

COLLECTED ESSAYS

ESG: MYTHS and REALITIES

The Fallacies Undermining Energy Security

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The Fallacies Undermining Energy Security

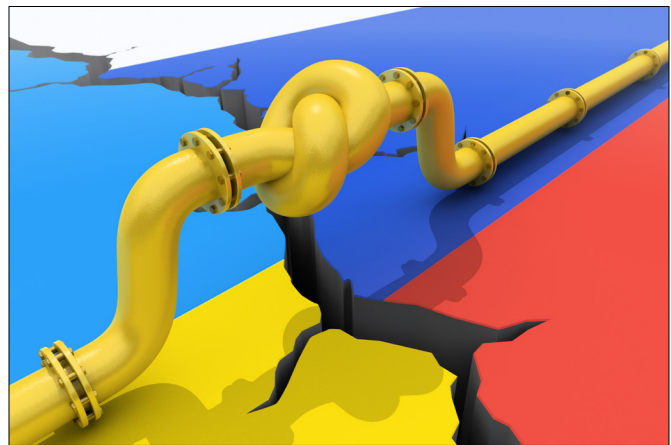
Derek Burney

Russia's invasion of Ukraine is not only causing grievous harm to the Ukrainian people but is also triggering the need for a sensible recalibration of energy policy, especially by western democracies that are manifestly obsessed with climate change.

Canada and the United States should both hit the pause button on climate orthodoxy so they can unleash their extensive oil and gas resources to help staunch inflation, bolster growth at home, and seek to displace Russia as the key supplier to Europe and other markets. The wrong climate policy at the wrong time gave Russian President Vladimir Putin an undeserved financial bonus (in the form of higher oil and natural gas prices) enabling his brutal assault on his neighbour. Oil and gas are vital to our mutual security and our energy advantages should not be frittered away to geopolitical adversaries or sacrificed to illusory climate change prophecies. Geopolitical realism and energy realism go hand in hand.

Our two countries should adopt a common strategy. Canada cannot act unilaterally on climate change oblivious to what the United States, our largest trading partner, is doing. A carbon tax is not part of President Joe Biden's plan for America. When combined with subsidies for exclusively American-made electric vehicles, Canada's competitiveness would face a double whammy.

President Biden has been forced by rampant inflation and the war in Ukraine to prioritize energy security at least partially, unleashing record amounts of crude oil from strategic reserves, urging drillers to pump harder to meet demand and lifting sanctions on Venezuelan oil while ignoring supply opportunities from Canada. His climate change policies are stymied in Congress.



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Canada has made no moves to strengthen energy security. Instead, it has doubled down on climate change, increasing the carbon tax and announcing a \$9.1-billion plan to reduce carbon emissions by at least 40 percent below 2005 levels by 2030. Expecting the goal to be met by relying on such renewables as wind, solar, and biomass stretches credulity. The fact that the plan was presented without a detailed analysis of the economic consequences is irresponsible. Since Canada has missed every goal it has ever set, it is unserious.

Successful investing—the deployment of capital based on expectations of future returns—is grounded in realism, not fantasy or pseudo-science. Constraints on supply, as implemented by Canada and the US, inevitably drove up oil and gas prices, making Canadians and Americans poorer and Putin richer.

Climate change activists are intolerant of rational debate. Those who try to temper discussion, noting that the pace and cost of a transition to renewables need more realistic assessments, or that the science is not “settled,” are branded as heretics.

“Woke capitalism” and the ESG movement

Today’s “wokeness” trend not only affects cultural, racial, and biological identities, but has given birth to the fallacy of “woke capitalism,” underpinned by ESG (environmental, social and governance) tenets relentlessly pursued by elitist CEOs, major financial institutions, and central bankers. Inspired by dubious net-zero climate change projections, these tenets are being used to stifle a vital sector of North American economies.

“ESG principles restrict entrepreneurs from responding properly to market signals and serving the interests of their customers and shareholders.”

ESG principles restrict entrepreneurs from responding properly to market signals and serving the interests of their customers and shareholders. As James Freeman observed, “ESG is about controlling and forcing behaviors. It attempts to do through capital markets what activists and their government allies are unable to do through democratic processes—using economic force to drive a political agenda” (Freeman, 2022, April 25).

Politicians tend to follow the whim of the moment, ignoring hard truths about the impacts their actions will have on economic growth. Unlike elected politi-

cians, woke investors are not accountable for the effects of their climate policies. CEOs, bankers, and financial institutions should focus more on basic economics, not virtue signaling, and leave the evangelizing on climate change to those who have created an industry for the cause (adapted from Burney, 2022, March 15).

Financiers and corporate chieftains should recognize the distinction between pragmatic prescriptions for economic growth and sophomoric crusades about an issue outside their expertise. A more realistic and expansive approach to energy would help contain inflationary pressures and serve our geopolitical security interests.

Politicians, notably in the US, fear the political consequences of enacting regulations and prefer to push the issues onto financial markets and their regulators—flagrant buck passing and very bad public policy.

