

## How Market Forces Could Help Fight Climate Change

**The Climate Scorecards 2009 show that G8 countries are not doing enough to fight climate change. Hans-Jörg Naumer, head of Capital Markets Analysis at Allianz Global Investors, explains how market forces could help foot the bill.**



**Hans-Jörg Naumer, Head of Capital Markets Analysis at Allianz Global Investors**

"We economists have said for years that its wrong to make the public pay for negative effects of pollution caused by only a few." (Photo: AGI)

### **At the end of this year, the world climate summit will be hosted in Copenhagen. But many governments seem unwilling to spend more to fight global warming. Does that make sense economically?**

Well, if you think it trough nature is a limited resource as well. Climate change proves that it does matter whether or not our economic activity adds CO2 to our atmosphere. It only has a certain capacity to absorb additional emissions. Nature is scarce and keeps getting scarcer with every new ounce of pollution added.

**The Club of Rome** has made a similar statement 30 years ago. Has anything changed since then?

Yes, people have become more consequential. In recent years, global warming has made it obvious that we are all in the same boat here. And emissions trading has put a price tag on pollution. This mechanism isn't new either. We economists have said for years that its wrong to make the public pay for negative effects of pollution caused by only a few.

Just one example, losses for re-insurance companies caused by extreme weather events have increased dramatically in recent years. Pollution isn't for free anymore. It has a price.



**Animation: G8 Climate Scorecards 2009**

Click on the image to see how each country performed (Animation: Allianz)

### **How will this change impact our economic future?**

I think we will see a radical change in our energy mix. Today, the majority of our energy comes from fossil fuels like coal, oil, or gas. But they will soon have reached their prime.

There are two reasons for this: fear of global warming and a lack of reserves. If you look at current world consumption predictions are that existing reserves of oil will last another 60 years, gas will last about 70 years, and coal another 200 years.

What is even worse: energy consumption is growing at a tremendous rate. In 2003, the German Advisory Council on Global Change estimated that global energy consumption will increase fourfold by 2100.

### **Where is this increase coming from?**

There two reasons: A growing world population – more than 40 percent until 2050 – and globalization. The latter drives economic growth in emerging countries such as India or China; and that means more demand for energy and resources.

I have two figures that illustrate what is still to come. A German citizen consumes on average 1900 litres of oil per year, a Chinese citizen only 320 litres. At one point these two figures will align.

Growing demand makes the use of renewable energy more and more pressing. In 1999, the International Energy Agency already said that we are in the early phases of an inevitable transition towards a sustainable energy mix based on renewables. We have to get used to this – not least as investors.

### **Do you think market forces could help speed up this transition?**

For sure, but then investments in environmental protection and climate change will have to become mainstream in many countries. And there is no reason why something that is good for our climate shouldn't be good for funds and portfolios. We do need a huge amount of capital to get from fossil fuels to renewable energy. This won't work without private investments.

### **So is there anything an individual investor can do?**

You can, for example, invest in companies that develop new sources of renewable energy or technology with

higher energy efficiency. There are funds that have done a great job in this segment. You can also go for companies that specialize in water, another increasingly rare resource, or recycling.

Every investor, whether private or institutional, can do his part. And in the context of the economic crisis there are great opportunities for risk-averse investors.

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