Clark Hill

ENVIRONMENTAL PROFESSIONALS OF ARIZONA

19TH Annual EPAZ Conference

"Environmental, Social, Governance (ESG) … What is it? Where is this Headed?

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Today's Discussion

United States companies are facing an ESG regulatory landscape that is evolving both domestically and globally.

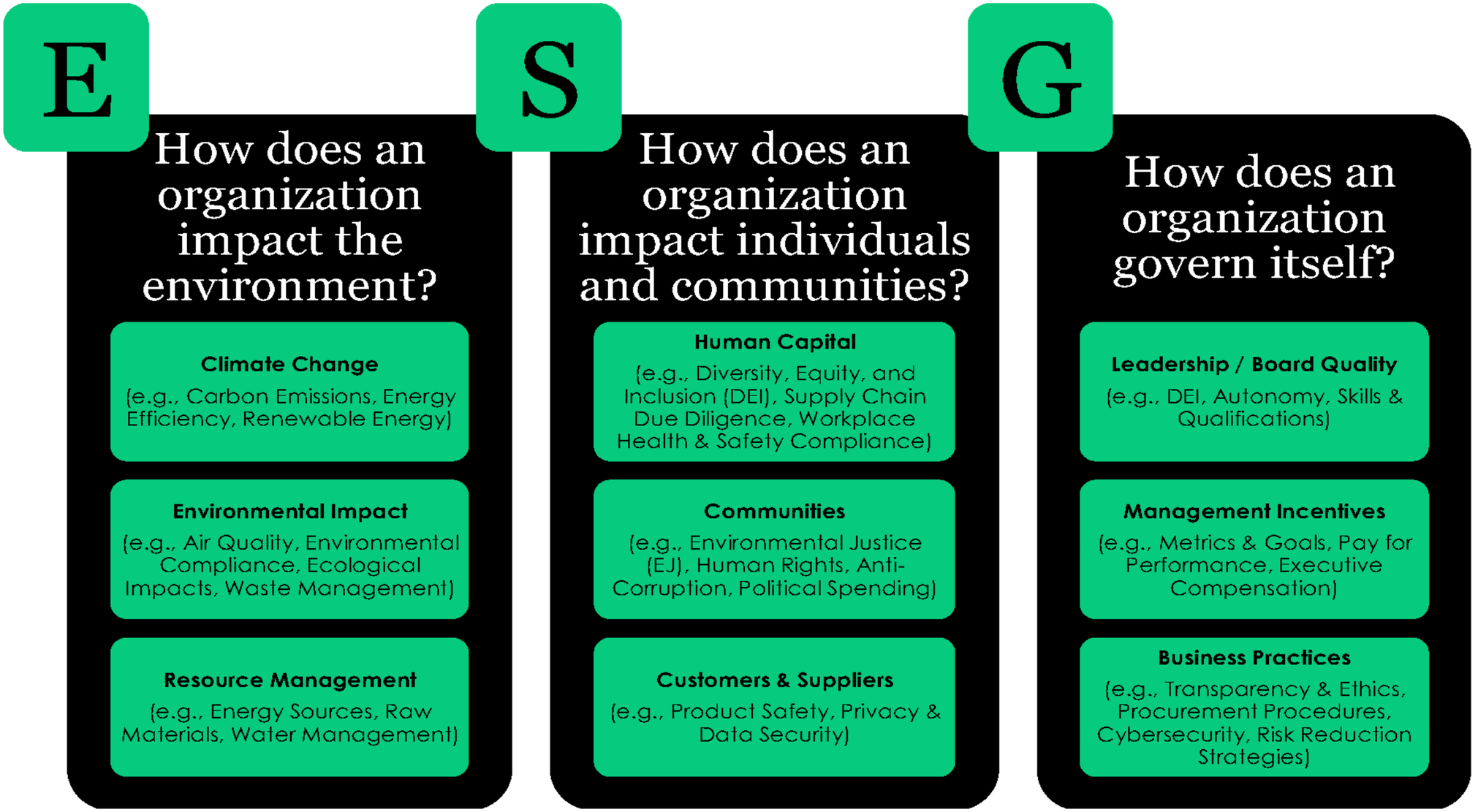
Because this ESG topic is so broad and expansive, my presentation today will focus on the "E" in ESG!

