Navigating the Climate Change Storm of ESG Withdrawal and Climate Change Commitment

written by Melissa (Mel) Sanderson | February 28, 2024

ESG, does the bell toll for thee?

Given the recent hullabaloo around the decision of three major US financial institutions – JPMorgan, State Street and Pimco – to withdraw from Climate Action 100+ (CA+), one might think so. In addition, Blackrock announced it would remain engaged, but through its European-based offices. It appears the three financiers who have withdrawn are bowing to pressure from some Republican politicians claiming that CA+ activities are in violation of US antitrust and securities laws. But before we accept the perception that this is a death-knell for global ESG efforts, let's take a look at a few important factors about this group, its activities and relative effectiveness, as well as broader ESG "infrastructure."

CA+, the world's largest climate investor group with over 700 members (important factor number one) works with high-emitting companies across the global supply chain to help them transition to a low-carbon economy. Its efforts are coordinated by five investor networks including the UN-backed Principles for Responsible Investment (PRI) whose "green" standards underpin several industry initiatives such as Copper Mark and Responsible Steel (important factor number two). CA+ "clients" include Grupo Mexico (mining), PEMEX (Mexico's largest state-owned oil company), Aramco (Saudi Arabia's oil company), and UltraTech Cement (Indian construction materials), illustrating its expansive reach (important factor number three). So, while of course disappointing and dismaying, the withdrawal of the three US financial institutions should not crush CA+ efforts.

Turning to the broader ESG situation, the above-mentioned industry initiatives (Copper Mark and Responsible Steel) are examples of how particularly the extractive industries have acknowledged the importance of fully integrating sustainable and ethical practices into their operations. The International Council on Mining and Metals (ICMM), a voluntary membership mining group founded by several of the industry's largest companies including Rio Tinto Group (NYSE: RIO | LSE: RIO), Freeport-McMoRan Inc. (NYSE: FCX) and BHP Group (ASX: BHP | NYSE: BHP) among others, also has developed a series of Principles to help guide companies in sustainable extraction activities from mine inception to closure. While the initial impetus for many of these actions came from NGO scrutiny of end-user products and subsequent pressure from those companies on their suppliers to ensure "clean" and ethical extraction, the extractive companies have gone beyond that starting point to collectively develop measures whose costs and benefits make sense to the industry. (One example of early pressures would be smelters who began to insist to their mine suppliers that they needed to be able to certify their product as child-labor free, or the famous "blood diamonds" campaign.) While some companies are choosing to place their ESG procedures under safety and security in their internal organizations, they nonetheless are adhering to sustainable practices and most companies now have sustainability reports on their websites and for their Boards and investors.

These are pragmatic decisions by companies facing intensified scrutiny by governments and societies. Regulatory measures related to ESG standards continue to multiply, sometimes in a confusing fashion, a point which needs to be addressed. For instance, the European Union recently enacted a law imposing financial penalties on companies found to be “greenwashing,” usually defined as a company making bold statements without any substantiating operational or financial evidence that the claimed activities are real.

Perhaps most importantly, so-called real people are seized with the core of ESG, i.e. that environments should be protected and benefits shared. Over the past few years, several notable examples include protests in Greenland which forced a government transition and a rewrite of a proposed mining project; Serbia, where again a government fell amid accusations that the proposed mining contract did not adequately compensate the country, and most recently Panama, where a company was forced to cease operations with potentially disastrous financial results. This heightened activism is unlikely to disappear, providing a cautionary tale that the social license to operate will continue to become more costly for companies who are perceived to not be doing enough in the ESG realm.

Bottom line? ESG is not on the ropes, despite the hype, and companies who want to thrive are adapting to survive.