

# ESG

## A COMPARATIVE ANALYSIS

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# ENVIRONMENT SOCIAL GOVERNANCE

- E - ENVIRONMENT
- S – SOCIAL
- G - GOVERNANCE



# EU REGULATIONS

- EU Corporate Disclosure of climate related information

[https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/corporate-disclosure-climate-related-information\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/corporate-disclosure-climate-related-information_en)



# SUMMARY OF EU GUIDELINES

- Summary of the EU guidelines on reporting climate

[https://ec.europa.eu/info/files/190618-climate-related-information-reporting-guidelines-overview\\_en](https://ec.europa.eu/info/files/190618-climate-related-information-reporting-guidelines-overview_en)



# US PROPOSED RULE

- US SEC proposed rule to enhance and standardize climate-related disclosures for investors

<https://www.sec.gov/news/press-release/2022-46>

- Enhanced Disclosures – FR ESG Group

- <https://www.foxrothschild.com/publications/what-do-esg-funds-and-fat-free-milk-have-in-common-not-enough-according-to-sec-chairman-gary-gensler>.



# GHG REPORTING

- Greenhouse gas emissions (GHG) disclosure obligations are chief among the new requirements that would be imposed if SEC adopts its Proposed Rule, which requires all publicly traded companies to include in their registration statements and annual reports information on the climate-related risks that are reasonably likely to have a material impact on the company's business, operations or financial condition.
- The Proposed Rule would establish requirements for the measurement and reporting of GHG emissions to promote comparability and improve consistency across companies' climate risk reporting. GHG emissions are defined as either:
  - Direct: Resulting from sources owned or controlled by the company (Scope 1)
  - Indirect: Resulting from activities of the company that occur at sources the company does not own or control (Scope 2 and Scope 3)



# GHG REPORTING

- For each of its Scope 1, 2, and 3 emissions, if disclosure of Scope 3 emissions is required, the Proposed Rule would require a company to disclose aggregate greenhouse gas emissions as well as its disaggregated emissions of each constituent greenhouse gas (e.g., by carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), nitrogen trifluoride (NF<sub>3</sub>), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), and sulfur hexafluoride (SF<sub>6</sub>)).
- Under the Proposed Rule, companies would be required to describe the methodology, significant inputs and assumptions used to calculate their GHG emissions metrics. As proposed, the description of the company's methodology must include the company's organizational boundaries, operational boundaries, calculation approach and any tools used to calculate the company's GHG emissions.
- <https://www.foxrothschild.com/publications/deep-dive-ghg-reporting-under-the-secs-proposed-climate-related-disclosure-rule>



# USSG

- USSG Chapter 8 effective compliance and ethics program.  
<https://guidelines.usc.gov/gi/%C2%A78B2.1>
- HIGH LEVEL PERSONNEL OF THE ORGANIZATION MUST ENSURE THAT THE ORGANIZATION HAS AN EFFECTIVE COMPLIANCE AND ETHICS PROGRAM.





# ESG IN REVERSE

- GOVERNANCE IS THE KEY TO A CORPORATION'S MISSION.
- BEING A GOOD CORPORATE CITIZEN MEANS BEING IN COMPLIANCE WITH LAWS, RULES AND REGULATIONS.
- TO BE COMPLIANT, THERE NEEDS TO BE IN PLACE AN EFFECTIVE CCP.



# CCP AND ECP

- USSG REQUIRES COMPANIES WITH GREATER THAN 50 EMPLOYEES TO HAVE AN EFFECTIVE COMPLIANCE PROGRAM TO DETECT AND PREVENT VIOLATIONS OF LAWS.
- THIS REQUIREMENT WENT INTO EFFECT IN 1991 AND BECAME THE CORPORATE MODEL FOR CORPORATE COMPLIANCE.



# RISK AREAS

- A CCP NEEDS TO SET THE TONE FOR THE COMPANY'S GOOD PRACTICES AND MUST ADDRESS WHAT IS EXPECTED OF THE EMPLOYEES AND AGENTS.
- AN EFFECTIVE CCP NEEDS TO IDENTIFY RISK AREAS, ESTABLISH POLICES AND TRAIN EMPLOYEES AND AGENTS.



# BOARD RESPONSIBILITY

- THE BOARD SETS THE DIRECTION AND OVERSEES THE MANAGEMENT.
- DUTIES OF CARE AND LOYALTY
- DUTY OF CARES REQUIRES THE BOARD TO BE REASONABLY INFORMED.
- THE CCO OVERSEES THE CCP AND REPORTS TO THE BOARD.