What is ESG?

There is some confusion as to what ESG really means or what it might represent to the public or environmental community.

ESG is a slippery concept without widely accepted definitions, criteria and/or metrics. ESG is an expansive term that incorporates broad categories of interest for investors and asset managers, environmental issues, social issues, and governance issues.

Certain buzzwords such as Sustainable, Responsible, ESG, Climate, Carbon, Green, Energy, Climate Change, Environmentally friendly, Socially Responsible, Sustainable Natural Resource/Agriculture, Greenhouse Gas Emission, Diversity, and Board and Employee Engagement might represent some of the words used.


E
How does an organization impact the environment?
Climate Change
(e.g., Carbon Emissions, Energy Efficiency, Renewable Energy)
Environmental Impact
(e.g., Air Quality, Environmental Compliance, Ecological Impacts, Waste Management)
Resource Management
(e.g., Energy Sources, Raw Materials, Water Management)
S
How does an organization impact individuals and communities?
Human Capital
(e.g., Diversity, Equity, and Inclusion (DEI), Supply Chain Due Diligence, Workplace Health & Safety Compliance)
Communities
(e.g., Environmental Justice (EJ), Human Rights, Anti-Corruption, Political Spending)
Customers & Suppliers
(e.g., Product Safety, Privacy & Data Security)
G
How does an organization govern itself?
Leadership / Board Quality
(e.g., DEI, Autonomy, Skills & Qualifications)
Management Incentives
(e.g., Metrics & Goals, Pay for Performance, Executive Compensation)
Business Practices
(e.g., Transparency & Ethics, Procurement Procedures, Cybersecurity, Risk Reduction Strategies)

ESG & Sustainability: Related but NOT Interchangeable

Sustainability

- Presupposes an **inside-out** lens as it describes how organizations impact society and the environment
- Broad term for any company's efforts to "do good" and "do well"
- Encompasses a range of responsible business practices by considering the interplay of environmental, social, and economic factors

ESG Considerations

- Presuppose an **outside-in** focus on how ESG issues impact the company and its value by posing new risks, threats, and opportunities
- Set of criteria used to evaluate a company's environmental, social, and governance impact
- Considered part of a larger umbrella of Sustainability

Under the 2015 Paris Agreement:

Countries pledged to keep global warming below 2 degrees Celsius

The reference period 1850-1900 to represent pre-industrial temperature

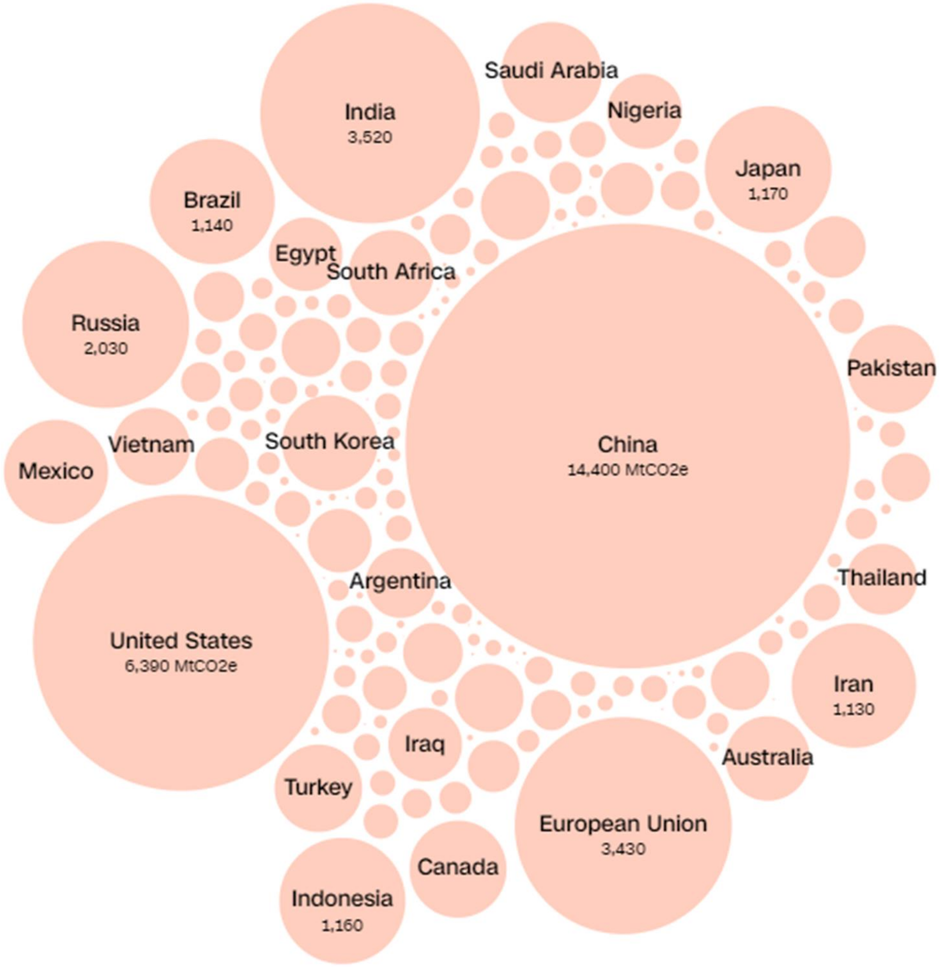
With the ambition of limiting it to 1.5 degrees Celsius – emissions need to be reduced by 45% by 2030 and reach net zero by 2050.

