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Net Zero and the West's Holiday from History

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The Issue

For nearly two decades, climate issues dominated the West's energy policies. The sole exception thus far has been the United States during the two Trump administrations. Otherwise, that dominance has negatively affected the West's ability to withstand geopolitical competition from China and from China's no-limits partnership with Russia, announced in February 2022 and reaffirmed in 2025.¹ This shift from prior energy realism to climate policy dominance can be dated with some precision: At the 2006 Group of Eight (G8) summit in St. Petersburg, Russia, leaders agreed on an action plan that called for higher oil output and investment. At issue now is whether—and to what extent—security issues will be restored to greater precedence.

The Reality

"Energy is essential to improving the quality of life and opportunities in developed and developing nations," reads the first sentence of the action plan adopted by Western leaders at the 2006 G8 summit.² The plan affirmed the centrality of fossil fuels in meeting future energy needs. By 2030, energy demand would rise by "more than 50% . . . approximately 80% of which would still be met by fossil fuels" and require "trillions of U.S. dollars in investment through the entire energy chain."³ By contrast, climate change then was an afterthought mentioned in the plan's final section.

The context of the St. Petersburg energy action plan was the rapid reversal of two decades of falling oil prices in the first years of the new century. Beyond the damage to economic growth, finance ministers and central bankers were concerned about growing global financial imbalances that had been exacerbated by rising oil prices. According to the dissenting statement in the 2009 report on the financial crisis, "starting in the late 1990s, China, other large developing countries, and the big oil-producing nations built up large capital surpluses. . . . A credit bubble formed in the United States and Europe, the most notable manifestation of which was increased investment in high-risk mortgages."⁴

The G8's call for a massive expansion of oil output did happen—not as the result of anything those governments did but rather through the innovation undertaken by oil and gas sector entrepreneurs at a capital cost in the low trillions of dollars. The period between 2004 and 2015 showed the fastest and largest increase in global energy supply ever recorded.⁵ The only previous time something nearly as dramatic had occurred was in the decade following the 1951 opening of Saudi Arabia's giant Ghawar oil field. Shale surpassed Ghawar's growth by more than 50% and in a shorter time frame. In 10 years, U.S. shale fields increased production by more than the entire oil and gas output of Saudi Arabia.⁶



Monetary Policy: The Only Game in Town

Beyond the direct economic scarring of the near collapse of the financial system, the financial crisis had a profound impact on what French historians call the *mentalité*—the mindset—of Western elites. Monetary policy became the only game in town. In the New Keynesian model of the economy advanced by Ben S. Bernanke, former chair of the Federal Reserve, central bankers displaced entrepreneurs as the principal actors in the economic process. Unconventional monetary policy was intended to return economies to health. The almost total disappearance of the entrepreneur from this vision of the economy is evident in Bernanke's memoir, which relegated the shale revolution—far and away the most important supply-side innovation of the period—to a single sentence eight paragraphs from the end.⁷

Ultralow interest rates and repeated rounds of quantitative easing impaired the ability of capital markets to price risk and allocate capital. These conditions turned Wall Street, in the words of NCEA senior fellow Paul H. Tice, into “Fed jockeys” who were “endlessly deciphering the latest Fed-speak like latter-day Kremlinologists.”⁸ The growth in popularity of index funds widened the divergence between the economic interests of companies and their shareholders. Monetary policy dominance enabled the big three index-fund providers—BlackRock, State Street, and Vanguard—to pursue their own political agendas with little negative feedback on index values; meanwhile, environmental, social, and governance (ESG) investing became a tool to throttle investment by oil and gas companies.

Postcrash Climate Policy Dominance

The distance the West traveled from the energy realism of St. Petersburg is evident in the statements that emanated from the 2009 G8 summit in L'Aquila, Italy, which was not only the first G8 summit after the financial crisis but also the first attended by President Barack Obama. The G8 leaders declared that the response to the economic crisis should “tackle the interlinked challenges of the economic crisis, poverty, and climate change” and “facilitate a global green recovery.”⁹

Climate change was not a causal factor in the financial crisis, and climate-change policies tend to be regressive because energy constitutes a higher proportion of the budgets of lower-income households. Climate policy had become a form of therapy in response to the trauma of the financial crisis; later in 2009, the 15th Conference of the Parties (COP15) to the United Nations Framework Convention on Climate Change convened in Copenhagen amid hopes that it might deliver planetary salvation in the form of a treaty with binding emissions targets.

Following its L'Aquila meeting, the Major Economies Forum on Energy and Climate—a group that was launched in 2009 at Obama's initiative and included major carbon dioxide emitters from the Global South¹⁰—released a statement. Leaders called for global and national emissions to peak “as soon as possible” and pledged to “spare no effort to reach agreement in Copenhagen.”¹¹ The pledge was nullified by the demand of the Global South that the “extraordinary global response” to the danger of climate change “should respect the priority of economic and social development of developing countries.”¹² The attempt to agree on a global climate treaty at Copenhagen duly flopped, felled by a veto from the Global South that was led by China, India, South Africa, and Brazil.¹³

Copenhagen left the West with a choice: It could heed the message from the Global South that there would be no agreement to cut global emissions, or it could navigate around the Global South's refusal to be bound by mandatory emissions caps. The West chose the latter.

