

A Sustainable Environment: Our Obligation to Protect God's Gift

by
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U.S.: Follow the E.U. and ESG over EPS

About fifty years ago, one of the greatest economists of the 20th century, Milton Friedman, stated in a New York Times article that the sole purpose of a company is to make money for its shareholders. In other words, he was saying that the companies must maximize their earnings per share (EPS). This has been the mantle of almost all corporations, and the shareholders have been very pleased. But over the past ten years or so, this has been changing. There are other issues that must be addressed for the future of the company, and one of the biggest issues is the financial risk due to climate change. Companies have become very aware of environmental, social and governance (ESG) criteria and the standards necessary to determine the future performance relative to return and risk. These are the new criteria in making companies environmentally and socially sustainable.

In a recent letter to its clients, BlackRock, the world's largest asset manager at over \$6 trillion, has made sustainability the new standard for investing. In its annual letter to the clients, BlackRock announced a number of initiatives to place sustainability at the center of its investment approach. They have stated that one of the most important questions is the scale and scope of government action on climate change. Basically, they are saying that climate risk is investment risk as this environmental issue will have great impact on the future of most companies. We must choose ESG over EPS.

We must also follow the actions of companies and countries in the European Union (E.U.). I have written articles on how far ahead the E.U. was when I lived in Germany 40 years ago. And the EU continues to be ahead of the U.S. on this major issue of the environment and particularly with respect to climate change. The Dutch government recently lowered the automobile speed limits on its highways to reduce fuel consumption which, in turn, reduces carbon emissions. This is not dissimilar to what the U.S. did in the mid-1970s during the oil embargo when gasoline was in short supply. The U.S. highway speed limit was reduced to 55 mph to conserve gasoline. This is something that Germany would love to do, but the Germans will never accept having any speed limit on its autobahns.

Another great initiative came from KLM, the Dutch airline that launched a "Fly Responsibly" campaign. They are encouraging its customers to consider abstaining from non-essential air travel. In Sweden, flying is increasingly seen as a wasteful emission of carbon – a change of attitude captured by a new word; *flygskam*, meaning "flight shame". As a result of this attitude, domestic flights have dropped 8% while Interrail ticket sales have tripled over the past two years. Similarly, in Germany, Austria and Switzerland, railway operators are reporting a record number of passengers.

Can you imagine a U.S. company discouraging its customers from purchasing a product or service that may be increasing carbon emissions unless the customer really needs it? On the

other hand we should be encouraging services that have a lower carbon impact like public transportation. Just like in the E.U., we should make greater use of trains, light rail, and buses rather than driving. Something that is getting the attention of the companies are the young people that are “climate striking”. This is not only affecting the companies that are generating carbon emission, but also the fossil fuel producers. Last July, the head of OPEC, the cartel that controls much of the world’s oil production, called climate-strikers the “greatest threat” to his industry. Last November, the president of Emirates airline said that the climate strikers made him realize that not enough is being done. The CEO of the World Economic Forum stated that companies must act as stewards of the environment for the benefit of future generations.

All U.S. companies must follow the lead of the E.U. companies and take climate change more serious. Focus on ESG and not EPS which, in the long run, will also improve earnings. And more important, our political leaders should place this issue much higher on their list of priorities.