The GHG Inventory Covers

Seven Direct Greenhouse Gases Under the Kyoto Protocol:

1. Carbon dioxide (CO_2)
2. Methane (CH_4)
3. Nitrous oxide (N_2O)
4. Hydrofluorocarbons (HFCs)
5. Perfluorocarbons (PFCs)
6. Sulphur hexafluoride (SF_6)
7. Nitrogen trifluoride (NF_3)

2022 DATA = 50 Billion Metric Tons CO2e China = 30%



ESG Alphabet Soup

	Laws & regulations			Frameworks & standards			
	CSRD↗	SEC↗	SFDR↗	TCFD↗	ISSB↗	GRI	SASB
01 DEFINITION	Corporate Sustainability Reporting Directive (EU)	Securities Exchange Commission (U.S.) Proposed rule – Enhancement & Standardization of Climate-Related Disclosures	Sustainable Finance Disclosure Regulation (EU)	Task Force on Climate-related Financial Disclosures	International Sustainability Standards Board	Global Reporting Initiative	Sustainability Accounting Standards Board
02 GHG EMISSIONS	Scope 1, 2, and 3 mandatory	Scope 1 and 2 mandatory Scope 3 – If deemed financially material or a company has a publicly stated goal [7] that includes scope 3 reductions.	Scope 1, 2, and 3 mandatory	Scope 1 and 2 mandatory Scope 3 – If appropriate and subject to materiality and related risks. The TCFD makes a point to encourage disclosure of Scope 3 emissions.[7]	Scope 1, 2, and 3 mandatory [7]	Scope 1, 2, and 3 mandatory GRI lists scope 1, 2, and 3 emissions as required [7] though it states a reporting entity could exclude these requirements and still have a complete report.	Scope 1, 2, and 3 encouraged but not required [7]
03 DISCLOSURE METRICS & PROGRESS	Must report on all metrics. Focus of reporting is on general standards surrounding double materiality risk and impact, value chains and intangible resources, as well as transition targets for businesses. This is a non-financial reporting tool.	Only GHG scopes. Other metrics are optional within the proposal.	GHG indicators, as well as intangible resources and investment decision making. Must be in line with the EU Taxonomy.	Must report progress on all metrics.	Must report progress on all metrics and GHG indicators.	GRI has eight reporting principles that an organization is required to apply, including, comparability and timeliness. The organization shall select, compile, and report information consistently to enable analysis of changes in an organization's impacts over time, and an analysis of impacts relative to those of others within their sector. The organization shall report information on a regular schedule and make it available in time for information users to make decisions.	Must report on industry-specific indicators. Scope 1, 2, and 3 emissions are optional.

