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Mapping Carbon Neutrality from Words to Deeds

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Who would have thought that after 30 years since the UN Convention on Climate Change, the gap between the agreed goals, and delivery on them remains so wide, and that consequently global warming continues unabated?

Except for the decrease in CO^2 emissions in 2020, resulting from the economic crisis of the time, emissions remain essentially the same as those prevailing before the pandemic, reflecting stagnant levels for more than 20 years.

Hitherto the approach has tended to rely on setting targets for carbon emission reductions and pledging resources to achieve them. Governments have focused on top-down regulatory mandates reliant on poorly grounded views of our future, without offering good answers to what needs to be done to reverse past trends.

While such concerns have a valid place in policy and technical debates, caring and protecting the environment must also achieve universal prosperity for all — both objectives are mutually supportive and absolutely indispensable.

Polarizing discussions between emission reductions vs. economic well-being, essentially deflected attention from reconciling both objectives. The focus must shift towards paying attention to the incentives to align interests towards sustainability, efficiency, and emerging societal demands – not as abstract aggregates, but as a way of achieving economic solutions.

If incentives are right and the business is profitable, investments will flow, and carbon mitigation is going to take a hold. Efforts cannot rely exclusively on government pressures – increasing guidelines, clearance of environmental mitigation programs, setting targets, tracking compliance arrangements. On their own, they tend to stray from the interests of producers and consumers alike.

Institutional constraints, costly and time-consuming processes that oftentimes have their share of discretionary powers among regulatory agencies, can easily generate conditions for corruption. For these reasons, having enabling conditions, with appropriate competition aimed at attracting enterprises, will be necessary for serious decarbonization.

Ultimately, energy demand (and CO^2 emissions) will be generated by economic growth. This will take place mainly in countries in their early stages of development, which tend to be energy- and hydrocarbons- intensive, basically to replace human and animal toil for equipment driven by internal combustion engines. Accordingly, attention will have to shift beyond OECD (mainly in Asia), which will constitute the largest share, both in relative and absolute energy growth.

At the same time, we do not have the technical solutions to meet about half of the CO^2 emission goals set for mid-century, particularly to supply the energy requirements of the harder-to-abate sectors, with long replacement cycles. They need power with reserve requirements that renewables cannot provide with their intermittent reliance on solar or wind conditions. Manufacturing, aviation, and heavy-duty transportation, mining, heavy industries are the scaffoldings for worldwide development, which are more difficult to electrify. Investments will have to be upscaled and innovation will be an absolute necessity to develop technologies for such activities through efficient and lower emitting hydrocarbons, hydrogen, carbon capture and offsets.

While such industries tend to concentrate in developed countries, extractive industries in general, and mining in particular, constitute the backbone of a large part of emerging economies. It is this sector that can generate the bulk of foreign exchange, fiscal revenues and surpluses to finance investments for economic development. Moreover, mining (particularly copper), while being both energy and carbon emitting intensive, is as well a key input for renewable power generation. Accordingly, this sector could position countries becoming an integral part of the emerging clean-tech economy and a source of growth in years to come.

In all, while technology and policy (including pricing and or taxes for emissions) will be the key drivers of change, affordable, reliable and ever cleaner energy will continue to be essential to power a growing and sustainable economy. So will be the build-up of new innovation "ecosystems" capable of mobilizing skills for research and investment capabilities, and the necessary contacts for market creation.
All this is largely in its infancy, and thus will require sustainable efforts, involving strong and systematic interaction with the market, and absorbing risks for effective and timely answers. Perforce, this will require a pivotal role of the private sector, which has the skills, capital, and market access necessary for the job.

In this regard, all too often, well intentioned policies can lead to unintended consequences. The proliferation of earmarked funds for renewable energy to accelerate the process has produced a multitude, oftentimes conflicting signals and distortions that required counter-measures to compensate for such distortions. Similarly, "picking winners" has led to choices that oftentimes societies have bulked to accept.

The challenge is thus to generate sustainable development responding to changing societal demands — never forgetting that it is at the kitchen table and the tightening purse strings that are the real drivers shaping ongoing worries. A people-focused approach that responds to concerns on energy security, affordability, and sustainability, will ultimately contribute to lifting people out of poverty.

The author is President of Surinvest Ltda. and member of the Bretton Woods Committee. He was Chairman of the !818 Society Chapter in Chile, Chief Executive and member of several Board and governing bodies of international private and civil society entities. The article draws from his recent book: Carbon Neutrality in Uncertain Territory; Generis Publishing, 2022.

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