September 2017
Vol. 8 Ed. 8

The Bulletin

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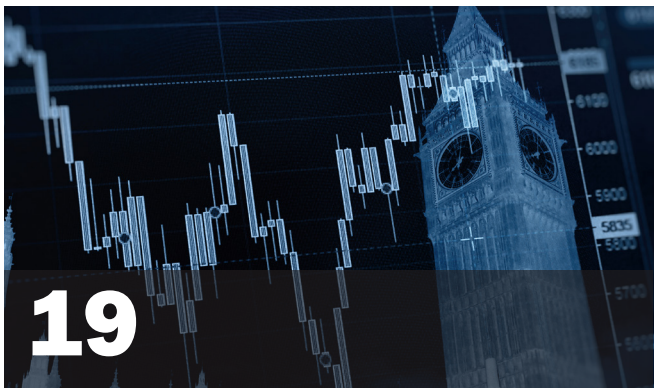

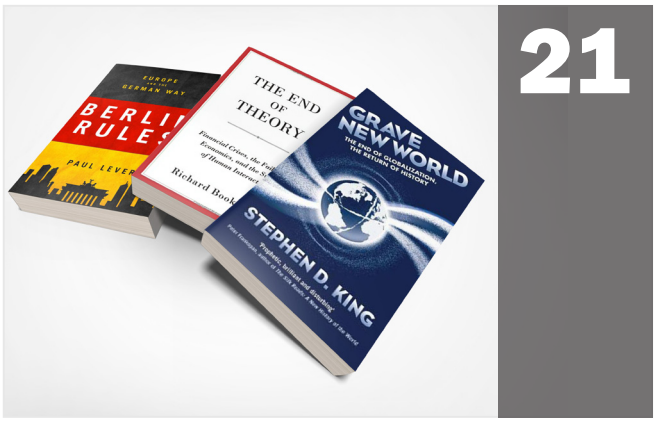

Rigour to avoid greenwashing

New measure for green credentials

Steve Hanke, Advisory Board

Companies around the world are scrambling to go green. Some are so desperate that they engage in 'greenwashing', which is little more than the use of public relations campaigns to assert greenness. That said, many businesses are producing goods and employing production processes that do qualify as sustainable.

The world of green investment is growing rapidly. The FTSE4Good, a series of ethical investment stock market indices, has the largest market capitalisation of the green equity indices. At the end of June 2017, the FTSE4Good Global benchmark's net market capitalisation was $21.8tn. That's larger than the GDP of the US – $19.2tn.

Rigorous definition

With investors favouring green, and investment flows being earmarked as green, the question arises as to how an investment qualifies for this coveted designation. The current methods fail to meet rudimentary standards of measurement as they do not yield results that can be replicated. For the most part, methods are subjective and opaque. This is not a firm foundation for the multi-trillion dollar world of green investment. To introduce more rigour, I worked with Dr Heinz Schimmelbusch, founder and chief executive of the Advanced Metallurgical Group, the speciality metals and minerals company where I am on the supervisory board, to develop a methodology that is simple, transparent and replicable.

Our metric is determined by starting at the origin of the supply chain. It is from there that we measure the amount of greenness resulting from production of an item that contributes to sustainability.

> *"With investors favouring green, the question arises as to how an investment qualifies for this coveted designation.*

For example, a company might produce graphite, which then helps create more efficient insulation, thus lowering energy demand. The graphite producer is therefore a supplier of a green good – the net reduction in carbon dioxide attributable to the graphite.

The supplier 'enables' the production of the green good. When it comes to the measurement of greenness, this enabling notion leads to simplicity and transparency, as well as an objective measure of the amount of greenness associated with each supplier.

Enabling greenness ratio

To put the concept into operation in the context of carbon dioxide emissions, a clear and replicable formulation for measuring greenness with precision can be used: the enabling greenness ratio. This is simply the net carbon dioxide reduced by a company divided by the company's total assets. This provides net carbon dioxide reduction relative to a company's size and is analogous to the traditional accounting measure – return on assets.

This year AMG will reduce an estimated 30.84 tonnes of carbon dioxide per $1,000 of assets. The estimated net carbon dioxide reduction total grows over time, on the assumption that the raw materials supplied are still in use. A transparent assessment of green credentials is vital to underpin the growing market in sustainable investments. The enabling greenness ratio achieves this aim, and is simple and replicable. ■

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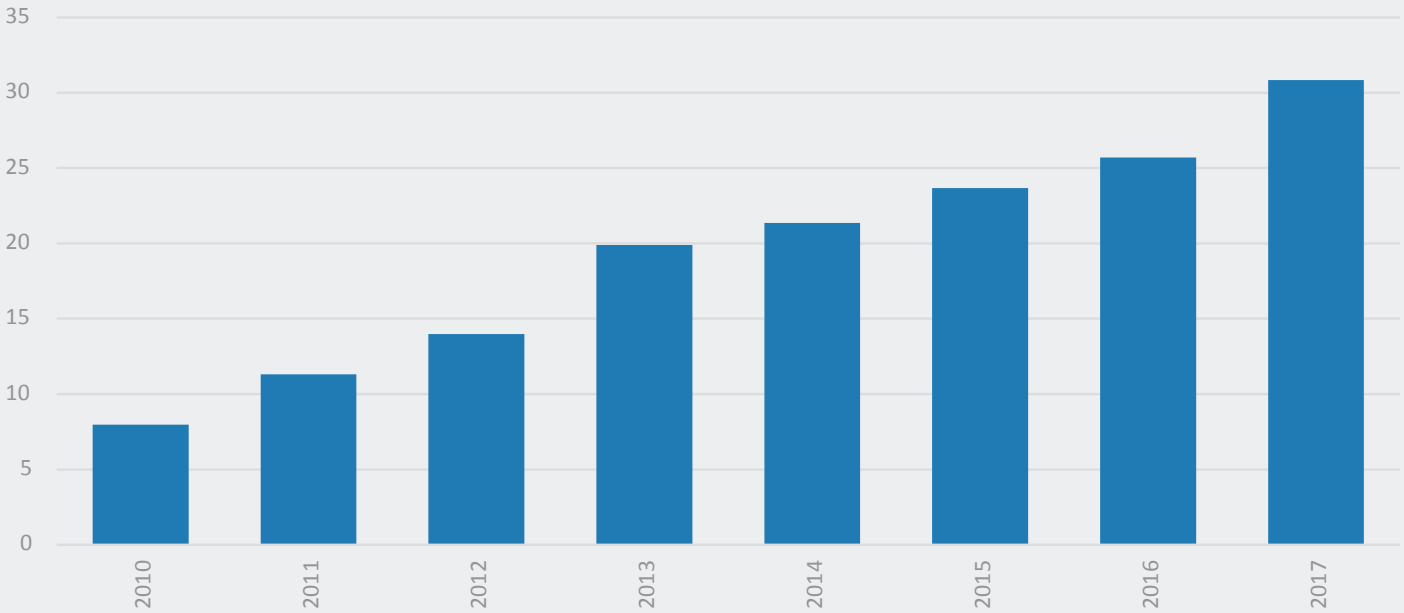
AMG to reduce an estimated 30.84 tonnes of CO2 per $1,000 of its assets in 2017

Metric tonnes of CO2 reduced per $1,000 of AMG assets



Source: Advanced Metallurgical Group and calculations by Steve Hanke and Heinz Schimmelbusch.

Note: These data assume that all products produced since 2008 are still in use by 2017. All data from 2014-17 are estimates made by the authors.