ESG and Investment Opportunities in the Energy Sector

March 09, 2021

Environmental Social Governance (ESG) is a topic of increasing importance in all business sectors across Canada, shaping many corporations' business agendas as investors prioritize integrative investment approaches. In the energy sector, many companies have been motivated to set and attain ESG benchmarks well before this industry shift though the focus has mainly been on environmental factors, following strict regulations in Alberta and Canada.

BLG hosted a thought-provoking panel discussion on the growing prominence of ESG on investment decisions, operations, and the future of the Canadian Energy Sector. The panel also examined some of the issues corporations face in the energy sector relating to investment retention. Attendees were encouraged to submit questions to the panel. This webinar's panel consisted of:

- **Arun Chandrasekaran**, Managing Director, Investment Banking, National Bank Financial
- **Kevin Krausert**, CEO and Co-Founder, Avatar Innovations Inc.

and was moderated by:

- **Ravi Latour**, Partner, BLG.

Here a few of the takeaways of the discussion.

Why has there been an increased focus on ESG standards in the energy sector, and will this be an enduring trend?

- The emergence of ESG criteria among rating agencies has publicized the view that companies that score high in ESG metrics perform better in the long run from a return and volatility perspective.
- The analysis around non-financial risk factors has prompted a full-scale shift in investment sentiment from both institutional and retail investors, moving ESG reporting and benchmarking from an optional feature to a business requirement.

- The pandemic has propelled this trend into overdrive. Investors are seeking to move away from traditional safe investment vehicles to counter the increased risk factors associated with this uncertain period.
- All three ESG pillars are essential; however, moving forward for the oil and gas and the energy sectors, environmental disclosure will continue to predominate in this trend.
- Investors will increasingly scrutinize environmental performance and disclosure as they seek evidence that energy companies are applying creative solutions to address environmental issues.

Investors often perceive oil, gas and the energy sectors as high-risk investments; what can producers do to combat this perception?

- For oil, gas, and the energy sectors' large caps, Scope 3 carbon emissions will be the deciding factor in evaluating the risk level of ESG scores, as it is usually the culprit for low scores. Scope 3 includes all metrics beyond a company's direct operations and electricity use, including supply-chain operations and customer end-product usage. Essentially, it is an evaluation of their full lifecycle emissions.
- Companies will have to bring creative solutions to Scope 3. It represents the crux of the environmental component of ESG for oil, gas and energy sectors and potentially drives climate-transition risks for investors.
- Nonetheless, the total return on investment will always be the determining factor for risk compared to the factors mentioned above. The pursuit of achieving a high ESG index cannot take place to the detriment of the capital committed to a project.

What can government do to help power sector and energy sector companies better position themselves to retain investment?

- Governments need to depoliticize dialogue relating to climate change to mitigate adverse effects on long-term strategic investments in these sectors.
- From a political perspective, the government must make an investment case that considers the energy sector and the transition to a lower-carbon future in a palatable manner to parties on both the left and the right of the political spectrum.
- These topics will be multi-decade issues, and we cannot rip up the incumbent administration's plan every time there is a change in government. Governments must be successful in de-escalating political tensions around these matters to work towards continued sustainable economic viability.
- Canadian industry expertise and thought leadership in oil, gas, and power attract a pool of investors ready to reinvest into these spaces (cleantech, carbon capture and hydrogen); the government must step in to align policy appropriately to allow investment dollars to flow to the right sectors.

Will there be a commodity run in the energy sector as we emerge from COVID-19? Does that bring the capital back in the long term?

- COVID-19 has been a catalyst for the shift in investment diversification. As the world emerges from this crisis, the investment community will pivot towards the next new environmental challenge, decarbonization.
- Canada's trajectory towards a net-zero economy by 2050 represents an unprecedented risk and opportunity for many investors as this initiative will require massive reallocation of capital.
- Former Bank of England Governor Mark Carney estimates that this energy transition through 2050 could require up to $3.5 trillion in investment every year. It will create momentum for investment similar to the energy sector's investment boom of the nineties and will be driven by market size and resiliency.

Stay tuned for the next webinar in this series, the date and topic of which will be announced in the near future.

Watch the webinar below

Expertise

Capital Markets, Mergers & Acquisitions, Corporate Commercial, Energy - Oil & Gas, Renewable Energy, Alternative Fuels

BLG Offices

Calgary

Centennial Place, East Tower
520 3rd Avenue S.W.
Calgary, AB, Canada
T2P 0R3

T 403.232.9500
F 403.266.1395

Ottawa

World Exchange Plaza
100 Queen Street
Ottawa, ON, Canada
K1P 1J9

T 613.237.5160
F 613.230.8842

Vancouver

1200 Waterfront Centre
200 Burrard Street
Vancouver, BC, Canada
V7X 1T2

T 604.687.5744
F 604.687.1415

Montréal

1000 De La Gauchetière Street West
Suite 900
Montréal, QC, Canada
H3B 5H4

T 514.954.2555
F 514.879.9015

Toronto

Bay Adelaide Centre, East Tower
22 Adelaide Street West
Toronto, ON, Canada
M5H 4E3

T 416.367.6000
F 416.367.6749