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ARTICLE

ESG: It's here to stay

Cue the eye-roll. Outside the C-suite, the three letters ESG can evoke strong emotions, from a positive and salutary feeling that a company is acting responsibly and responding to investors' demands, to contempt for pandering to the uber-woke.

If you dig into reading material on ESG, however, you discover some unexpected truths:

- Many, if not most, Canadian oil and gas producers and midstreamers were already hitting ESG benchmarks before ESG branding arrived, in part because our regulatory environment is so strict;
- There is a burgeoning industry in ESG rating and analysis, but in many cases it's not clear how these ratings are actually determined (i.e. are the ratings based on rigorous science-based analysis, or on more nebulous political premises?);
- Like it or not, ESG is here to stay because investors demand it. Those producers that are highly rated and tell a convincing story about their ESG program will attract more investments than those that treat ESG as fodder for the annual report.

What is ESG anyway?

ESG is an acronym for Environmental, Social, and Governance. Some institutional investors and pension funds are looking to ESG performance, in addition to conventional metrics such as debt to cash flow or earnings per share, to rate and rank companies in a particular sector. This isn't for virtue-signalling; often, emphasis on ESG is an indicator of other factors, like productivity; operational efficiency and waste reduction; and using energy transition to drive higher margins.

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