



ESG IS CHANGING THE WORLD

Why COVID-19 is a litmus test for corporate attitudes to sustainability.

The pandemic has proven the viability of the environmental, social and governance (ESG) agenda for both stakeholders and investors. It has specifically elevated the significance of social factors in the current moment, and environmental factors in the long-term.

BUSINESSES WITH AGILE MANAGEMENT SYSTEMS, A CORPORATE COMMITMENT TO ESG GOALS AND STRUCTURAL RESILIENCE ARE SET TO EMERGE AS MAJOR BENEFICIARIES OF THIS SHIFTING PARADIGM

In the first four months of 2020, investors poured a record \$12.2 billion into ESG funds ([https://www.wsj.com/articles/esg-investing-shines-in-market-turmoil-with-help-from-big-tech-11589275801?](https://www.wsj.com/articles/esg-investing-shines-in-market-turmoil-with-help-from-big-tech-11589275801?emailToken=d1ba87f01e7542523177d9acb450c474AvG30u/m/fTZKcmATey7PLcNPtZp6BcfkZdBJ+RlvFyXc2n7Jul3LB0vonOwdyQfiH98RVY97EcC83VHF3M6q3Mqabr3QKkdv2M8igFFd)
emailToken=d1ba87f01e7542523177d9acb450c474AvG30u/m/fTZKcmATey7PLcNPtZp6BcfkZdBJ+RlvFyXc2n7Jul3LB0vonOwdyQfiH98RVY97EcC83VHF3M6q3Mqabr3QKkdv2M8igFFd). The steady inflow is explained by the profitability of ESG investments, which have turned out to be remarkably resilient to disruption. For instance, more than 70% of ESG funds for all asset classes outperformed their competitors. And at the end of the second quarter there were 534 index funds focused on sustainability, overseeing a combined \$250 billion ([https://urldefense.com/v3/__https://www.morningstar.com/lp/passive-esg-landscape?utm_source=corp_comm&utm_medium=referral__;!!PIZeeW5wscynRQ!4jAd5xUk1Cb-O5ceYS_nQ6Bikk-Ay4WYHGlt_BJ-1r7qBkoW6UHXOilrOsS3I7QME\\$](https://urldefense.com/v3/__https://www.morningstar.com/lp/passive-esg-landscape?utm_source=corp_comm&utm_medium=referral__;!!PIZeeW5wscynRQ!4jAd5xUk1Cb-O5ceYS_nQ6Bikk-Ay4WYHGlt_BJ-1r7qBkoW6UHXOilrOsS3I7QME$)) in Europe and the United States.

Businesses with agile management systems, a corporate commitment to ESG goals and structural resilience are set to emerge as major beneficiaries of this shifting paradigm. A recent study showed ([https://mediaroom-en.bnpparibas-am.com/news/bnp-paribas-asset-management-survey-shows-covid-19-prompts-rise-in-social-considerations-within-investment-decision-making-8e57-0fb7a.html#:~:text=BNP Paribas Asset Management \('BNPP,16% plan to do so\)](https://mediaroom-en.bnpparibas-am.com/news/bnp-paribas-asset-management-survey-shows-covid-19-prompts-rise-in-social-considerations-within-investment-decision-making-8e57-0fb7a.html#:~:text=BNP Paribas Asset Management ('BNPP,16% plan to do so) that ESG has become an even greater focus for 23% of respondents and that the perceived importance of social considerations has risen by 20% since the onset of the pandemic)) that ESG has become an even greater focus for 23% of respondents and that the perceived importance of social considerations has risen by 20% since the onset of the pandemic.

The COVID-19 crisis is likely to increase awareness that companies must consider societal needs and ethical standards, not just short-term profits. This is particularly important for companies seeking to retain the skillsets of their workers and politicians striving to avoid societal discontent. Another study found (<https://hbr.org/2018/05/layoffs-that-dont-break-your-company>) that following layoffs at a firm, the remaining employees saw a 41% decline in job satisfaction, a 36% decrease in organizational commitment and a 20% decline in job performance. Such numbers further point to long-term negative impacts on health and, as a result, skillsets.

