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THE BUSINESS OF ENERGY

Urging change in ‘post-ESG voice’

Asset manager says agendas act against best interests of companies, investors

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Daniel Acker/Bloomberg Tanks containing drilling fluid sit in a row near a Nabors Industries Ltd. rig drilling for Chevron Corp. in the Permian Basin near Midland. An asset manager wants oil producers to focus on what they do best — drilling, fracking and producing oil and gas — rather than focusing on ESG initiatives.

For Vivek Ramaswamy, co-founder and executive chairman of Strive Asset Management, investor focus on ESG — Environment, Social and Governance — is drowning out the voices of the real investors — the everyday people whose capital is invested with the asset management firms pushing ESG initiatives.

Participating in the monthly Oilfield Strong webinar presented by OTA Environmental Solutions, he discussed three of the largest firms: BlackRock, State Street and Vanguard — that together manage more than $21 trillion in assets, on par with the US gross domestic product.

Those funds received investment capital from everyday citizens who trusted them to make smart stock choices for them. Instead, he said, the leaders of these companies have "become self-proclaimed enlightened determiners of how to structure society. Even more alarmingly, they're using money from everyday citizens, many of whom don't agree with the agenda being advanced in boardrooms."

Ramaswamy likened it to a group of oil and gas company executives holding a Zoom meeting to agree on production cuts to boost gasoline prices, which he said is not only violates antitrust laws but price-fixing laws.

"This is such a convoluted set of issues that you need something for folks to understand to provide a foundation," commented Grant Swartzwelder, president of OTA Solutions, who moderated the webinar.

To effectively comply with what ESG advocates want, he said companies would need to eliminate the use— or at least growth — of fossil fuels, "which seems backwards and oppressive."

The US energy industry has been the sector most damaged by ESG demands, Ramaswamy said, because they're not applied equally to energy sectors across the globe but to the US. "Even in Europe, a lot of these initiatives are dictated by law. But in the US, they're not dictated by law but through shareholder pressure. If the US did not ratify the Paris climate accords, it's not Chevron's job to ratify it instead. What we're seeing passed is not through the halls of Congress but through the halls of corporations."

The soaring demand for energy as the global economy emerges from the pandemic — and the expected continued demand for fossil fuels — has created a generational opportunity for the nation's energy companies to fill the void by producing more energy, he said. That is why his company has launched its first energy index fund — DRLL — to compete with the likes of BlackRock.

"It's bringing a new voice — I call it a post-ESG voice — to focus on delivering excellent products and services to customers and providing returns to shareholders rather focusing on ESG," Ramaswamy said. "The key is, our message to the US energy industry is to drill, frack, whatever you need to do to be maximally successful, financially successful over the long run without concern for ESG issues. Even in hiring and compensation, they should be made based on job qualifications not other factors like gender, race or sexual persuasion."

Many ESG initiatives do not serve a company's shareholders nor its fiduciary commitments, he said. Indeed, he pointed out there may be conflicts of interest. For example, Exxon may cancel a project in the US because of ESG concerns that will instead be built in China by PetroChina, which is far less environmentally clean than US operators. Well, he pointed out, top Exxon shareholders who own 6% of Exxon also own 6% of PetroChina.

Having recently acquired Chevron stock, Ramaswamy issued a letter to the company's chief executive officer detailing some of these concerns. He in particular expressed concerns about Chevron's shareholder-imposed Scope 3 emissions caps.

"First, Scope 3 emissions calculations effectively double, tripe and even quadruple-count the same unit of emissions," he wrote Chevron. "Suppose a gallon of gasoline is used to deliver a pizza. That represents 8,800 grams of emitted carbon dioxide. Those 8,800 grams count not only in Chevon's Scope 3 emissions but also in the Scope 3 emissions of Domino's, who made the pizza, Uber, who delivered the pizza, Ford, who manufactured the car leased by the Uber driver and Facebook, which ordered it for an employee meeting."

It's like McDonald's agreeing to be responsible for the body weight of anyone who ever ate a Big Mac, he added.

Wondered Swartzwelder, "who gets the Scope 3 emissions from the pizza? The delivery service, the fuel or the pizza? It seems very amorphous and hard to improve upon."

Said Ramaswamy, "I hope our voice isn't just a recitation of slogans learned in the 1980s but an assessment of what it means to be an oil company, a gas company, an energy company and what it means to pursue excellence as an energy company and a way to open dialogue without talking out of both side of your mouth — touting sustainability efforts while also talking about shareholder returns."

There is no one-size-fits-all solution, he said, and part of the problem with ESG is it tries to be one-size-fits-all, Ramaswamy said. Each company should ask itself what allows it to be most successful at selling its products and services, what makes it the most financially successful in the long wrong — not because it solves all the world's problems but solves some of the world's problems. Other actors — other companies, governments, non-profits — can address other problems that they're positioned to address.

At least, he concluded, open debate should be held in the boardrooms and in society.

Concluded Swartzwelder, "At the end of the day, aren't we just trying to improve the environment? Does adding all of these random calculations lead us to best practices or specific improvements? I can't see how."