Profits over planet? Experts eye companies at crucial moment for climate change fight

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June 1 marked the start of another perilous hurricane season in the eastern United States.

Many communities are still recovering from last year, which saw 21 named tropical storms, the third most of all time. Led by Hurricane Ida, they caused destruction from southern Louisiana, where officials in Houma are racing to repair schools for opening this fall, to southeast Pennsylvania, where counties are coping with a surging homeless population after residents were economically devastated.

The storms contributed to $152 billion in natural disaster damages in 2021, third highest in history. Scientists predict 2022 will be a record-setting seventh consecutive year with above-average tropical storm activity, as climate change and poor development choices supercharge storms and the cost of their destruction.

But within the gathering clouds, for some there lies a silver lining: profit.

Elsewhere on June 1, employees of ProcureAM, a small, Pennsylvania-based investment company, were ringing the opening bell of the Nasdaq Stock Market. The company was celebrating its launch of "FEMA," an exchange-traded fund that bundles stocks of companies that profit when disaster strikes, such as Home Depot, government consultancy firms, and backup generator manufacturers.

Wearing a bright orange, mock emergency response helmet, CEO Andrew Chanin noted the federal government predicts it could face nearly $2 trillion in annual costs due to natural disasters by the end of the century.

"We're thrilled to finally be celebrating this day today," Chanin said. "FEMA is an idea we're very excited to bring to market."

Although the fund's current $578,000 investment is just a minnow in the country's $23 trillion economy, experts who study the intersection of climate change and finance say it comes during an important inflection point. A recent U.S. Supreme Court decision largely handcuffed regulatory action to reduce the country's greenhouse gas emissions. And although a landmark climate bill is potentially poised to pass the Senate, it still falls short of meeting the nation's reduction goals.

The question now: Can America's investors and companies work to help protect the planet? Or will they simply watch it burn, so long as profit prevails?

"This raises some profound questions about the structure of our markets," said Carolyn Kousky, executive director of the University of Pennsylvania's Wharton Risk Center. "How do we change some fundamental structures to align financial incentives with the needs of our global society as we face these rapidly escalating global threats?"

Some hold little faith markets will do the right thing, at least on their own.

Naomi Yoder, a scientist with Healthy Gulf, a New Orleans-based environmental nonprofit that often butts heads with oil and gas companies, said she has "close to zero" trust the private sector will adjust business models to significantly address climate change. While she knows some companies say they are taking the problem seriously, she said they also continue to invest in fossil fuel development.

"What I see happening is corporations propping themselves up on what I could call false solutions," Yoder said.

Others believe companies could be the drivers of solutions. In a statement to U.S. TODAY, Chanin said the FEMA fund invests in companies that support people hit by disasters, such as Generac, a manufacturer of backup generators that he said were "essential in helping homeowners in Texas maintain power" during a historic freeze that took the lives of hundreds last year.

"If no one invested in these companies, their ability to raise capital, take on loans, hire more employees and build out more inventory of these critical goods and services wouldn't exist," Chanin said.

The American Petroleum Institute, an oil and gas trade group, noted that the rapid rise in the use of fracked natural gas since 2005 drove down energy sector emissions in the U.S. as it displaced coal. Frank Macchiarola, an API senior vice president, said exporting the gas to other countries that still rely on coal can further drive down global emissions. He also said the industry is working to reduce its own emissions while investing in "lower and zero carbon" technologies.

Experts note a wide range of American businesses similarly claim they're doing their part to address climate change. Pushed by employees, investors, and public opinion, companies ranging from Amazon to JPMorgan Chase to asset management behemoth BlackRock have all committed to plans to reduce carbon emissions in line with international climate goals.

As recently as two years ago, no asset management companies with significant holdings in the stock market had committed to zeroing out fossil fuel emissions, said Mindy Lubber, CEO of Ceres, a Boston-based sustainability nonprofit. Now she counts 274, a "metamorphosis" among large companies.

But verifying such promises isn't easy, Lubber adds. There are few agreed-upon ways to analyze a company's full carbon footprint, especially for those whose products primarily produce "downstream emissions" once in the hands of consumers, such as gasoline.

"They're making commitments," Lubber said. "Now [we need] to ground truth. What are the metrics, what are the accountability systems, and are they completely transparent?"

And many experts argue that even if companies are sincere, there's simply no way around government involvement to ensure adequate emissions reductions are met.

A half century after Nobel Prize-winning economist Milton Friedman wrote that "The social responsibility of business is to increase its profits," economists are taking a fresh look at how to balance free enterprise with social good, Kousky said.

"We need very strong government action," Kousky said. "How do we put in place some guardrails that protect people, but also allow for enough movement that companies can try to make money?"

How do companies decide what to do?

While short-term profits drive many decisions at publicly traded companies, industry observers say they are also sensitive to internal and external pressures, especially when their reputation is on the line.

When Lubber talks to corporate leaders about environmental stewardship, they often ask what their competitors are doing, she said. They also pay attention to public lists that celebrate—or shame—companies based on their actions.

"They're very competitive," Lubber said. "They don't want to see their names in the bottom quartile of rankings."

She sees evidence that U.S. companies are taking their environmental commitments seriously as they poach staff from nonprofits such as Ceres to help internally measure their progress at reducing their environmental footprints.

"They're ripping away our nonprofit staff, because we have some of the best thinkers," Lubber said.

After serving as a board member of environmental nonprofits Sierra Club and Greenpeace, Adam Werbach launched a start-up in 1998 to help Fortune 500 companies audit their carbon footprint and create climate programs. Amazon hired him in 2020 as "global lead of sustainable shopping."