More studies prove (<https://dash.harvard.edu/bitstream/handle/1/14369106/15-073.pdf?sequence=1>) that stock market outperformance depends on companies focusing on ESG factors that have a material impact on their business, such as waste reduction. In effect, the pandemic has highlighted concerns about the safety of secondary raw materials, the accumulation of medical plastic waste and the need for their proper disposal.

During the past months we have rediscovered the role of polymers in our lives, including disposable ones. In medicine, plastic remains one of the most important materials, since it almost completely solves the problem of contamination. In addition, it comes with reasonable price, ductility and high chemical resistance.

Four years ago, McKinsey predicted (<https://www.mckinsey.com/industries/chemicals/our-insights/how-plastics-waste-recycling-could-transform-the-chemical-industry>) that the volume of global plastic waste would grow to 460 million tons per year by 2030, taking a serious environmental problem to a whole new level. More than 76% of all plastic ends up as waste (<https://advances.sciencemag.org/content/3/7/e1700782.full>), and nearly 50% of plastics are used just once. The pandemic hasn't changed this calculus and the problem of recycling and returning plastic waste to the cycle remains and requires a comprehensive solution.



The pandemic is not a reason to ignore plastic pollution - it is a call to arms to do the opposite.

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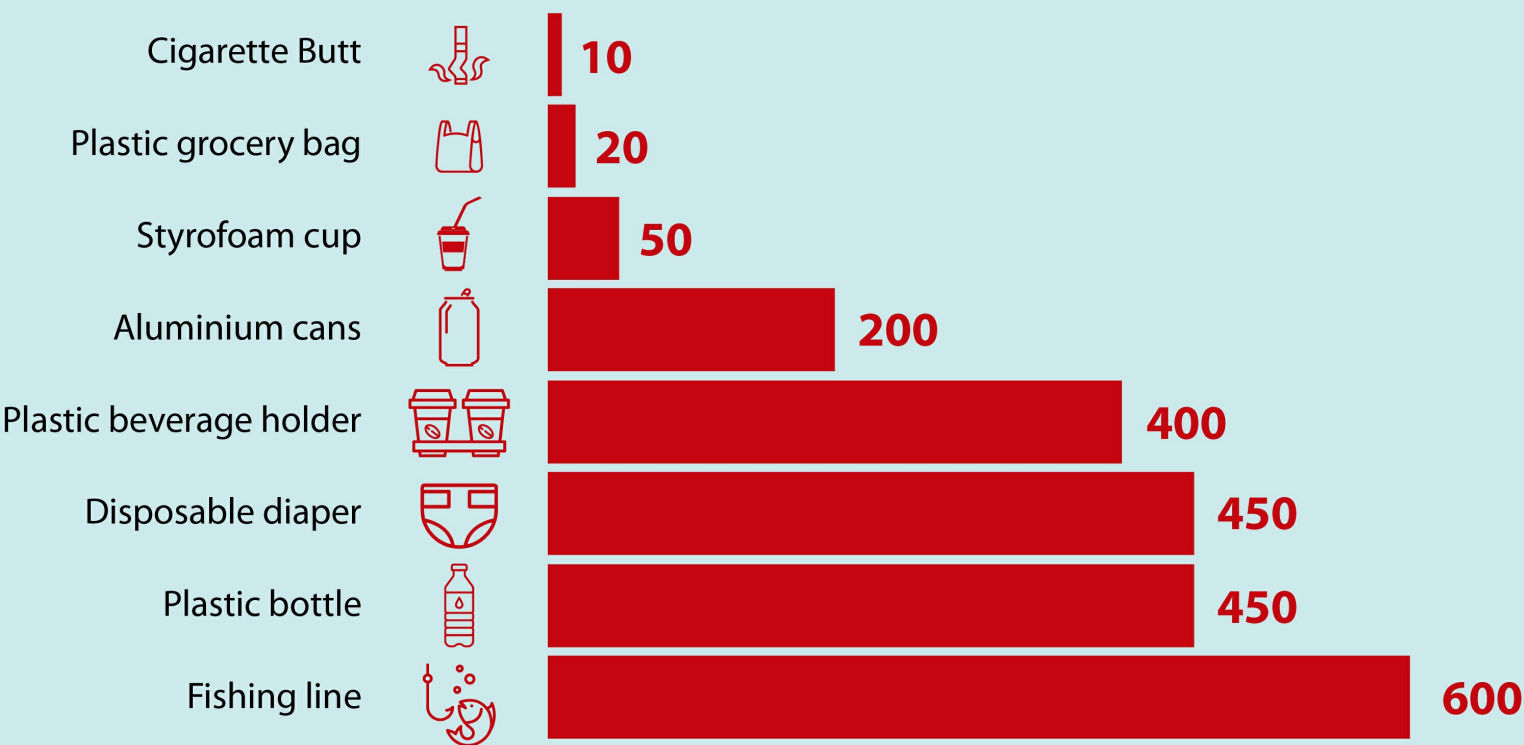
Currently we are witnessing a tendency to suspend the transition to reusable products due to the epidemiological danger. But it is important to remember that the pandemic is not the time to negate the importance of the waste management problem. In contrast, it highlights the most vulnerable links in the supply chain that all industry players must work on.