Reporting Frameworks

1. Securities and Exchange Commission (SEC) proposed regulations "The Enhancement and Standardization of Climate-Related Disclosures for Investors," 87 Fed. Reg. 21, 334 (April 11, 2022)
   - Climate-related disclosures focus – registration statement/annual reports.
   - Key issue – "materiality."
2. Corporate Sustainability Reporting Directive (CSRD) European Union – December 16, 2022
   - European Sustainability Reporting Standards (ESRS) by the European Financial Reporting Advisory Group (EFRAG)
   - All three topics – Environmental, Social and Governance are included.
     - Key Issues: 1) Materiality; 2) Requirements for Scope 3 emissions; 3) Mechanisms for ESG Disclosure; and 4) Auditing Requirements.
3. California Climate Corporate Data Accountability Act – SB 253. Begins in 2026, companies with revenues of more than $1 billion that do business in California must disclose Scope 1 and Scope 2 emissions. Scope 3 emissions reported in 2027. Requires the "Greenhouse Gas Protocol Standards and Guidance"

Corporate Climate Action Plans

1. You must get corporate buy-in!
2. Guide your business to net-zero by 20___?
3. Build custom Climate Action Plans that decrease GHG emissions across your business and supply chain.
4. Sustainability Officer?

Chief Sustainability Officer: Job Description

A chief sustainability officer's job description can vary from company to company, but here are some common duties and responsibilities you would find on a job description:

- Develop and implement strategies to address the Three Pillars of Sustainability.

  (1)Environment, (2) Society and the (3) Economy

- Facilitate sustainability projects by overseeing employee performance and provide clear direction for the goals of sustainability projects.

- Research environmental sustainability issues or concerns and align them with stakeholder interests.

- Ensure sustainability program processes and operations compliance with environmental, governmental, and industrial regulations.

- Monitor, report, and evaluate effectiveness of sustainability program implementations.

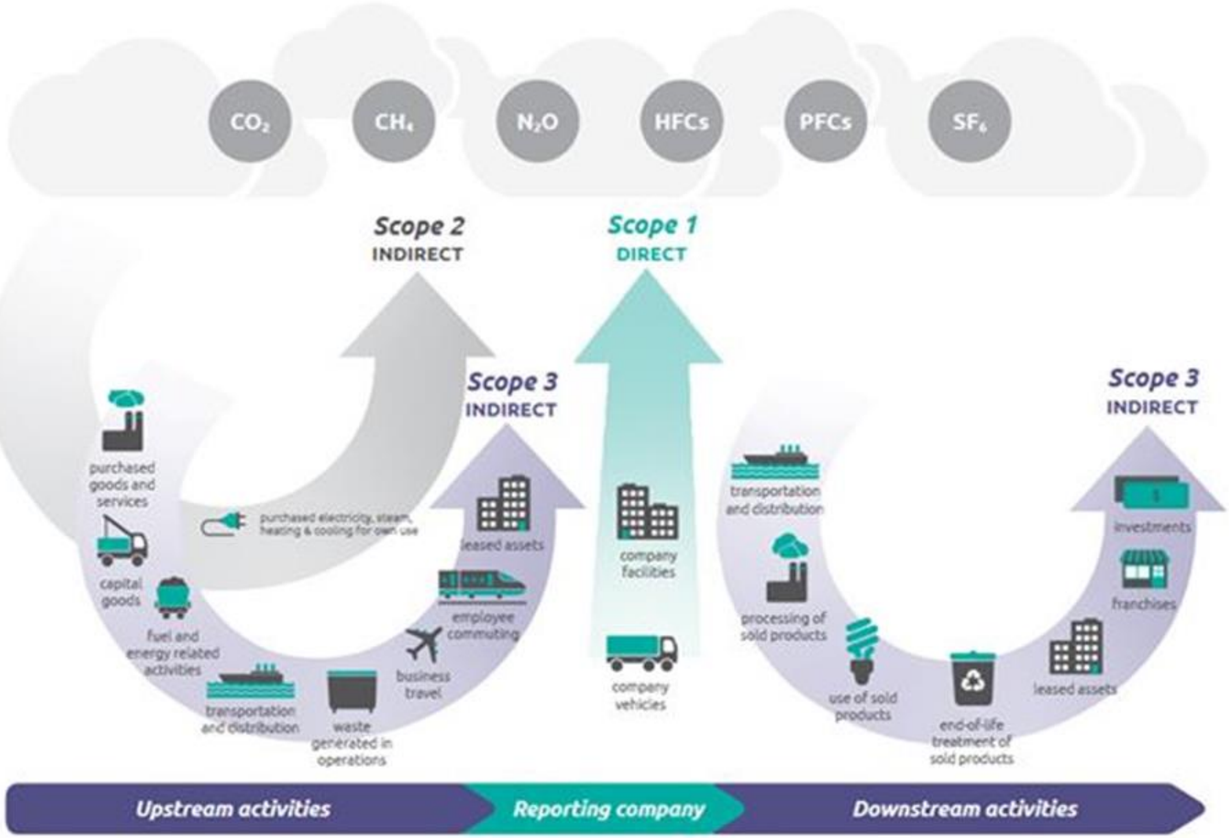
Chief Sustainability Officer: Job Description (continued)