# SOCIAL

- SOCIAL RESPONSIBILITY WITHIN AND OUTSIDE THE ORGANIZATION.
- MANDATED BY THE BOARD.
- PART OF CORPORATE COMPLIANCE PROGRAM.
- PUBLISHED ON ITS WEBSITE FOR THE BENEFIT OF ALL STAKEHOLDERS.



# ENVIRONMENT

- ENVIRONMENTAL PROTECTION IDENTIFIED AS A SEPARATE AND IDENTIFIABLE RISK AREA IN THE CORPORATE COMPLIANCE PROGRAM.
- CLIMATE-RELATED RISK.



# UNITED STATES

- FEDERAL AND STATE ENVIRONMENTAL LAWS, RULES AND REGULATIONS
- SEC PROPOSED RULE.
- COMMENT PERIOD EXTENDED UNTIL JUNE 17, 2022. [rule-comment@sec.gov](mailto:rule-comment@sec.gov)
- US IS NOT AS FAR ALONG AS EU IN ESG INVESTING OR REGULATIONS.



# EUROPE

- REPowerEU is the European Commission's plan to make Europe independent from Russian fossil fuels well before 2030, in light of Russia's invasion of Ukraine.
- The Commission is proposing to increase the EU's 2030 target for renewables from the current 40% to 45%.





# REPowerEU

- The EU Solar Energy Strategy will boost the roll-out of photovoltaic energy.
- Replacing coal, oil and gas in industrial processes will help cut the dependency on Russian fossil fuels, while transitioning to cleaner energy sources, strengthening industrial competitiveness and supporting international technology leadership.



# REPowerEU

- Additional investments of €210 billion are needed between now and 2027 to phase out Russian fossil fuel imports, which are currently costing European taxpayers nearly €100 billion per year.
- Is this achievable?
- Could renewable energy completely replace fossil fuels?



# INDUSTRY PERSPECTIVE

## ■ Assessment by Shell Global:

- Today, nearly every service people use and every product consumers buy has a fossil fuel somewhere in how it is made or delivered.
- Indeed, a stark reality of the early 21st century is the lack of a clear development pathway for an emerging economy that doesn't include coal. Coal requires little technology and offers a great deal of energy. As such, it is a stubborn and persistent part of the high-CO2 energy system. Dealing with it will take determined action by governments to provide competitive alternatives.
- In recent years, electricity has come to be generated efficiently and cost effectively from wind and solar power, as has been the case with hydro-electricity for many decades. Rapid progress with renewable electricity technologies has led some commentators to think about the complete replacement of fossil fuels within the broader energy system.
- But despite more than a century of progress, electricity makes up only 20% of the final energy that society uses today and the rate of increase has been the same since the earliest days, about two percentage points of final energy share per decade. To achieve the goals of the Paris Agreement that pace of growth would need to rapidly increase.
- <https://www.shell.com/energy-and-innovation/the-energy-future/scenarios/shell-scenario-sky/could-society-reach-the-goals-of-the-paris-agreement/can-renewables-replace-fossil-fuels.html#>



# ENVIRONMENTAL RISK

<https://evostc.state.ak.us/oil-spill-facts/photo-gallery/>



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# ALASKA OIL SPILL

<https://evostc.state.ak.us/oil-spill-facts/photo-gallery/>



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# CLIMATE CHANGE

- Climate Change in the context of Risk Management and Sustainable Finance refers to secular or abrupt changes in environmental conditions (e.g. temperature changes, sea-level changes, wind or precipitation phenomena) that form fundamental risk factors or underlying causes that may generate more specific Climate-Related Risk.
- [https://www.openriskmanual.org/wiki/Climate\\_Change](https://www.openriskmanual.org/wiki/Climate_Change)



# CLIMATE CHANGE

- The change of Climate which is attributed directly or indirectly to human activity that alters the composition of the global atmosphere and which is in addition to natural climate variability observed over comparable time periods. [(UNFCCC, 1994)]
- Current evidence is that overall weather patterns are changing on a global scale for the long-term due to human contributions to Green House Gas Emissions.  
[https://www.openriskmanual.org/wiki/Greenhouse\\_Gas\\_Emissions](https://www.openriskmanual.org/wiki/Greenhouse_Gas_Emissions)



# CLIMATE CHANGE

- WHAT ROLE SHOULD GOVERNMENT PLAY?
- WHAT ROLE SHOULD PRIVATE ADVOCACY AND PRIVATE GOVERNANCE PLAY?
- INTERESTING ARTICLE BY PROFESSOR MICHAEL P. VANDENBERGH.

