



ESG TRENDS: ENVIRONMENTAL



ESG BOOM AMID THE COVID-19 PANDEMIC

2ND EDITION



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INTRODUCTION

Our attorneys have been keeping close track of recent ESG developments to help you stay abreast of the trends in Brazil as well. After commenting on the expected increase in climate-environmental litigation in Brazil, the second chapter of a series of e-books addressing the expected trends in the environmental pillar will focus on the ESG boom in the wake of the pandemic.

As an example, publicly-held companies with robust ESG practices outperform those posing a high environmental risk – even amid in a crisis scenario. We invite you to discover on the following pages more indicators and cases that show the importance given to ESG during the pandemic.

The next chapter of this series will address the transparency in climate disclosure to investors.

ESG AMID THE PANDEMIC

ESG (environmental, social and governance), which represents a company's commitment to sustainable development, was first mentioned¹ in the publication *Who Cares Wins – Connecting Financial Markets to a Changing World*, launched in 2004 by the Global Compact² and endorsed by the World Bank and large financial institutions with multinational operations. Since then ESG has been gaining even more traction in strategic corporate discussions.

While pre-pandemic ESG standards were evolving steadily, the outbreak of the COVID-19 pandemic raised doubts as to whether they have moved forward or backward. However, the current crisis has

shown for the first time in our era, how in today's globalized world, local issues may have impacts upon society globally, though initially restricted to one sole location.

It is only natural to establish a correlation with environmental, social and governance factors, seen as the major challenges in the coming years and embedded in the 17 UN Sustainable Development Goals (SDGs),³ which tackle climate change, responsible consumption and production, affordable and clean energy, clean water and sanitation, sustainable cities and communities, among others.

1) ATKINS, Betsy. ESG History & Status. Available at: <https://insights.diligent.com/wp-content/uploads/2020/06/ESG-History-Status.pdf>. Accessed: June 15, 2021.

2) The Global Compact, an initiative launched in 2000 by UN Secretary-General, with the primary goal of ensuring that companies align their strategies and operations with ten universal principles related to human rights, environment, labor,

and anti-corruption. It is the world's largest corporate sustainability initiative, with more than 16 thousand members based in 160 countries.

3) Sustainable Development Goals. Available at: <https://odsbrasil.gov.br/>. Accessed: June 16, 2021.

- Within this context, companies with a long-term focus have proven to be more resilient,⁴ so the pandemic sparked a boom in the ESG agenda.

This e-book brings data showing that emphasis on ESG has grown during the COVID-19 pandemic, which also promoted an increased awareness, with prospects of maintaining and consolidating the ESG agenda in the future.

4) J. P. MORGAN. Covid-19 shows that ESG matters more than ever. 2020. Available at: <https://am.jpmorgan.com/br/pt/asset-management/adv/esg-hub/covid-19-shows-esg-matters-more-than-ever/>





Based on the analysis conducted by Alyssa Stankiewicz for Morningstar, in the first three months of 2021, the U.S. saw a flow of sustainable funds of nearly US\$ 21.5 billion. That figure is higher than the previous record of US\$ 20.5 billion in the fourth quarter of 2020, and more than double the US\$ 10.4 billion seen in the first quarter of 2020. It was also about five times greater than the first-quarter flows in 2019, before the pandemic.⁵

5) STANKIEWICZ, Alyssa. Sustainable Fund Flows Reach New Heights in 2021's First Quarter. Available at: <https://www.morningstar.com/articles/1035554/sustainable-fund-flows-reach-new-heights-in-2021s-first-quarter>.

In this respect, the paper titled “*ESG risks in time of Covid-19*,”⁶ published by Fabrizio Ferriani and Filippo Natoli (members of the Bank of Italy), explores how company stocks were impacted by the COVID-19 pandemic. The result shows that investors preferred companies with low ESG risks because of greater prospects of return in the future.

- Even in times of crisis, publicly-held companies with strong ESG practices perform better than those with high ESG risks.

A study conducted by Bloomberg confirms this scenario: in 2020 ESG assets hit US\$ 38 trillion, a growth over 25% compared to the US\$ 30 trillion seen in 2018, before the pandemic. This figure is poised to increase in the next years to US\$ 53 trillion in 2025, representing a third of the world's total assets, which are on the track to reach US\$ 140.5 trillion.⁷

6) FERRIANI, Fabrizio; NATOLI, Filippo. ESG risks in times of Covid-19. Applied Economics Letters, [S.L.], p. 1-5, October 9, 2020. Available at: <https://www.tandfonline.com/doi/epub/10.1080/13504851.2020.1830932?needAccess=true>. Accessed: June 15, 2021.

7) ESG assets may hit \$53 trillion by 2025, a third of global AUM. Available at: <https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/>



In this scenario, the international community has undertaken green recovery commitments, emphasizing that sustainable alternatives should be the response to the world economic crisis.