Speaking on a Boston Globe panel earlier this year, Werbach said Amazon has made significant climate commitments, such as identifying 300,000 sustainable products to promote to customers and signal demand to suppliers. The company has also committed to purchasing 100,000 electric trucks, pledged to meet 2050 international climate goals a decade early, and is investing $2 billion as part of a drive to "recruit" 300 other companies to join it.

Werbach acknowledged some are skeptical of the company's actions but said the efforts are in response to customer demand.

"This is what Amazon will have to do to be a business that thrives in the next century," Werbach said.

Employees themselves have a large and growing influence over decisions being made by corporate leadership, said George Serafeim, a professor of business administration at Harvard Business School. More and more, talented young employees are putting ethical considerations ahead of financial objectives as they consider job offers. That forces employers to take their concerns seriously in order to avoid costly turnover and vacancy.

"Employees are a major force," Serafeim said. "They're pushing leadership ... to actually reduce negative environmental impacts and also start providing solutions in products and services."

Public pressure can also work, said Yoder, with the Gulf Coast nonprofit. While environmental groups can tie up projects like pipelines and factories through bureaucratic or legal action, she believes if enough people oppose a project, corporate and political leaders might back away to save face.

"When people get angry enough ... corporations are very susceptible," Yoder said. "Even if not through litigation, or regulation, there's still the court of public opinion."

Profits over planet?

Yet public opinion is often no match for boardroom profits. And fossil fuel companies—among those mostly closely tied to the growing climate crisis—are still lucrative.

In this year's first financial quarter, profits for Exxon Mobil, Shell and other oil and gas companies rose by billions, despite significant costs of exiting operations and investments in Russia amid war in Ukraine.

"They are the gatekeepers of oil reserves on this planet that are finite," said Jackie Fielder, a spokesperson for Stop the Money Pipeline, a coalition of 200 organizations with a shared goal of cutting private and public investment in companies whose activities exacerbate climate change.

"How much money can they make [when society is] suddenly able to get our energy from the sun?"

It's not just the fossil fuel companies that benefit from their profits. Recent research led by the University of Waterloo in Canada showed how important large investment firms are in fueling the climate crisis. The study found that just 10 institutions fund about 50% of greenhouse emissions from the world's largest energy firms.

Six of them are American investment firms: BlackRock, Vanguard, State Street, Dimensional Fund Advisors, Fidelity, and Capital Group. The four others are funds associated with the governments of India, Saudi Arabia, and Norway.

Lead author and Waterloo researcher Truzaar Dordi said those firms and their investors have the potential to push energy companies in the transition to renewables, pointing to a recent commitment by the largest U.S. banks to take some form of action on climate change in the coming decades as a positive sign.

"If they're serious, capital markets can enable a low-carbon transition within the top coal, oil and gas reserve owners in the world," Dordi said. "Recent pledges to reduce carbon exposure in investment portfolios and engagement with the fossil fuel industry indicate we may already be moving in that direction."

But Fielder isn't confident the companies are moving swiftly enough. Her organization pushed shareholder resolutions at the top U.S. banks this year, which would have committed them to making no new investments in fossil fuel energy development. The resolutions failed, averaging about 11% of the votes. BlackRock, facing pushback from conservative states with large pension funds like Texas, has also continued to express support for the oil and gas industry and waved off calls for no new development.

Too little, too slow?

Meanwhile, time is running out to meet international goals to ward off the worst projections of climate change.

In a 2021 report, International Energy Association, an intergovernmental agency based in Paris, said that there should be no new coal, oil, or gas field developments in order to meet international climate targets of limiting global warming to 2.7 degrees Fahrenheit.

"The number of countries announcing pledges to achieve net zero emissions over the coming decades continues to grow," the IEA report notes. "But the pledges by governments to date—even if fully achieved—fall well short of what is required."

Governments can moderate the system by creating incentives or penalties that account for the damages of climate. Many economists argue for a carbon tax, which incentivizes companies to reduce emissions by putting a price on polluting the atmosphere. Canada, China, Japan, the European Union, and the United Kingdom have some form of carbon tax.

The U.S. does not. After efforts to put a price on carbon failed in Congress in 2010, the Obama administration instead created a federal Clean Power Plan, which sought to transition the nation's energy sources from coal and gas to renewables through regulation. But the effort was waylaid by the Trump administration and ultimately struck down by the Supreme Court.

Experts say the current administration still has options, and Biden recently suggested he may declare a climate emergency, which would unlock executive powers to fight climate change.

For the financial sector, the Securities and Exchange Commission has proposed a rule to require companies to disclose their carbon emissions and climate-related business risks. If implemented, that could expose polluting companies to public outrage or scare off investors.

The SEC is also eyeing potential rules on so-called "ESG" investing. Short for environmental, social, and governance, the designation purportedly allows investors to put their money with companies with responsible environmental and business practices.

But critics ranging from environmental groups to Elon Musk say criteria are too often ill-defined or inaccurate, leading to accusations that it allows companies to "greenwash" their image while still harming the environment. The SEC says it is also considering rules to assist with transparency.

Cities and states also have power to fashion climate policies.

For example, Pennsylvania this year became the latest state to enter the Regional Greenhouse Gas Initiative, joining 11 other Northeast states in an agreement that caps carbon emissions from power plants. More than 100 U.S. cities have also pledged to reach net zero emissions in the coming decades, and Steven Schooner, a law professor at George Washington University, notes that U.S. cities and states have more purchasing power than the federal government

Serafeim, with Harvard, added that enables cities to help drive a renewable energy transition by providing a dependable market for sustainable suppliers and achieving economies of scale.

"There is a tremendous role for local governments," Serafeim said. "You can imagine how municipalities can actually accelerate the transition to lower carbon alternatives through their procurement choices."

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