ESG funds today command a market of \$35 trillion. By 2025 that is expected to grow to \$53 trillion (Diab and Adams, 2021, February 23). The scope for market distortions, and the costs therein, will grow exponentially.



The latest epistle in the ESG catechism comes from the US Securities and Exchange Commission’s new climate disclosure regime requiring stronger quantification of a company’s greenhouse gas emissions. SEC Chairman Gary Gensler claimed that forcing companies to make such disclosures is rooted in the concept of materiality. If investors say they need the information, it must be material. But Hester Peirce, the sole Republican Commissioner, dissented sharply saying, “Let’s be honest about what this proposal is really trying to do. Although styled as a disclosure rule, the goal of this proposal . . . is to direct capital to favoured businesses and to advance favoured political and social goals” (Darwall, 2022, March 30).

Climate disclosure is not, as the SEC purports, about giving investors information about climate risk. Rather, its main purpose is to force companies to provide information so that shareholders, interest groups, and others can force “net-zero” targets on them through proxy votes and other forms of engagement. As Rupert Darwall indicated, “By helping investors impose their desired energy policies on American oil and gas companies, the SEC is undermining the national security prerogatives of the Biden Administration and eroding America’s ability to meet the challenges of a dangerous world” (2022, April 18).

This is a case of overreach by the SEC. First of all, “net-zero by 2050” is the policy of the Biden Administration but it has no legal status in the United States and, given the prospects for the November elections, is not likely to gain that status.

Nonetheless, the regulatory initiative will likely push investments in oil and gas into private rather than public companies and away from Wall Street-listed enterprises to overseas ones, especially non-Western companies less vulnerable to climate activism, where regulations and investor oversight are weaker if not non-existent—the dark side of woke capitalism. The net result risks being negative to America’s national interest and to the SEC’s place in constitutional governance.

The SEC proposal was staunchly denounced by Senator Pat Toomey, the ranking member of the Senate Banking Committee for hijacking the democratic process and distaining the authority Congress gave the SEC. “With inflation at a 40-year high, gas prices sky-rocketing, and Russia waging an energy-funded war, the last thing the American people need are unelected regulators advancing policies by partisan vote that will cause energy costs to

further rise.”¹ Senator Joe Manchin, Democratic Chair of the Senate Energy and Natural Resources Committee, expressed similar opposition, saying the proposals go against the regulatory body’s stated mission, and that such policies add undue burdens on (fossil fuel) companies (Franck, 2022, April 4).

Inevitably the issue will move to the courts.

ESG-related quantitative metrics and analytical frameworks are inconsistent and unreliable. Besides, companies like Amazon are gaming the system by boosting their ESG ratings while hiding the Scope 3 emissions of suppliers because the system has neither uniform standards nor measures of enforcement. Only a small minority of manufacturing and service companies report Scope 3 emissions, which are the result of activities from assets not controlled by the reporting organization but that the organization also indirectly impacts in its value chain.

As reported in the *Globe and Mail*, there are serious problems with rating the ESG performance of companies, including widely conflicting approaches and estimates used by data analysts (Bein, 2022, April 18). When S&P delisted Tesla from its ESG list, Elon Musk labelled the notion of ESG as “a scam, one weaponized by phony social justice warriors” (Beals, 2022, May 23). Inexplicably, S&P rates Russia’s leading bank, Sberbank, which was sanctioned by both the US and the EU following Russia’s takeover of Crimea, higher than America’s largest bank, J.P. Morgan. Similarly, S&P gave China’s state-owned China Petroleum and Chemical Corp a higher ESG rating than ExxonMobil and Chevron despite China’s flagrant human rights abuses (Freeman, 2022, April 25).

“The real challenge is to accept the risk of technological innovation and provide positive incentives, like tax credits, to encourage change.”

Ignored in all the ESG mania is the utility of encouraging, not demeaning, technological innovation to reduce emissions, as has been taking place in Canada’s oilsands over the past 20 years. The consequences of innovation are not instantaneous. The real challenge is to accept the risk of technological innovation and provide positive incentives, like tax credits, to encourage change.

As more decisions in Canada are driven by US financial markets, that will ultimately lead to a loss of sovereignty as well as a loss of energy security. We need a coherent, less self-defeating approach.

The transition to renewables is problematic

The transition to renewable energy will take much longer than the perky forecasts emanating from global climate change summits suggest, and the promise of renewables has been oversold. Russia’s invasion of Ukraine aggravated matters even further by injecting turmoil into world energy markets.

As Jack Mintz and Ron Wallace observed in a paper for the Macdonald-Laurier Institute, “Current North American and European energy policies are problematic as they ultimately

undermine economies, energy and national security... Limiting production of fossil fuels in the West at rates faster than can be reasonably and economically replaced with alternative power would lead to market instabilities, power interruptions and price increases” (Mintz and Wallace, 2022).

Attempting to honour net-zero by 2050 “much of Europe went massively green, tossed away energy it had, which was both sensible and reliable, and signed on to the fantasy of net zero” (Murphy, 2022, March 30). Now they are desperately trying to switch gears by jettisoning plans intended to meet the 2050 target and reducing excessive dependence on Russia.

