capita	change since 2016		total	per capita	change since 2016
	mill. tCO <sub>2</sub>	tCO <sub>2</sub>	%		mill. tCO <sub>2</sub>	tCO <sub>2</sub>	%
China	10,523	7.4	14.0	Canada	527	13.9	-3.7
United States	4,701	14.0	-6.7	South Africa	439	7.4	-7.4
EU27	2,728	6.1	-11.3	Brazil	437	2.0	-0.9
India	2,553	1.8	13.9	Turkey	403	4.8	12.3
Russia	1,581	10.9	4.0	Mexico	374	3.0	-20.3
Japan	1,054	8.4	-11.4	Australia	369	14.3	-8.9
Iran	661	7.5	15.9	United Kingdom	338	5.0	-18.4
Germany	629	7.5	-18.4	Italy	311	5.2	-6.1
South Korea	604	11.6	-4.6	Poland	309	8.1	1.0
Saudi Arabia	575	16.1	-7.0	Taiwan	279	11.7	-0.5
Indonesia	572	2.1	17.3	Total World	33,884	4.3	2.6

source: BP Statistical Review of World Energy, own calculations

©UR

Observation number two is the fact that so much CO<sub>2</sub> has been released into the environment (where most of it still remains) that a further increase of the world's average temperature as well as a climate catastrophe cannot be avoided any longer. About this topic, I recommend reading the newly released book "Hothouse Earth" by Bill McGuire, emeritus professor of University College London. Things will get (much) worse before they get better.

I had also thought that emissions could be reduced by strongly rising taxes and fees. To my surprise, and contrary to the expectations of an economist, there has been in Germany a positive correlation between the price change of imported energy and changes in CO<sub>2</sub> emissions. Means: high prices are not necessarily the save-all I thought they were. There seems to be a strong background factor working in the opposite direction: the ongoing growth of per-capita income and thus of the (conventionally defined) standard of living. Even if flights to Mallorca, or petrol and heating get considerably more expensive, people refuse to buy less of this type of energy-intensive consumption. Demand seems to be very price-inelastic. They may buy fewer books and magazines, reduce their eatings-out or purchases of new sofas, but do not touch these “essentials”.

The fact that CO<sub>2</sub> prices had so little impact on emissions means that they have to rise much more, so much that they really begin to hurt in a rich society like ours – or that the state has to extend, by a lot, regulations concerning fossil fuel consumption. This is already under way, such as the announcement that internal combustion engines and oil-based heating will soon be phased out, or that public buildings must turn down the heat to 19 degrees, or how old and new buildings must be insulated, or that the share of green electricity must be increased at a certain rate. The resistance against even higher energy prices is so strong that the state has begun to introduce subsidies of all kinds to bring them down, at the expense of government budgets. Counter-productively, the policy is to reduce the price of conventional energy and to accept that this leads to an increase of CO<sub>2</sub> emissions.

And finally, the aspect that Germany may be as virtuous as it may in climate matters, the country is simply too small to make a difference in the scheme of things if the rest of the world, especially the poorer countries cannot or will not participate. On its own it cannot prevent the coming climate catastrophe. Its CO<sub>2</sub> emissions last year were 630 million tons, or 1.9% of the world total. For the EU as a whole, the share was a more significant 8.1%. A forward-looking climate policy, in combination with smart development policies, must try to create incentives in poor countries to use fewer fossil fuels and to switch to renewables. This would be money well spent and contribute to the necessary structural change at home.

As the reader will have noticed, this has been a plea for more rapidly rising ECB policy rates and a stronger euro. It's a significantly undervalued currency.

###

**For more information please contact:**

Instinctif Partners // Lars Hofer  
E [lars.hofer@instinctif.com](mailto:lars.hofer@instinctif.com)  
T +49 162 562 8917

Visit us: <https://wermutham.com/>  
Follow us on [Twitter](#) and [LinkedIn](#)

**About Wermuth Asset Management**

Wermuth Asset Management (WAM) is a Family Office which also acts as a BAFIN-regulated investment consultant.

The company specializes in climate impact investments across all asset classes, with a focus on EU “exponential organizations” as defined by Singularity University, i.e., companies which solve a major problem of humanity profitably and can grow exponentially. Through private equity, listed assets, infrastructure and real assets, the company invests through its own funds and third-party funds. WAM adheres to the UN Principles of Responsible Investing (UNPRI) and UN Compact and is a member of the Institutional Investor Group on Climate Change (IIGCC), the Global Impact Investing Network (GIIN) and the Divest-Invest Movement.

Jochen Wermuth founded WAM in 1999. He is a German climate impact investor who served on the steering committee of "Europeans for Divest Invest". As of June 2017, he is also a member of the investment strategy committee for the EUR 24 billion German Sovereign Wealth Fund (KENFO).

### **Legal Disclaimer**

The information contained in this document is for informational purposes only and does not constitute investment advice. The opinions and valuations contained in this document are subject to change and reflect the viewpoint of Wermuth Asset Management in the current economic environment. No liability is assumed for the accuracy and completeness of the information. Past performance is not a reliable indication of current or future developments. The financial instruments mentioned are for illustrative purposes only and should not be construed as a direct offer or investment recommendation or advice. The securities listed have been selected from the universe of securities covered by the portfolio managers to assist the reader in better understanding the issues presented and do not necessarily form part of any portfolio or constitute recommendations by the portfolio managers. There is no guarantee that forecasts will occur.