- Align proposals for sustainability projects with factors such as cost effectiveness, technical feasibility, and integration with other initiatives.
- Identify areas of inefficiency and unsustainable corporate practices.
- Connect with different channels of communication and media for marketing initiatives.
- Forge relationships with suppliers and other stakeholders and leverage these relationships towards conducting successful sustainability projects.
- Manage corporate sustainability risk assessments.
- Foster an internal organizational culture based on sustainable business practices and ethics while empowering employees with a positive social corporate climate.

Environmental (E)

- Environmental (E) sustainability aims to improve human welfare through the protection of natural capital (e.g., land, air, water, minerals etc.)
- Initiatives and programs are defined environmentally sustainable when they ensure that the needs of the population are met without the risk of compromising the needs of future generations.
- Harm reduction is one-way businesses have sought to minimize negative impacts on the environment.
- Adopting new technologies which use clean energy, waste reduction, or more efficient production methods is even better, and more companies are seeing the benefits.

Overview Emission Categories



Source <a href=httpsghgprotocolorgsitesdefaultfilesstandardsCorporate Value Chain Accounting Reporing Standard 041613 2pdf target= blank rel=noreferrer noopener>httpsghgprotocolorgsitesdefaultfilesstandardsCorporate Value Chain Accounting Re poring Standard 041613 2pdf<a>

Scope 1 – Direct Emissions

Scope 1 Emissions Include:

Direct emissions from the company's owned or controlled sources.

- On-site energy like natural gas and fuel, refrigerants, and emissions from combustion in owned or controlled boilers, and furnaces
- Emissions from fleet vehicles (e. g. cars, vans, trucks, helicopters for hospitals)
- Scope 1 emissions encompass process emissions that are released during industrial processes, and on-site manufacturing (e.g., factory fumes, chemicals)

Scope 2 – Indirect Emissions from Purchased Energy

According to the GHG Protocol Scope 2 emissions represent one of the largest sources of global greenhouse gas emissions accounting for at least a third of it.

Scope 2 Emissions Include:

- Indirect greenhouse gas emissions from purchased or acquired energy, like electricity steam, heat, or cooling, generated offsite and consumed by the reporting company. For example, electricity purchased from the utility company is generated offsite, so they are considered indirect emissions.

Scope 3 – Indirect Value Chain Emission

Scope 3 Includes:

- All indirect emissions that occur in the value chain of a reporting company.
- To make a clear distinction between Scope 2 and Scope 3 categories, the US Environmental Protection Agency (EPA) describes Scope 3 emissions as: "The result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain."
- Even though these emissions are out of the control of the reporting company, they can represent the largest portion of its greenhouse gas emissions inventory.

Scope 3 – Indirect Value Chain Emission (continued)

The GHG Protocol divides the Scope 3 emissions into Upstream and Downstream emissions.

Upstream emissions encompass the indirect greenhouse gas emissions within a company's value chain related to purchased or acquired goods (tangible products) and services (intangible products) and generated from cradle to gate.