Eighty percent of the energy base for today’s \$86 trillion global economy comes from hydrocarbons. Moving to a net-carbon-free energy system for a \$185 trillion economy in 2050 and accomplishing much of that by 2030 simply will not happen. We need to challenge climate orthodoxy and shake off woke constraints on our hydrocarbon industries.

Developing countries like India and Nigeria see hydrocarbon energy as essential to their economic growth aspirations whereas climate change is seen as an elitist concern addressed most vigorously by developed nations that are at the top of the economic pack.

Nigeria, with a population of more than 215 million and a per capita income that is one-twelfth that of the US, depends on oil and gas for 70 percent of its budget and 40 percent of its GDP. No wonder it, along with China and India, pushed out its “net-zero” commitment later into this century, long after the current leaders will have left office.

The extent to which the world depends on oil and gas for much more than energy also needs to be better understood. Oil and gas are deeply embedded throughout modern life. As Daniel Yergin stated in *The Atlantic*, “Plastics are used in wind towers and solar panels, and oil is necessary to lubricate wind turbines... The air frames of the Boeing 787, Airbus 350 and F-35 Joint Strike Fighter jet are all made out of high-strength, petroleum-derived carbon fibre” (Yergin, 2021, November 27). What will substitute for these inputs? The number of passenger planes is expected to double in the next two decades. They are unlikely to run on batteries. Nor will the tens of thousands of semi-trucks essential to the distribution of goods across North America.



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Is the science really settled?

“Climate change has been perceived as a debate between true believers and deniers with no middle ground for realism.”

Climate change has been perceived as a debate between true believers and deniers with no middle ground for realism. Many in the media, politics, and academia have concluded unequivocally that “the science is settled.” Yet, others like Steven Koonin (formerly a top science adviser to the Obama Administration) offers a more nuanced perspective (Koonin, 2021). He dispels popular myths and unveils little-known truths, for instance, that global temperatures actually decreased from 1940 to 1970. Moreover, the models used to predict the future are not able to describe accurately the climate of the past, suggesting that they are inherently flawed.

In reviewing Koonin’s book, William W. Hogan, professor of Global Energy Policy at Harvard Kennedy School, observed, “The science of climate is neither settled nor sufficient to dictate policy. Rather than an existential crisis, we face a wicked problem that requires a practical balance of costs and benefits” (Hogan, Undated).

Koonin states that heat waves are not more common today than in 1900, tornadoes are not trending up, nor are droughts, hurricanes, or flooding. He criticizes the media for claiming, without evidence, that extreme weather is somehow related to human activities.

He accepts that fossil fuel emissions resulting from human activities likely do have an impact on the climate, but the scale of the challenge is uncertain and probably will not be an insurmountable problem for humanity in the foreseeable future.

As for prescriptions, Koonin offers two Plan Bs: more research into geoengineering, which includes changing the reflection of the Earth so it absorbs less energy from the sun, and capturing carbon dioxide and disposing of it, along with a greater focus on adaptation, the latter being the more feasible approach. Humans have always adapted to extremes and will continue to do so. Yet, the extreme measures enacted or proposed to control the supposed man-made contributions to climate change are not justified by the evidence. Even more troubling is the fact that the costs of these proposals will amount to trillions of dollars and will destroy industries and the jobs that go with them—an existential crisis in a more immediate time frame.

The concerns of most people are immediate—inflation, health care, education, and economic growth are perennial, practical priorities that democratic governments ignore at their peril.

Canada stands unwittingly alone

Seemingly oblivious to convulsions in the world energy market following Russia’s invasion of Ukraine and the priority need for energy security, Canada’s government stands at the extremity of climate hypocrisy. Being perceived as naïve on world affairs means you are also deemed irrelevant.

While intensifying commitments to unrealistic climate goals, the same government continues to throttle our ability to develop and transport our substantial oil and gas resources. We have not been able to increase outputs to help the US and European allies and instead have urged allies in Europe to invest even more in renewables at a time when countries such as Germany are obliged to resuscitate coal and nuclear production.

Europe is a market that North America should serve reliably. Yet hypocritically, just before claiming that Canada “would look at options around LNG to help wean Europe away from Russian gas” (Tumilty, 2022, March 9), the government rejected a proposal for an LNG facility north of Quebec City intended to do just that. LNG exports from our West Coast have been stymied by lawless protests and regulatory constraints.

Aided and abetted by foreign-funded activists, woke capitalists, and disciples of ESG, we are punishing responsible hydrocarbon production and driving a political wedge between regions that is divisive and dangerous to national unity.

Ensuring access to reliable, affordable energy is vital to our economic growth and national security. Establishing a common strategy for energy independence with the United States would do more for our well-being than obsessing over climate change, bearing in mind that Canada is 1.6 percent of the global emissions problem. That Canadian tail will not wag the dog on climate change.

“Ensuring access to reliable, affordable energy is vital to our economic growth and national security.”

Endnote

- 1 Quoted by CNBC’s Pippa Stevens on April 4, 2022.

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