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3235445](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3235445)





# CLIMATE CHANGE

- HOW IS CLIMATE CHANGE DETERMINED?
- WHAT DATA SHOULD BE RELIED UPON TO REACH CONCLUSIONS?
- WHAT ARE THE REMEDIES?
- IS THIS A ROLE FOR POLITICIANS AND ASSET MANAGERS OR PHYSICISTS AND CLIMATE SCIENTISTS?



# CLIMATE SCIENCE

- IPCC SIXTH ASSESSMENT REPORT.
- [https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC\\_AR6\\_WGI\\_SPM.pdf](https://www.ipcc.ch/report/ar6/wg1/downloads/report/IPCC_AR6_WGI_SPM.pdf)
- <https://www.ipcc.ch/report/ar6/wg1/figures/summary-for-policymakers/figure-spm-1>
- <https://www.ipcc.ch/report/ar6/wg1/figures/summary-for-policymakers/figure-spm-2>



# CLIMATE SCIENCE

- SCIENTIFIC COMMENTARY.
- DR. STEVEN KOONIN – ***UNSETTLED.***
- HISTORICAL DATA.
- DISTINGUISHES NATURAL FROM HUMAN
- HOW IS CLIMATE MEASURED?
- CRITIQUE OF CLIMATE COMMENTARY.
- RECOMMENDED APPROACHES.



# FORCED LABOR

- US UYGHUR FORCED LABOR PROTECTION ACT (FLPA).
- <https://www.congress.gov/bill/117th-congress/senate-bill/65>
- This bill imposes importation limits on goods produced using forced labor in China and imposes sanctions.



# Uyghur Forced Labor Prevention Act

- The FLPA imposes importation limits on goods produced using forced labor in China, especially the Xinjiang Uyghur Autonomous Region (northwest), and imposes sanctions related to such forced labor.



# FORCED LABOR ALLEGATIONS

- <https://www.bbc.com/news/world-asia-china-22278037>
- RECENT ARTICLE BY BBC NEWS.
- MAJOR BRANDS IMPLICATED by the Business & Human Rights Resource Centre.



# G7 COUNTRIES

- The G7, made up of Canada, France, Germany, Italy, Japan, the UK and the US, called on China to respect human rights in Xinjiang.
- <https://www.bbc.com/news/world-asia-china-57466576>



# SUPPLIERS

- THERE SHOULD BE SUSTAINABILITY STANDARDS OF DIRECT SUPPLIERS REGARDING HUMAN RIGHTS AND WORKING CONDITIONS.
- THERE SHOULD BE THE SAME STANDARDS DOWN THE SUPPLY CHAIN IN THE VARIOUS TIERS.





# SUPPLY CHAIN MAPPING

- THERE ARE VENDORS THAT PROVIDE THIS SERVICE.
- ONE SUCH VENDOR IS Sourcemap  
<https://sourcemap.com/>
- Sourcemap's FOUNDER AND CEO IS Leonardo Bonanni, WHO HOLDS A Ph.D. FROM MIT.



# PERSONAL INVESTING

- GREEN INVESTING – A GUIDE TO MAKING MONEY THROUGH ENVIRONMENT-FRIENDLY STOCKS (by Jack Uldrich, 2008 Adams Media).
- DIVERSIFY A CLEANTECH PORTFOLIO OF WIND, SOLAR, BIOFUEL, WAVE POWER AND GEOTHERMAL ENERGY.



# CHOICE

- QUESTION: WHICH SOURCE OR SOURCES CAN CONVERT THAT ENERGY MOST EFFICIENTLY?
- BY INDUSTRY?
- BY INDIVIDUAL COMPANY?
- DETECT GREENWASHING



# CONCLUSION

- CORPORATE GOVERNANCE IS THE KEY TO THE COMPLIANCE OF LAWS, RULES AND REGULATIONS AND ADDRESSING THE NEEDS AND CONCERNS OF ALL STAKEHOLDERS.
- EFFECTIVE CORPORATE COMPLIANCE MEETS THOSE NEEDS.



# EFFECTIVE PROTOCOLS

<https://evostc.state.ak.us/oil-spill-facts/photo-gallery/>



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