BY Simon Avery

It's now or never

We are living on the edge of an inferno, looking for better investment returns

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'EARTH JUST HAD ITS HOTTEST MONTH EVER,' The Wall Street Journal reported in August. In fact, it's been a year of records – the worst kind.

The past eight years have been the warmest ever recorded, ocean surface temperatures hit a new high last spring, the pace of rising sea levels is the fastest we've known, and the volume of greenhouse gases in the atmosphere continues to scale new heights. The list of noteworthy data points is long, but one in particular stands out: World oil demand is reaching record highs.

This year demand will increase by 2.2 million barrels a day to 102.2 million barrels daily, spurred by air travel, greater use of oil in power generation and surging Chinese petrochemical activity, says the International Energy Agency. Next year will see demand rise by a further million barrels a day, the IEA forecasts. The extra combustion will spew even greater amounts of greenhouse gases into the atmosphere. Last year, carbon dioxide emissions from oil rose 2.5 per cent and overall energy-related emissions grew by 0.9 per cent, reaching a record of more than 36.8 billion tonnes, the IEA reports.

Without green sources of power such as hydro, solar and wind, last year's increase in CO_2 emissions would have been nearly three times as high, the IEA says. The European Union, where the sale of gas and diesel cars has been banned from 2035, is a leading force when it comes to clean energy. Last year, for the first time in the EU, combined electricity generation from wind and solar exceeded that of gas or nuclear, and the bloc's emissions decreased by 2.5 per cent – a trend that continued in the first quarter of this year.

But IEA data show that other regions of the world aren't doing their part. China's emissions were relatively flat through the year (at a time when most of the country was still constrained by Covid-19), but U.S. emissions increased by 0.8 per cent, and developing economies in Asia emitted 4.2 per cent more.

With demand so strong, some major oil and gas companies have reversed course on plans to reduce output. Dividends, not clean energy, are the new focus. In 2012, the industry allocated 90 per cent of its cash for capital expenditures and 10 per cent for dividends and share buybacks. In 2022, the breakdown was 48 per cent for capex, 39 per cent for shareholders, 13 per cent on debt repayments and 1 per cent for investing in low-carbon projects, according to IEA data.

"We still see emissions growing from fossil fuels, hindering efforts to meet the world's climate targets," says Fatih Birol, the executive director of the IEA. "International and national fossil fuel companies are making record revenues and need to take their share of responsibility, in line with their public pledges to meet climate goals. It's critical that they review their strategies to make sure they're aligned with meaningful emissions reductions."

In November, governments meet in Dubai for the COP28 climate talks, likely their last chance to get on track to meet the goals of the 2015 Paris climate agreement. There's a lot of work to be done by all of us. **DJ**

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Based on their spending patterns, major oil companies appear much more interested in paying shareholders than investing in clean energy.