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Climate Forward

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A climate protest in Washington, D.C., last March. Alex Brandon/Associated Press

Why Wall Street firms are flip-flopping on climate

By David Gelles

Many of the world's biggest financial firms spent the past several years burnishing their environmental images by pledging to use their financial muscle to fight climate change.

Now, Wall Street has flip-flopped.

In recent days, giants of the financial world, including JPMorgan, State Street and Pimco, have pulled out of a group called Climate Action 100+, an international coalition of money managers that was pushing big companies to address climate issues.

Wall Street's retreat from earlier environmental pledges has been on a slow, steady path for months, particularly with Republicans beginning withering political attacks, saying the investment firms were engaging in "woke capitalism."

But in the past few weeks, things have accelerated significantly. BlackRock, the world's largest asset manager, scaled back its involvement in the group. Bank of America reneged on a commitment to stop financing new coal mines, coal-burning power plants and Arctic drilling projects. And Republican politicians, sensing momentum, called on other firms to follow suit.

Legal risks

The reasons behind the burst of activity reveal how difficult it is proving to be for the business world to make good on its promises to become more environmentally responsible. While many companies say they are committed to combating climate change, the devil is in the details.

"This was always cosmetic," said Shivaram Rajgopal, a professor at Columbia Business School. "If signing a piece of paper was getting these companies into trouble, it's no surprise they're getting the hell out."

American asset managers have a fiduciary duty to act in the best interest of their clients, and the financial firms were worried that a new strategy by Climate Action 100+ could expose them to legal risks.

Since its founding in 2017, the group had focused on getting publicly traded companies to increase how much information they shared about their emissions and to identify climate-related risks to their businesses.

But last year, Climate Action 100+ said it would shift its focus toward getting companies to reduce emissions with what it called Phase 2 of its strategy. The new plan called on asset-management firms to begin pressuring companies like Exxon Mobil and Walmart to adopt policies that could entail, for example, using fewer fossil fuels.

In addition to the risk that some clients might disapprove, and potentially sue, there were other concerns. Among them: that acting in concert to shape the behaviors of other companies could fall afoul of antitrust regulations.

“In our judgment, making this new commitment across our assets under management would raise legal considerations, particularly in the U.S.,” a BlackRock spokesman said in a statement.

A win for Republicans

The fracturing of Climate Action 100+ was a victory for Representative Jim Jordan, Republican of Ohio, who has led a campaign against companies pursuing E.S.G. goals, shorthand for environmental, social and governance factors.

Embracing E.S.G. principles and speaking up on climate issues has become commonplace across corporate America in recent years. Chief executives have warned about the dangers of climate change. Banks and asset managers have formed alliances to phase out fossil fuels. Trillions of dollars have been allocated for sustainable investing.

At the same time, a backlash has grown, with Republicans claiming that banks and asset managers were supporting progressive politics with their climate commitments.

Some states, including Texas and West Virginia, barred banks from doing business with them if the firms were distancing themselves from fossil fuel companies. And late in 2022, Mr. Jordan began an antitrust investigation into Climate Action 100+, calling it a “climate-obsessed corporate ‘cartel.’”

On Thursday, he said in a post on X that the news represented “big wins for freedom and the American economy, and we hope more financial institutions follow suit in abandoning collusive ESG actions.”

But several of the firms that backed out of Climate Action 100+ said they remained committed to the issue. Aron Cramer, chief executive for BSR, a sustainable-business consultancy, said the Wall Street firms were responding to political pressure, but not abandoning their climate commitments altogether.

“The political cost has heightened, the legal risk has heightened,” he said, adding: “That said, these corporations are not doing U-turns. They continue to consider climate. That’s not going away. It’s adapting to the current environment.”