

## Press Release

**Global spend of \$9.2 trillion a year will be required for the next 30 years to achieve the net-zero scenario: McKinsey's Rajat Gupta**

**April 8, 2022**

The Centre for Social and Economic Progress (CSEP), New Delhi hosted online on 6 April, 2022, a Flagship Seminar "[From grey to green: Net-zero transition opportunities for India](#)" to discuss the prospects of solving the net-zero equation by 2050 and explored thematic areas such as *How can Indian businesses define an effective net-zero program for the next few years?* And, *What will it take for India as the third-largest emitter of greenhouse gas emissions to get there?*

Setting the context of discussion, **Rajat Gupta**, Senior Partner, McKinsey & Company, India, broadly discussed i.) Economic implication of the net-zero transition globally and in India; ii.) Ideas and implications for industries, particularly Indian industries. Gupta said: "The economic transition to achieve net-zero will be complex and challenging, but India's abundance of low-emission or critical transition resources and geographical position could allow it to become a leader in the transition. Our findings serve as a clear call for a well-considered, urgent, national plan, as an imperative for India to secure an orderly transition to net-zero."

Speaking about COP-26 commitments to limit global temperature rise by the end of the century to 1.5°C, Gupta highlighted the McKinsey Reference Case and said: "On current trajectory, the world will be 90% away from level of carbon emissions needed to get to net zero by 2050. Though the targets taken by countries get closer." The three key blocks for solving the net-zero equation and ensuring a more orderly transition: Physical building blocks; Economic and societal adjustments; Commitment and enabling mechanisms.

Emphasising on *economic and societal adjustments*, Gupta said: "Globally, we will have to spend \$9.2 trillion a year for the next 30 years to achieve the net-zero scenario."

The additional investments needed by developing countries, especially India, for mitigation and adaptation are very large and cannot be met entirely with its current spending. Gupta said: "India has to spend \$600 billion dollars on specific energy and land use related physical assets for the next 30 years. It is two times [of] what we are currently spending."

The implications for Indian companies will involve structural readjustments starting with assessing the value creation implications of the decarbonization trend, set realistic short-term targets, and emphasize on building green business.

### **Political economy challenges**

"Net-zero gives a lot of certainty to [the] decarbonization debate," said **Vaibhav Chaturvedi**, Fellow, Council on Energy, Environment, and Water (CEEW).

Political economy challenges, for example, especially Distribution sector reforms, are needed to be dealt with in order to achieve set net-zero targets. Pricing reforms are very important element for competitiveness of industrial sector.

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“In the absence of these, if electricity continues to be so expensive, neither we will be able to achieve goals of competitiveness and higher share of manufacturing nor we will be able to decarbonize,” added Chaturvedi.

Economic growth and fiscal reforms are essentialities for India to achieve the set net-zero targets agreed upon in COP-26 meeting in Glasgow. Highlighting the potential strategies to achieve net-zero transition and reforms, Chaturvedi emphasized engaging labour unions, engaging citizens, carbon pricing, and macroeconomic transformations are key components.

### **Net-zero problems and transformations**

“Net-Zero doesn't tell you how much you are going to emit; it tells you the date by which it should be zero,” said **Rahul Tongia**, Senior Fellow, CSEP, adding that the cumulative emissions are missing.

Highlighting the problems with offsets, Tongia said “the rich countries aren't taking care of their high cost tail of emissions and they buy or use the carbon space of others at a lower cost, to avoid actually coming down to zero. And so that's a significant problem.”

India needs to start with a sectoral focus as a way forward especially in the power sector, like with high Renewable Energy, said Tongia.

### **Opportunities in industry**

“You are seeing a shift in the industry, particularly in oil and gas, where the US oil and gas companies have not yet moved towards transition while [the] European majors are moving towards transition,” said **Swati DSouza**, Lead Analyst (India) and Coordinator, International Energy Agency (IEA).

Coal transitions are an integral part of net-zero transitions. “When we look at transitions, net zero transitions, we cannot run away from coal transitions,” said DSouza adding that “we have to engage communities, citizens, and unions because there is an entire coal economy that's over-and-beyond the formal sector jobs that are highly dependent on coal.”

The iron and steel industry is one of the biggest energy consumers and emitters. Talking about the employability issues of the people working in iron and steel industry, and the quality of jobs created post a transition, DSouza said, we need to examine profile of the people employed in the iron and steel industry. “Can they be transitioned? If yes, to what sectors can they be transitioned? If we need to think of net-zero transitions, can we think of net-zero transitions from a labour perspective?,” asked DSouza.

A recent report by the Intergovernmental Panel on Climate Change (IPCC) clearly states the existence of close relations between adaptation, mitigation and development pathways.

“Having a development narrative becomes extremely important,” said **Indu K Murthy**, Head of Climate, Environment and Sustainability, CSTEP. This perspective is particularly relevant in India, where efforts are being made towards developmental goals such as providing 24x7 electricity, clean water, good security, etc.

Highlighting the issues with people engagement, Murthy said “when it comes to behavioural changes and getting engagement with the community, one cannot initiate a conversation on getting people to adopt and adapt to these transition goals without meeting the developmental aspirations.”

## **On impact of net-zero emission transition on MSMEs**

**Montek Singh Ahluwalia**, Distinguished Fellow, CSEP, stated that MSMEs would become the recipients of some of the burdens associated with the transition to net-zero emissions. For instance, as we move from internal combustion engines to electric engines, the number of parts associated with engines would come down drastically impacting a huge MSME industry. He opined the transition would phase out a lot of businesses. He observed we can't worry about every single individual, but should plan as best as we can.

Concluding the discussion, **Rakesh Mohan**, President and Distinguished Fellow, CSEP, talked about fiscal impact on the government revenue with the shift in the usage of different fossil fuels. On the financing of Climate Change, Rakesh Mohan said: "6% of GDP incremental on a regular basis for 20 years [or longer] is huge" and will have a large impact on macro issues.

***About CSEP:** The [Centre for Social and Economic Progress](#) (CSEP) conducts in-depth, policy-relevant research and provides evidence-based recommendations to the challenges facing India and the world. It draws on the expertise of its researchers, extensive interactions with policy makers as well as convening power to enhance the impact of research. Our researchers work across domains including, but not limited to, Growth, Finance & Development; Energy, Natural Resources and Sustainability; and Foreign Policy and Security. All our research and policy recommendations are freely available to the public.*

## **For media-related queries, contact:**

Ribhu Ranjan  
Communications Associate  
Email: [rranjan@csep.org](mailto:rranjan@csep.org)  
Contact: 8209752204