Downstream emissions include the indirect greenhouse emissions within a company's value chain related to sold goods and services and emitted after they leave the company's ownership or control.

Environmental Product Declaration

The intent behind an Environmental Product Declaration (EPD) is to encourage the use of materials and products that offer life cycle information and have socially and economically preferable impacts on our planet.

EPD's are a form of life cycle assessment and are the standard way of quantifying the impact of a product or system on the environment.

EPD's include the product's life cycle assessment, from the raw material extraction to its disposal, so we can measure a product's environmental impact.

An EPD is created in accordance with the International Standard ISO 14025 and EN 15804 guidelines.

They are developed based on life cycle assessments following ISO 14040 (Environmental management - Life cycle assessment - Principles and framework) and ISO 14044 (Environmental management - Life cycle assessment - Requirements and guidelines), which describe the process for doing a life cycle assessment.

Generally, Environmental Product Declarations are valid for up to 5 years.


ENVIRONMENTAL PRODUCT DECLARATION
In accordance with ISO 14025 and EN 15804:2012+A1:2013

EPD®

COLD ROLLED STAINLESS STEEL
STENA STÅL AB

PROGRAMME:
The International EPD® System,
www.environdec.com
PROGRAMME OPERATOR:
EPD International AB
EPD REGISTRATION NUMBER:
S-P-04606
PUBLICATION DATE:
2021-12-17
VALID UNTIL:
2026-12-17
CLIMATE CHANGE:
3590 kg CO_2 eq. /tonne, (A1 to A3)
EXTERNAL INDEPENDENT VERIFIER:
Håkan Stripple at IVL Swedish Environmental Research Institute
hakan.stripple@ivl.se
www.ivl.se

(See example handout)


ENVIRONMENTAL PRODUCT DECLARATION
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EPD®

PROGRAMME INFORMATION

Programme:	The International EPD® System EPD International AB Box 210 60 SE-100 31 Stockholm Sweden www.environdec.com info@environdec.com
CEN STANDARD EN 15804:2012+A1:2013 SERVED AS THE CORE PCR	
Product category rules (PCR):	PCR 2012:01 Construction products and construction services, version 2.33
PCR review was conducted by:	The Technical Committee of the International EPD® System. Chair: Massimo Marino. Contact via info@environdec.com
Independent third-party verification of the declaration and data, according to ISO 14025:2006:	☐ EPD process certification ☑ EPD verification
External independent verifier:	Håkan Stripple, IVL, The Swedish Environmental Research Institute
Approved by:	The International EPD® System
Procedure for follow-up of data during EPD validity involves third party verifier:	☐ Yes ☑ No

The EPD owner has the sole ownership, liability, and responsibility for the EPD. EPDs within the same product category but from different programmes may not be comparable. EPDs of construction products may not be comparable if they do not comply with EN 15804:2012+A1:2013.

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Greenhouse Gas Calculators

There are numerous Consulting Companies who have software which might be helpful to utilize in keeping track of your Scope 1, 2 and 3 GHG emissions.

Some Examples:

EPA has one for free.
https://www.epa.gov/climateleadership/simplified-ghg-emissions-calculator

Greenhouse Gas Accounting Software | Tango (tangoanalytics.com)
https://watchwire.ai/emissions-calculation-tracking/

