

How environmental, social and governance (ESG) investing controversies can impact fossil fuels

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Credit: AI-generated image ([disclaimer](#))

The past few years have witnessed a surge in the popularity and momentum of environmental, social and governance (ESG) investing—a form of responsible investing that aligns financial returns with positive environmental and social ones.

Institutional investors and asset managers have been viewing ESG investing as a means to mitigate investment risks and increase long-term returns. The basic premise is that [industries that effectively manage their environment, social and government-related risks will be less susceptible to changes in regulations or societal expectations](#). This will improve their performance over the long term.

In recent months, however, numerous news articles have highlighted the growing tensions and conflicts surrounding ESG investing. In February, [Florida Gov. Ron DeSantis pushed legislation to further restrict state investments involving ESG](#). Meanwhile, [many ESG opponents have targeted BlackRock](#), the world's largest funds manager and most prominent provider of ESG products and services.

ESG has received criticism from both ends of the ideological spectrum. Right-wing forces regard [ESG as politically charged governance that advances "woke capitalism" led by corporations](#). In contrast, the left has expressed skepticism regarding ESG's claims, arguing that its business- and market-friendly approaches to equity and sustainability are antithetical to the interests of the working class.

How can we make sense of the public debates surrounding ESG investing? As a scholar researching [how issues like decarbonization are contested in the public sphere](#), I find these debates indicative of the growing polarization in the fossil fuel sector.

The politics of ESG investing

A closer look at the rising anti-ESG sentiment in the United States shows that attacks on environmental, social and governance investing are based on cultural, rather than economic grounds.

As noted in [a Wall Street Journal analysis](#), the main goal of conservative

activists is to turn the anti-ESG movement into "a rallying cry against woke capitalism, much the way critical race theory became shorthand for broader criticisms about how race is taught in schools."

Meanwhile, the conservatives' attacks on ESG investing call for anti-ESG legislation. This contradicts their belief that governments should not determine how capital is allocated and investment decisions are made.

The costs of making ESG investing a [political issue](#) are glaring. According to [an analysis conducted by scholars at the Wharton School](#), a Texas law, prohibiting municipalities from doing business with banks that have ESG policies against fossil fuels and firearms, came at a price. This was because its issuers incurred \$300 to \$500 million in additional interest on the \$31.8 billion borrowed in the eight months following the law's enactment.

As exemplified by the Texas case, one of the main causes of rising anti-ESG sentiment among conservatives is the increasingly apparent existential crisis of the fossil fuel industry.

In May 2021, [a landmark shareholder vote at ExxonMobil resulted in the ouster of three board members by Engine No. 1](#)—a small activist hedge fund pushing the oil giant to adopt a more aggressive climate strategy and reduce its carbon footprint.

Around the same time, [Shell was mandated to cut its greenhouse gas emissions by 45 percent between 2019 and 2030 by a Dutch court](#) in response to a lawsuit brought by [environmental groups](#) and activists. Such events raise serious questions about the future profitability and sustainability of carbon-intensive businesses.

Divergent views on ESG investing

The political disagreement over ESG investing can also be viewed as an ideological conflict over [the role of capitalism in addressing societal problems like inequality and climate change](#).

This conflict encompasses three main ideas.

First, [those advocating for ESG investing believe capitalism can be reformed and redirected to serve the common good](#) by incorporating environmental and social criteria into financial decision-making and creating positive change incentives.

Second, [conservative opponents of ESG are dismissive of ESG investing's promotion of what they consider to be liberal causes](#).

Thirdly, progressive opponents of ESG accuse ESG investing of being a form of greenwashing—the deceptive practice of making a company or product appear to be more environmentally friendly than it actually is.

Independent assessments of ESG performance

ESG investing is still mired in controversy, and many believe [it will play a significant role in the presidential election in the U.S. next year](#).

What are the implications of the controversy for Canada? Briefly speaking, while many Canadian corporations have expressed positive attitudes toward ESG, it is concerning that [public narratives regarding the fate of bitumen have become increasingly polarized](#), which parallels the politicization of ESG investing in the U.S.

The public opinion on the profitability of the bitumen industry in comparison to the subsidies it receives from provincial and federal governments is [becoming increasingly divergent](#). This has significant

implications for the future of the bitumen industry and its relationship with the government. If the perception that the industry is not paying its fair share persists, political pressure to reduce or eliminate existing subsidies will rise.

We urgently require comprehensive and independent assessments of the compatibility of the Canadian fossil fuel industry with ESG criteria. This will allow us to make informed decisions about how Canada's fossil fuel industry aligns with the global transition to a low-carbon economy in the future. By taking a proactive approach to ESG, we can create a more sustainable and equitable future for all.

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