For the Obama administration's energy and climate aspirations, the two obstacles were China and the United States Senate. Todd Stern, who was the U.S. special envoy for climate change, devised an ingenious solution to both. Rather than top-down emissions targets negotiated multilaterally, countries would develop their own targets in a process of synchronized unilateralism. After Obama's reelection in 2012, the administration formed a climate G2 with China, which opened the path to the Paris Agreement in 2015.

Net Zero and the Paris Agreement

Beginning shortly before the Copenhagen climate conference, the Alliance of Small Island States advocated for a target of limiting global warming to 1.5 degrees Celsius above preindustrial levels and argued that higher temperatures could cause their nations to disappear beneath rising seas.¹⁴ While Stern can claim credit as the lead designer of the structure and mechanics of the Paris Agreement, its content—in particular, what came to be known to the world as *net zero*—was the product of intense activity by small island states working closely with green nongovernmental organizations (NGOs).¹⁵ The practical outcome of the Paris Agreement was to put the West on a legal hook to make ever-steeper emissions reductions—that is, to enact far more aggressive “energy transition” policies—whereas the Global South was exempt.

Net zero by 2050 was the brainchild of Farhana Yamin, a British lawyer who had been working with small island states since 1995. Yamin recalled that when she first briefed Stern on net zero, he laughed and told her she was crazy.¹⁶ No Western country embarked on the post-Copenhagen climate process expecting to end up with net zero. That Western countries did is testament to the power, networking, funding, and political skill of green NGOs.

The Paris Agreement called for achieving in the second half of the century a balance between anthropogenic carbon sources and natural systems that absorb carbon. But the Intergovernmental Panel on Climate Change (IPCC) concluded in its special report *Global Warming of 1.5°C*—which had been requested by the 21st Conference of the Parties (COP21) in Paris, thanks, noted Stern, to “the wise handiwork of the small islands”—that the 1.5 degrees Celsius target required a much earlier timeline.¹⁷ At an early scoping meeting, the IPCC decided that the report should “better link climate change with other environmental and social issues such as poverty, health and inequality.”¹⁸ The report reflected this framing. As the IPCC stated, “embedded in the goal of limiting warming to 1.5°C is the opportunity for intentional societal transformation.”¹⁹

Perspective

Before the financial crisis, Western leaders recognized the close link between energy and geopolitics. Since then, President Donald J. Trump has been the only Western leader to highlight the critical role of fossil fuels for national security and thus the downsides of climate-driven energy policy. He instead articulated a doctrine of “energy dominance.”²⁰ The December 2017 national security strategy report inverted the existing consensus that climate change constituted a national security threat: “U.S. leadership is indispensable to countering an anti-growth energy agenda that is detrimental to U.S. economic and energy security interests.”²¹

Peak ESG and net zero coincided with a brutal return of geopolitics. The main purpose of the 26th Conference of the Parties (COP26) in Glasgow, held in November 2021, was to enforce net zero on capital flows and thereby restrict investment in oil and gas companies.²² At that very moment, Europe was in the early stages of the most severe energy crisis in four decades—one caused by European governments’ lifting of pandemic restrictions and Russia’s weakening of the continent ahead of its invasion of Ukraine, as it restricted its supplies of natural gas to noncontracted volumes despite rising spot prices.²³

European natural gas prices traded just below \$20 per megawatt-hour (MWh) for the first three months of 2021, breached \$100 per MWh at the end of that September, fell back to \$75 per MWh a month later, and then peaked at over \$150 per MWh in the second week of December.²⁴ (For comparison, the U.S. Henry Hub natural gas spot price started 2021 at about \$9 per MWh and ended at \$13 per MWh.)²⁵ Then, in 2022, financial markets discredited the ESG claim of “doing well by doing good.” The energy sector rose 59% to be the S&P 500’s best-performing sector while BlackRock’s iShares ESG Select Screened S&P 500 ETF lost 21.9% of its value.²⁶

The 2024 presidential election ended the U.S. commitment to net zero, perhaps definitively. If there is to be an artificial-intelligence revolution, it will be powered mainly by fossil fuels. The U.S. has now withdrawn from the



Paris Agreement a second time, and a January 2026 presidential memorandum declared that it is contrary to U.S. interests for it to remain a party to the 1992 UN Framework Convention on Climate Change and to continue supporting the IPCC.²⁷

By contrast, the EU and the U.K. continue to be legally committed to net zero—whatever the cost to their economies and their national security. The Trump administration has asserted that America's European allies must shoulder more of the burden of their continent's defense. It is not possible for the Europeans to meet those defense commitments while also pursuing net-zero energy policies. The U.S. national security strategy issued in 2017 articulated the view that climate policy threatened its national interests.²⁸ Net zero—the most extreme form of climate policy yet devised—prevents Europe's economies from growing and generating the resources Europe needs to defend itself. For the West's security, this is a message that Europe needs to heed.

Notes

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