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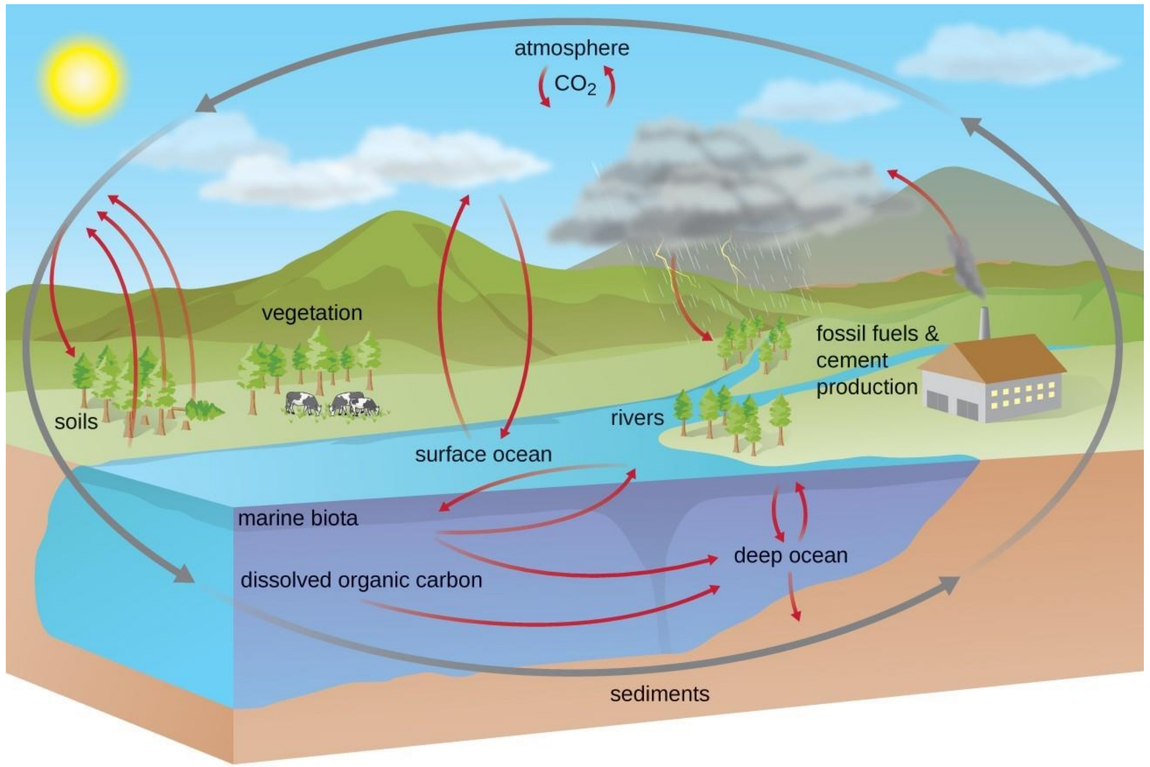
Greenwashing

Term to describe the "devious tactics" companies use to appear more environmentally responsible than they are.

The public and regulators will compare your statements to your corporate actions.

Be prepared to back it up!

Offset Carbon Emissions



Carbon cycle

Final thought . . .

Purchase carbon offsets from verified projects for emissions you cannot yet mitigate to achieve net zero carbon.

How to Measure Success?

1. Choose what you wish to measure and set a goal.
2. Report what you measure - Common Reporting Frameworks:
   - Global Reporting Initiative (GRI)
   - Sustainability Accounting Standards Board (SASB)
   - Make a custom report.
3. Should you get a third-party audit?
4. Re-evaluate what you measure and set a new goal.

Example 1

Construction Industry

Contractors developing programs to calculate Scope 1, 2 and 3 emissions as required for federal contracts and the Federal Acquisition Regulations (FAR).

FAR Compliance Officers will scrutinize and approve BID packages.

The Associated General Contractors of America (AGC) has a "Climate Change Working Group."

Example 2

Banking Industry

Banks will be evaluating existing loan portfolios for "climate-related risk management" and will likely scrutinize future loan applications for climate disclosures and climate risk.

Environmental Bankers Association (EBA) is developing an "Environmental Risk Manager Certificate" program to provide training in environmental risk decisions for commercial real estate.