The Organization for Economic Cooperation and Development (OECD) has created the Green Recovery Database⁸ to track

environmentally positive recovery measures related to the pandemic. According to the data disclosed, OECD countries and key partner economies have so far allocated US\$ 336 billion to environmentally positive measures under their COVID-19 recovery plans – this amounts to 17% of the total sums allocated to COVID-19 economic recovery. This initiative lists a series of stages for a sustainable recovery⁹ and discloses from time to time reports and indices on allocation of funds by country.

8) OECD. Focus on green recovery. Available at: <https://www.oecd.org/coronavirus/en/themes/green-recovery>

9) Among the proposed measures are: stimulate economic growth aligned with creation of green jobs, accelerate a low-carbon transition, strengthen biodiversity protection, and enhance environmental health.

- Along the same lines, the International Monetary Fund has released the publication *Greening the Recovery*,¹⁰ which brings indicators toward the need to green the response to the pandemic, emphatically stating that the COVID crisis will not change the climate, by the response will.

This view is shared by the European Union, which committed to the updating of the European Green Deal, in line with new post-pandemic standards¹¹.

According to the UN Secretary-General, António Guterres, one of the central objectives of the United Nations for 2021 is an exponential growth of the global coalition for net zero emissions, underpinned by clear and credible plans. Guterres also stated that all countries should come forward, by the start of the 26th UN Climate Change Conference (COP-26), postponed to the end of 2021 due to the COVID-19 crisis, with more ambitious contributions and with consistent 2030¹² targets.

10) Greening the Recovery. Available at: <https://www.un-page.org/files/public/en-special-series-on-covid-19-greening-the-recovery.pdf>

11) See EUROPEAN COMMITTEE OF THE REGIONS. The European Green Deal remains the compass of the EU's COVID-19 recovery plan. 2021. Available at: <https://cor.europa.eu/pt/news/Pages/european-green-deal-compass-eu-covid-19-recovery-plan.aspx>

12) UN. Available at: <https://news.un.org/pt/story/2021/02/1740842> and <https://news.un.org/pt/story/2021/01/1739542>



In a new G7 summit, which gathered the world's largest developed economies, they renewed their pledge to jointly mobilize US\$ 100 billion a year from public and private sources by 2025 to help poorer countries cut emissions. Further commitments were signed, among which the pledge to interrupt by the end of 2021 government subsidies for coal power generation aimed at the transition to other energy sources with lower carbon emissions.

Keeping an eye on the opportunities brought about with the boom of ESG issues in the pandemic, some multinational companies have been successful in their sustainable goal commitments. 3M, for instance, has committed to reducing carbon emissions, achieving a 50% reduction by 2030, and zero emissions by 2050. The company also committed by 2030 to achieving a 25% reduction in the use of water in its operations and ensuring proper treatment of all water used. Sustainable investments, valued at US\$ 1 billion for the next 20 years, are consolidated in the company's Annual Sustainability Report¹³.

13) 3M Sustainability Report. Available at: <https://multimedia.3m.com/mws/media/2006066O/2021-sustainability-report.pdf>



Another reference comes from the institutional commitments undertaken by the Coca-Cola Company, which has the ambition to achieve net-zero carbon emissions by 2050, based on a three-phased approach journey. Already developing initiatives on recycling of packages and funding of social projects, in 2020 the company launched its annual report *Business & Environmental, Social and Governance*, with a focus on the measures adopted during the pandemic. Last year, the company invested in the operational safety of its teams, in the financial support for the suppliers chain, and in the assistance to sectors hit by lockdowns, specifically small grocery stores and restaurants.¹⁴

For their part, Amazon, Disney, Google, Microsoft Corp., Netflix, Salesforce, Unilever and Workday, along with partners Environmental Defense Fund (EDF),¹⁵ United Nations Environment Program¹⁶ and World Wildlife Fund (WWF),¹⁷ launched, on the World Environment Day 2021, the initiative known as Business Alliance for Scaling Climate Solutions (BASCS) to increase the scale and impact of business investment in climate solutions, within the context of the Paris Agreement.

14) Business, Environmental, Social, Governance Report 2020. Available at: <https://www.coca-colacompany.com/content/dam/journey/us/en/reports/coca-cola-business-environmental-social-governance-report-2020.pdf>.

15) Available at: <https://www.edf.org/>

16) Available at: <https://www.unep.org/>

17) Available at: <https://wwf.org/>



WHAT TO WAIT FOR?

ESG practices – though voluntary in large part – have recognizably evolved from a business fad to become a competitive advantage for those adhering to them, as a core component in the business strategy. Return has already been seen through indicators, specifically from investors (and from investments alike), which assess the ESG level of risks to define market strategies.

In brief, ESG consists of an effective and detailed evaluation of risks and opportunities, as a means of creating short-, medium- and long-term strategies that align the company's results with an ethical and long-standing commitment.



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