

Bradley Potts and Michael Mazzone in Pratt's Energy Law Report: 'How do Oil and Gas Companies Create an ESG Policy That is Not a Policy of Transition to Extinction'?

November 9, 2020 Michael Mazzone

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Summer Associate Bradley Potts and Partner Michael Mazzone provide an overview of the environmental, social, and governance (“ESG”) movement’s benefits and problems; discuss the true ESG dilemma facing oil and gas companies; and identify a set of six guidelines that these companies can adopt to avoid “transitioning to extinction.”

Representing an issue that transcends generations, industries, and borders, climate change may be at the forefront of economic, social, and political debate for decades to come. The Intergovernmental Panel on Climate Change (“IPCC”) predicts that global warming of 1.5°C above pre-industrial levels will have a variety of harmful impacts, with more severe impacts occurring at 2°C.¹ For example, at 2°C compared to 1.5°C, the IPCC has medium to high confidence that warming in select regions will cause precipitation increases, more frequent droughts, greater oceanic species loss, and greater sea-level rise that is more costly to human populations.

In response to these predictions, environmental activism among investors, consumers, and politicians has spurred broad industry action on environmental, social, and governance (“ESG”) initiatives, which is supposed to “hold corporations accountable” as global citizens for these adverse impacts (allegedly caused by them) but which also ignores the positive contributions made by them. The issue with ESG policies across many industries, however, lies in the challenge of coping with the policies while also demonstrating the often greater positive effects of business operations.

For oil and gas companies, the environmental criterion of ESG has become a focal point of significant concern and strategic planning. With many activist groups, such as Extinction Rebellion, warning of impending climate catastrophes and apocalyptic events for which they blame fossil fuel consumption, oil and gas companies are being pressured to reduce, or end, fossil fuel production in the near future. Thus, oil and gas companies are now confronting their own existential dilemma: (1) ignore the demands and face fierce scrutiny from investors and consumers, or (2) acquiesce to the demands and “transition to extinction.” Neither of these alternatives ends well for oil and gas companies—or the public, which depends on the cheap, plentiful, and reliable energy which these companies deliver. Companies ought not premise their ESG policies on such incorrect alarmist threats of imminent disaster and misleading demands for radical change.

Excerpted from *Pratt’s Energy Law Report*. To read the full article, click on the PDF below.

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