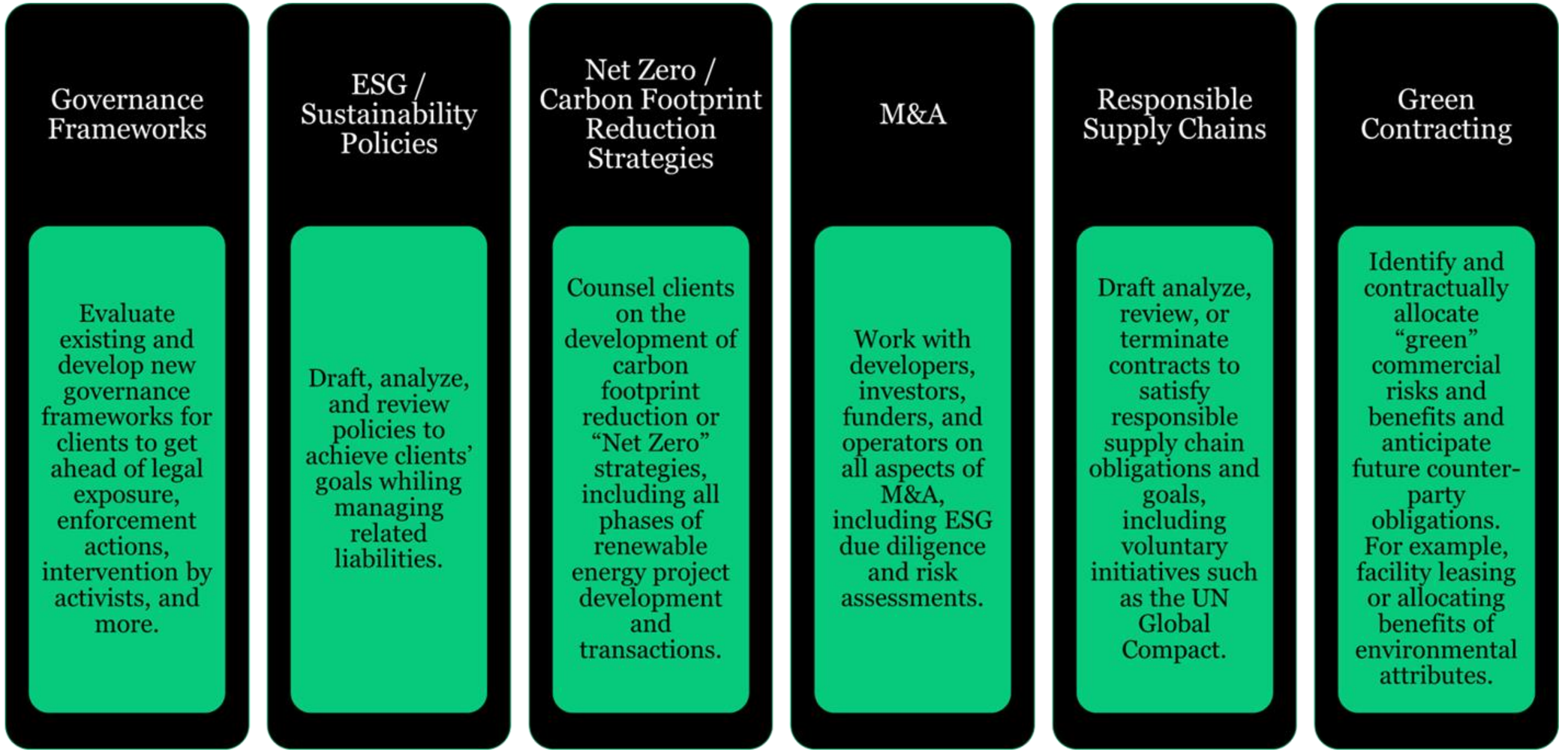
Example 3

Major Oil/Energy Companies

These entities are developing separate business units and research programs to compete in solar, wind, hydrogen fuels, carbon capture technology, and battery technology to diversity the business.

They also are investing significant resources to limit and capture fugitive GHG emissions from traditional oil and gas operations.

Examples of Legal Clark Hill Service Offerings



Examples of Legal Clark Hill Service Offerings

Cybersecurity, Data Protection & Privacy	Greenwashing	Intellectual Property:	Diversity, Equity & Inclusion Services	Regulatory & Policy Advocacy	ANY OTHERS TO ADD?
Work with clients to identify vulnerabilities and opportunities, build technologically secure practices, and improve data privacy habits, including developing policies, processes, and procedures.	Draft clear and substantiated "green marketing" claims, including those made in reports, to avoid allegations of greenwashing. If or when they arise, help clients navigate whistleblower complaints and complex litigation.	Help clients protect and leverage new technologies, including licensing.	Provide DEI-related auditing, counseling, training and advisory services to clients.	Help clients identify and advocate for rational and cost-effective government policies and guidance.	[INSERT]

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Thank You

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