Green versus greed

Eric Blair

11 February 2006

Ms ZK of Canberra, Australia wrote me asking about the motives behind GE's recent declaration that it will be greening itself, voluntarily cutting carbon dioxide emissions over the next several years and even calling for government regulation of greenhouse emissions. [The Economist; The Washington Post] The key question: why? Let us consider some possibilities.

Jeffery Immelt's immense heart

There are indeed CEOs out there who really want to help the environment. For example, when John Mackey, CEO of Whole Foods, isn't busy union busting, he's contributing about five percent of the company's profits to philanthropic causes, including environmental. He dukes it out with Uncle Milton "assume externalities do not exist" Friedman in this Reason interview/debate, pointing out that corporations have a responsibility to public as well as shareholders.

He himself is veganish. Many people are vegetarian for environmental reasons, citing abundant reasons for why meat is environmentally destructive, but in another interview, Mr. Mackey makes no effort to reconcile the fact that you can go to Whole Foods and order veal and rabbit with Whole Foods' green PR.

But there are two key differences between Mr. Mackey and Mr. Immelt (GE's CEO): the first is that Mr. Mackey actually makes a real effort to live his convictions. I invite the reader to dig something up, but I've not found anywhere that Mr. Immelt stated that he himself is trying to reduce his own automotive trips, buy a smaller house, or otherwise indicate that he is self-aware of his own ecofootprint the way that our veganish CEO tries to practice what his company preaches (and then advertises this). Now, I don't want to be too cynical: nobody *wants* to be a polluter, and every sane employee of every company I mention here would be happy to take steps to reduce emissions—provided the cost is low enough. Mr. Mackey has expressed interest in reducing certain (but by no means all) types of pollution even when it costs Whole Foods money; Mr. Immelt has made no such statement.

The second related difference (as noted in the Reason article above) is that Mr. Mackey explicitly indicated in the Whole Foods public offering that Whole Foods will be contributing 5% to charities, while GE has no such do-gooder mission. That means that when shareholders purchased GE shares, they did so with the usual intent of profit-maximization, and for Mr. Immelt to switch the goal to saving the planet is grounds for shareholder lawsuits.

We all loved Google's IPO for having a section entitled "Don't be evil", but as well as being nifty, it allows the CEOs a huge amount of leeway. When shareholders threaten to sue over the owners' failing to maximize profits, the managers can point to the do-no-evil clause and walk away. GE's CEO has no such escape clause. [Sorry, but I'm not going to address Google's agreement to censor China's search results today. You know as much as I do.]

Maximize shareholder value

So as well as whatever Mr. Immelt is saying to the public, he must have a serious, correct-math argument for why the greening campaign will pay for itself.

He's got tons of rhetoric from environmentalists backing him up; we hippies have been pointing out that environmentalism is a form of efficiency, and efficiency pays off, for decades. The fact that Ford's gas-guzzling ways have cost it massive losses is certainly a nice precedent for GE's greens to point to.

The best way to really evaluate a claim of environmental friendliness is to read the Annual Report (RTFAR, or RTF10K). There are strict laws regulating the quantity of BS that can be presented to shareholders, so after the splashy editorial pages, the stats are as honest as you'll get. Here's a paragraph from page 27 of GE's 2004 annual report:

> [GE's Energy division] participated in the period of unprecedented U.S. power industry demand that peaked in 2002, a period often referred to as the "U.S. power bubble". The return to normal demand levels is reflected in the lower shipments of large heavy-duty gas turbines. In 2004, we sold 122 such units, compared with 175 in 2003 and 323 in 2002. We accurately foresaw the end of the bubble and took action to reduce the effect, right-sizing the business and growing and investing in other lines of the power generation business such as product services and wind energy. We believe the Energy segment is well positioned for its markets in 2005 and beyond.

Page 51 also makes reference to "increased demand for wind turbines, locomotives, and product services, partially offset by softening demand for large gas turbines."

So the Annual Report does indeed present the purely profit-maximizing motives: GE's executives know that demand for its fossil-fueled energy products is under half what it was a few years ago, and are placing themselves in position to accommodate future markets.

Advertising

An order of magnitude larger than GE's PR attempt to push greenness is British Petroleum's PR renovation from a few years ago: they changed their logo to a sun/flower/happy green blob and started expanding BP to mean 'beyond petroleum'. So what does its 2004 Annual report (PDF, 3MB) say? Its renewable energy line is clumped in with petroleum and coal throughout, so I don't know how much they spent on solar and wind, or how it had changed from the prior year. This is one of those omissions that I take as a bad sign. BP's environmental wins appear on page 31 of the report, and the gist is: we have significantly reduced the carbon emissions required to ship more and more coal and petroleum to more and more consumers. Reducing internal fuel consumption is a good thing, but not quite what the ads with big solar panel arrays is touting. The annual report has a single paragraph on their research on solar and hydrogen fuels, which I can only describe as fluff.

We need to bear in mind below that both BP and GE simultaneously deal with energy on two fronts: they vend energy-generation products (BP sells fuels, GE sells fuel-consuming generators), and they themselves consume energy in the normal course of business. Their internal energy consumption is a drop in the bucket compared to the energy that their customers are going to be using. However, by talking about reductions in internal pollution, they commit a little sleight-of-mind and imply that their line of business is also greener. Of course, BP and GE *are* also trying to green their line of business, though BP's annual report seems to indicate that solar is still a side-affair, while GE's is directly stating that the company strategy is to focus more on wind and cleaner transportation.

Self-regulation

There's much tradition in the business world of self-imposed regulation to stave off inevitable government regulation. I'll give one example: the Comics Code Authority, where comic book publishers self-censored themselves to prevent being basically shut down. Other examples—and there are many—are left as an exercise to the reader. The Economist likes this theory, pointing out that consensus is that thirty years from now we will certainly have some sort of regulation. Self-regulation was my initial guess at GE's motives too, but what company plans ahead for something that's sure to come in 30 years? Dubya will certainly block any and all attempts at environmental regulation, so GE is safe until at least 2009. So why take action now? The timing is much easier to explain in terms of the the energy bubble bursting two or three years ago than regulations that might begin to be debated three or more years from now.

Vending product

The Economist article's author found one pundit who thinks that GE simply expects that CO_2 regulations may just benefit GE over the other guys:

> [Mr. Immelt] is asking for government intervention on carbon emissions not just to help the planet, but also because he believes it will create opportunities that his company may be better placed to exploit than rivals stuck with older, dirtier technologies. Indeed, GE's

> effort, argues Myron Ebell of the Competitive Enterprise Institute [CEI], an industry-friendly think-tank in Washington, DC, is a form of rent-seeking that should raise eyebrows.

Now come back to the sleight-of-mind above: GE is promising to reduce its internal consumption of energy. Also, as in the Annual Report and the CEI pundit comment, GE has been trying to position itself as a vendor of equipment for eco-friendly energy production. If every company in the U.S.A. follows GE's example of reducing internal CO_2 emissions, then GE's external sales go up, evidently more than the sales of its competitors.

In the context of its external sales, GE's internal greening makes sense: if GE can get other companies to follow its lead, either by inspiring example or by force of law, GE's investment in internal green technologies will pay for itself many times over in external sales. Oh, and the world would be a cleaner place.