Responding to a Rapidly Changing ESG Policy Landscape

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Biden is Going to Push ESG

Through its electoral platform, and a number of early actions, the Biden administration has signaled a strong desire to make environmental, social, and governance (ESG) considerations more central themes in government policy, corporate disclosure, and investor and corporate behavior. In the first few weeks executive orders have included:

- Re-joining the Paris Climate Accord;
- Canceling the Keystone XL Pipeline;
- Restoring collective bargaining power for federal workers; and
- Laying the foundation for a national minimum wage increase.

Policies directed at addressing climate change such as carbon pricing, clean energy standards, and incentives for renewables development get the most attention (*see CRA Insights* "Examining post-election climate policy scenarios in the US"), but we expect significant policy shifts across all areas of ESG. The most significant issues are captured in the framework below:

Environmental	Social	Governance
• Constructive policies and incentives for development of new renewable energy projects • Regulation and incentives aimed at increasing share of electric vehicle (EV) sales • Regulation and/or pricing of carbon emissions including aggressive limits on methane • Ending federal support for fossil fuel projects (e.g. coal-fired power, oil, and gas leases) • Greater emphasis and enforcement of climate-related environmental laws • Strengthening of clean water rules that safeguard streams and wetlands • Greater regulation on the use and disposal of toxic chemicals	• Increased protection for workers including reinstitution of equal pay, new rules regarding worker classification, workplace safety orders, and an increase in the federal minimum wage • Greater oversight of consumer protection issues, cybersecurity, use of consumer data, and privacy concerns • Tougher on corporate crime, while incentivizing robust corporate compliance programs • Enforcement and litigation related to fair lending laws	• Increased reporting and disclosure standards for public companies with respect to ESG including climate risks, greenhouse gas (GHG) emissions in operations, supply chain, and diversity and inclusion

Why This Matters a Great Deal for Corporates

Biden's policy, regulatory, and legislative objectives linked to ESG issues are broad and far-reaching. While not all of the above will be implemented to the letter of their original intent, a fundamental shift in the US political and regulatory framework around corporates and ESG issues should be the baseline expectation—a shift that not only changes disclosure requirements, but may fundamentally affect the economics of certain value chains, capital-labor relationships (broadly speaking), and the legal risks of corporates. Certainly, some sectors will be affected more than others (e.g. renewable energy subisidies will change the fundamental dynamics for the energy value chain; the push towards EV will amplify the efforts of some in the transport industry; the regulation of methane emissions will have a significant impact in agriculture, livestock, and meat processing, etc.). But all sectors will be impacted, to a greater or lesser degree, with listed companies leading the way due to changes in disclosure requirements.

What US Corporates Must Do

For many (but not all) US-based corporates, the systematic management of ESG issues has significantly lagged Europe in terms of degree of focus and sophistication. This must change, and quickly. Specifically, US corporates need to step up their ESG orientation to:

- Understand the policy agenda;
- Understand its industry and business-specific implications on compliance requirements;
- Understand its strategic and economic implications on the fundamentals of the industry and business—and the medium term risks and opportunities created;
- Develop a perspective on the corporate's stance in relation to the policy and regulatory agenda (i.e. comply/anticipate/future-proof/leverage for strategic advantage); and
- Put in place an agenda underpinned by a set of specific initiatives, a framework for embedding the change in orientation in the business, and a blueprint for managing that change over time and measuring its impact.

To better understand how prepared they are for the expected policy shift, management teams need to ask themselves the following questions:

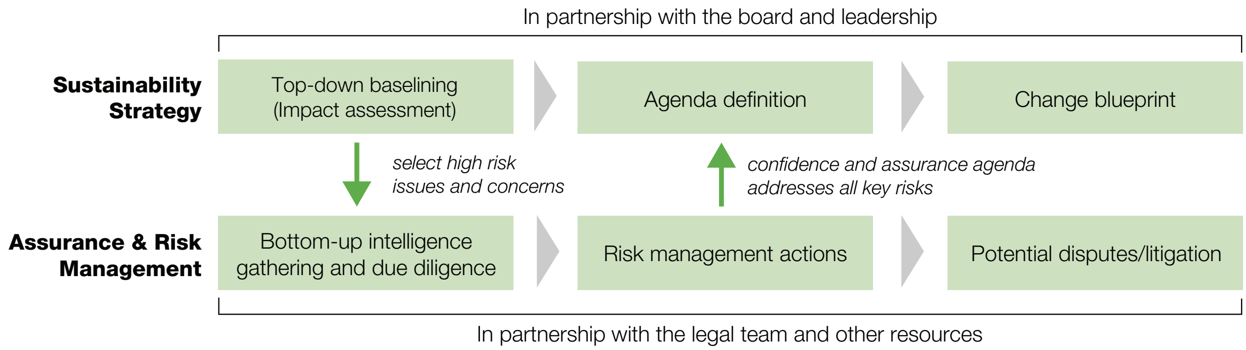
- Do we have a robust understanding of the ESG-related issues that are “material” to our business?
- Do we have a clear agenda in place to address the material issues, and does it need to be revised based on the expected shift in policy and/or on a need to better elevate our orientation on ESG and sustainability more broadly?
- Are we clear on the specific organizational mechanisms we are using to advance our ESG agenda (e.g. governance, goals and targets, capital allocation, executive and management incentives, changes to specific core business processes including strategy and planning, new product development, hiring and recruiting, supplier selection)
- Are all of our relevant functions aligned with our agenda, and how will it be embedded and progressed in the business?
- Do we have a set mechanism for measuring our progress, and clarity on how/what we will communicate externally via our Investor team?
- Do we understand how our ESG/sustainability strategy connects to our corporate strategy, and where the win-wins lie?

In an unstable ESG policy environment, forward-thinking companies that have a strong framework in place to develop and progress a clear and fully integrated ESG strategy will be best placed to manage through the uncertainty and grow their businesses for the long term.

About CRA’s ESG Service Offering

Charles River Associates (CRA) is a leading global professional services firm with an integrated suite of ESG capabilities that can be leveraged to seamlessly serve the changing needs of boards, executive teams, and their counsel. Our services are focused on helping companies identify material ESG-related business opportunities and risks; define, elevate, and progress an integrated corporate sustainability agenda; and deploy select assurance and risk management strategies for more robust management of business, financial, and legal risk.

See www.crai.com/ESG.



To Learn More About CRA's Capabilities

If you would like to learn more about our capabilities in the sustainability and assurance domains, please contact Christine Delivanis, Charlie Johnson, or Elaine Wood.

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