

ESG and What it Means to the Industry

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April 21, 2022

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Executive Summary

- What Is It?
- Why Should You Care?
- What Methods Are Used to Track ESG Performance?
- What Standards Are Driving Reporting?
- What Are Emerging ESG Trends?
- How can You Develop an Effective ESG Policy?

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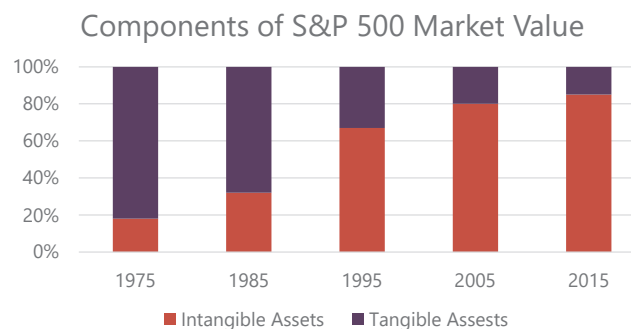
ESG AND SUSTAINABILITY CONSIDERATIONS AFFECT VIRTUALLY EVERY BUSINESS

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What is ESG – Environmental, Social, & Governance?

- Grew out of frameworks measuring and minimizing “GHG,” or greenhouse gas emissions
 - **E** – Measurement and reduction of environmental footprint, including GHG emissions, water conservation, waste reduction, *etc.*
 - **S** – Grounded in evolving notions of the purpose of the corporation – considerations around safety, communities, and DEI
 - **G** – Focus on transparency, anti-corruption, anti-money laundering, data security, and reporting ESG metrics
- Environmental role viewed as critical: Capital “E”
- Sustainability: Current enterprise development without compromising ability to satisfy future business needs
- Includes metrics, tracking and reporting

Why is ESG Important?



- Intangible assets are more susceptible to ESG impacts
 - Brand value
 - Effect of litigation
 - Impact of major spill
 - Rebranding of myriad products and logos
 - Institutional investor focus
 - Private equity focus
 - Lender focus
 - Customer focus
 - Employee focus

Why is ESG Important?

- Exxon & The Little Engine that Could
 - Engine No. 1: Tiny hedge fund secures 3/12 Exxon Board seats in June 2021 – with only 0.02% of outstanding shares
 - Sought Board seats questioning Exxon's climate strategy
 - Secured support from large institutional investors
 - Shareholder proposal wins requiring reporting on how Exxon's lobbying aligns with GHG emissions limitations
- Boards need to be educated and attuned to ESG topics
- Companies may find credit sources tied to ESG/sustainability diligence and risk

ESG for Non-Public Companies

- Remember – seen as a driver for corporate sustainability
- GHG Intensity Metric – Product alignment and comparative data
- Has become a basis for attracting professional talent
- Conservation efforts can drive cost savings
 - *E.g.*, energy costs
 - Tool to anticipate change
- Attract institutional and publicly-traded investors
 - Businesses with high ESG metrics are more attractive to publicly-traded investors
 - Distinguish your company from others seeking investment
- ESG progress can drive more favorable lending terms
- ESG metrics function as selling point if/when divestiture is desired
- Encourages gathering and reporting of information that may carry favor with regulatory agencies
- Reporting should be tailored to audience and company goals

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First appeared as part of the conference materials for the
48th Annual Ernest E. Smith Oil, Gas and Mineral Law Institute session
"ESG and What it Means to the Industry"