When polymer waste cannot reach the processors due to epidemiological restrictions and more waste goes to landfill and incineration, the need for a systematic approach becomes more obvious. For instance, more than 450 organizations (<https://www.newplasticseconomy.org/projects/plastics-pact>) have signed up to a vision for a global plastics system in which plastics never become waste as part of the New Plastics Economy Global Commitment (<https://www.newplasticseconomy.org/projects/global-commitment#overview>).

It is evident that we need more complex recycling practices and policies against plastic pollution (<https://www.weforum.org/agenda/2020/05/covid-19-is-forcing-us-to-rethink-our-plastic-problem/>) that take into account extensive networks of transnational ties. The growing importance of sustainable development could be a good way to start treating the issue more effectively, in order to enable long-term environmental and economic benefits.

Plastic can take 500 years to bio-degrade in the ocean

Estimated numbers of years for selected items to bio-degrade in a marine environment



Source: Statista

It is also worth keeping in mind that the scale of the current disruption might be just a rehearsal of a more dramatic slump in the future. Currently there is no shortage of studies predicting an apocalyptic future unless the world collectively reconsiders its commitment to ESG.

THE BEST WAY TO CONTINUE IS TO ACKNOWLEDGE THAT THERE IS A NEED OF MAINTAINING A BALANCE BETWEEN ESG FACTORS AND STRICT CORPORATE COMMITMENT TO THEIR RESILIENCE

Sustainable development goals and their integration into corporate strategies should perform the core role across corporate governance systems. This should not only reflect a popular recognition of the sustainability agenda, but also a keen commitment to take responsibility, which does not always entail maintaining a balance of costs and effect. For instance, economic recovery and adherence to ESG principles could facilitate the emergence of new 'green' financial instruments and social bonds.

The current crisis is likely to serve as a litmus test for those countries and corporations that are truly serious about 'low-carbon investments', and adhere to previously accepted ESG goals, and those that are not.

For instance, climate neutrality by 2050 (https://ec.europa.eu/clima/policies/strategies/2050_en#:~:text=The EU aims to be,net-zero greenhouse gas emissions.&text=All parts of society and,, buildings, agriculture and forestry.) is at the heart of the European Union's Green Deal (https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en) and is in line with the commitment to global climate action under the Paris Agreement. The proposed €750 billion fund to help the bloc recover will have a green focus, with 25% of all funding allocated for climate action.

There are many good examples across the corporate sector. Euinor, Shell and Total (<https://www.total.com/media/news/actualites/historic-investment-decision-transport-and-storage-co2>) have decided to invest in the Northern Lights project in Norway's first exploitation license for CO2 storage on the Norwegian Continental Shelf. Total has also committed (<https://www.total.com/media/news/total-adopts-new-climate-ambition-get-net-zero-2050>) to become a net-zero emission company for all its European businesses by 2050. These cases should be applauded universally and used to motivate other companies to follow suit.

The best way to continue is to acknowledge that there is a need of maintaining a balance between ESG factors and strict corporate commitment to their resilience.

The growing maturity of the ESG agenda contributes to the sustainability goals and businesses' ability to withstand external challenges. Since the risks in sustainable development are financially expressed in one way or another, the ability to manage them does not lose its relevance during any external crises and is one of the factors of long-term "survival".