

JDP

ESG
newsletter

Introduction to ESG

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The term ESG (environmental, social, and corporate governance) has been gaining popularity in the past few years. It covers a wide range of standards and principles regarding sustainability in carrying on business operations. There are predictions that ESG will revolutionise the way of conducting business. By implementing the ESG principles, stakeholders are expected to pay more attention to sustainability as well as environmental and health issues. In contrast to the existing mechanisms, ESG extends beyond environmental or climate concerns, covering social, corporate and other factors.

In this and the next issues of our “ESG newsletter”, we will delve into legally significant aspects of ESG that we consider most important from the practical point of view.

First, we will generally explain the concept of ESG by answering four key questions and providing our comments.

What is ESG?

As we already mentioned above, ESG covers a set of principles and standards for running a business in a way that guarantees sustainability understood as development that benefits both people and the environment. ESG considerations encompass the following areas:

- ❖ employees-employer relationships
- ❖ parities
- ❖ corporate governance
- ❖ contracting party selection
- ❖ cooperation with local communities
- ❖ supply chain standards
- ❖ process optimisation
- ❖ emissions
- ❖ waste management

However, ESG is not uniformly defined. Organisations and entities active in the ESG area have varying definitions for ESG-related goals and standards. When it comes to ESG regulations, the most significant influence comes from the EU legislation, especially in the context of standardising terminology. The EU has been staunchly advocating for implementing ESG solutions and has been increasingly pushing for it. You will find out more about the ESG legal framework in our upcoming newsletter.

We anticipate that as ESG regulations continue to evolve and become more prevalent in the market, the standards and concepts will converge.

What is the aim of ESG?

In addition to achieving general goals related to the protection of the environment, climate and human life, ESG aims to accelerate the achievement of the EU objectives related to the Green Deal* and Fit for 55**.

ESG is believed to be one of the primary means to reach the ambitious targets set by the EU, namely a significant reduction in emissions within the EU by 2030 and climate neutrality in the member states by 2050.

How will ESG affect market practices?

According to predictions, the extensive scope covered by ESG will influence various aspects of business activity. Implementing ESG principles will entail certain obligations across many areas, including:

- ❖ duty to report
- ❖ materials used
- ❖ contracting party selection
- ❖ hiring staff
- ❖ energy efficiency
- ❖ emission reduction
- ❖ production reduction and waste management
- ❖ promotion of biodiversity
- ❖ corporate governance

On the other hand, adopting (or not) ESG principles will have influence on the image of market participants. ESG mechanisms promote forming business relationships with entities that adhere to these ESG principles, potentially influencing the following aspects:

- ➔ enterprise valuation
- ➔ valuation of certain assets
- ➔ costs and availability of financing
- ➔ costs and availability of insurance
- ➔ access to contractors

*Access to the page: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_pl [access: 29.09.2023].

**Access to the page: <https://www.consilium.europa.eu/pl/policies/green-deal/fit-for-55-the-eu-plan-for-a-green-transition/#what> [access: 29.05.2023].

What areas does ESG concern?

ESG is not limited to specific industries or areas of business activity. With a significant part of its mechanisms now intertwined with the financial market, the reach of ESG has expanded. The regulations are formulated in such a way that the obligations of financial market participants will indirectly affect their contracting parties (in particular as regards ESG reporting). Additionally, the newest EU legislation extends the scope of the application of ESG provisions to medium-sized and small enterprises. Undoubtedly, more changes are on the horizon.

At this stage of developments, it is certain that ESG will have a significant impact on the following industries:



financial market



insurance



construction



real estate



industry

Summary

ESG is both a challenge and an opportunity for businesses. Adopting ESG principles will often require financial and organisational investments. In addition to incurring financial costs, it will require the engagement of entire teams and, in some cases, changes in the organisational culture.

On the other hand, adhering to ESG principles will lead to lower operational costs and will positively impact the company's reputation; this, in turn, will translate into increased company value and better access to financing, suppliers and customers.

Stay tuned for our upcoming newsletter in which we will discuss the ESG legal framework.

Contact



Michał Urbański

Attorney-at-law | Counsel
Real Estate Team

michal.urbanski@jdp-law.pl

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