

The fragile balance within ESG

Following our previous newsletters introducing the new ESG rules, we will now consider the fragile balance between two critical pillars of ESG, the environmental policies (the “E” pillar), and the social and labour policies (the “S” pillar).

A recent example of how the fragile balance between these ESG pillars can be easily upset was brought to light by the fine-dining industry, where innovative restaurants are more open than ever to take into consideration hyper eco concepts, using only ingredients local to the region in which they are operating.

Although such a friendly environmental approach has been very well-received, it has come to light that not all restaurants have managed to rid themselves of some of the brutal labour practices found in the industry.

As a result, despite promoting more sustainable practices in their supply chain and thus fulfilling the Environmental pillar, those restaurants failed to manage the Social pillar properly, by still having an unsustainable labour practice.

But the most telling example comes from the clean energy industry, where to achieve Net Zero by 2050, the solar and electric energy sectors intend to become the central part of the worldwide energy system.

To achieve this goal of Net Zero, the clean energy sector is being pushed to become affordable quickly, and therefore all eyes are now focused on the supply chain supporting this industry. But here is where the Social pillar becomes problematic once again. According to the latest reports from the International Environmental Agency (IEA), China is accountable for more than 60 percent of global lithium processing and 79 percent of global polysilicon processing, which are key raw materials for the panels and batteries used by the solar and electrical energy industries.

To overcome such unsustainable labour practices, the US recently adopted the “Uyghur Forced Labour Prevention Act” (UFLPA), which prohibits for import all products manufactured in a region where forced labour was identified.

As much of the raw material needed for the production of clean energy is produced in regions facing serious allegations of forced labour, it’s expected also that the authorities from EU member states will examine the labour practices of the entire supply chain more closely.

Thus, when it comes to this trade-off between ESG pillars, both investors and companies equally must carefully pursue not only a positive impact by applying sustainable environmental policies but also by using processes that are social and labour sustainable, according to the purpose of ESG.

PETERKA & PARTNERS Romania remains at your full disposal to provide more information and any related legal assistance connected to this topic.

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