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Recognizing the counterproductive nature of 'sustainable investing'

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One of the most interesting sessions I attended at the IADC World Drilling Conference this year was a panel focusing on how the industry should finance its decarbonization initiatives (click here for our report). On the one hand, companies understand the needs of the energy transition and are seeking ways to reduce the carbon footprint of drilling and rig operations. On the other hand, change comes at a cost, so who will pay for that cost?

While the panel looked more inward at whether operators or drilling contractors should shoulder the financing, there is also a broader perspective to the question, as we know that there is a general trend of investors and banks turning away from the oil and gas industry.

But is shunning oil and gas actually a good sustainability strategy? Not according to a recent report from two economics/finance experts from Yale and Boston College. In fact, they say that the so-called sustainable investing, which tends to direct capital away from industries like oil and gas, is counterproductive.

The focus of sustainable investing is often to build a portfolio of low-emissions "green" firms – like insurance or financial services companies, for example. At the same time, investments in so-called "brown" firms, or those with higher emissions profiles, get discarded.

But those "green" firms likely had little to no emissions simply due to the nature of their business, the authors pointed out, and further investment in them is unlikely to yield innovations that will drive impactful, long-term emissions reductions. They "have little scope for further improvement in their impact," the report said.

And for "brown" firms that are starved of cheap capital, there is less incentive to make changes to their operations or methods of production. "Brown firms have approximately 260 times as much environmental impact as similarly sized green firms, and have substantially greater scope for change," according to the report.

'No form of energy is truly renewable'

Another interesting perspective on the energy transition was delivered recently by Scott Tinker, Director at UT Austin's Bureau of Economic Geology. "No form of energy is truly renewable, as we have to either mine for it or dump the waste – such as used batteries and wind turbines – back into the ground," he said at the 2023 AIEN International Energy Summit.

Moreover, the energy transition is not about switching from current sources of energy to new sources of energy. "We're just adding energy to meet demand and trying to lower emissions," he said.

Dr Tinker also highlighted how quickly nations can change their priorities when it comes to the energy trilemma.

"Energy security underpins economic security, which in turns lets you invest in the environment and obtain climate security. If you start by focusing on low emissions, you will not get energy that is affordable or reliable. You need to focus on the 'radical middle' of this particular triangle," he said.

World events like the signing of the Paris Agreement at COP21, the COVID-19 pandemic and the war in Ukraine have all influenced where that middle ground moved to, pushing and pulling on people's attention among energy security, economic security and climate security.

"Energy and economy are intertwined," he said. "60% of the world's population live with some sort of energy poverty. The emerging economies are desperate for affordable energy. Energy won't end poverty, but we can't end poverty without energy." **DC**

Click here to access "Counterproductive Sustainable Investing: The Impact Elasticity of Brown and Green Firms."