Energy Policy Research Foundation

Gaskins Center

Lessons of the Past; Strategies for the Future

FYI In Brief Briefing Series

Topics for Future Briefings

(Tanks for the tanks?)

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July 18, 2023
Washington, DC

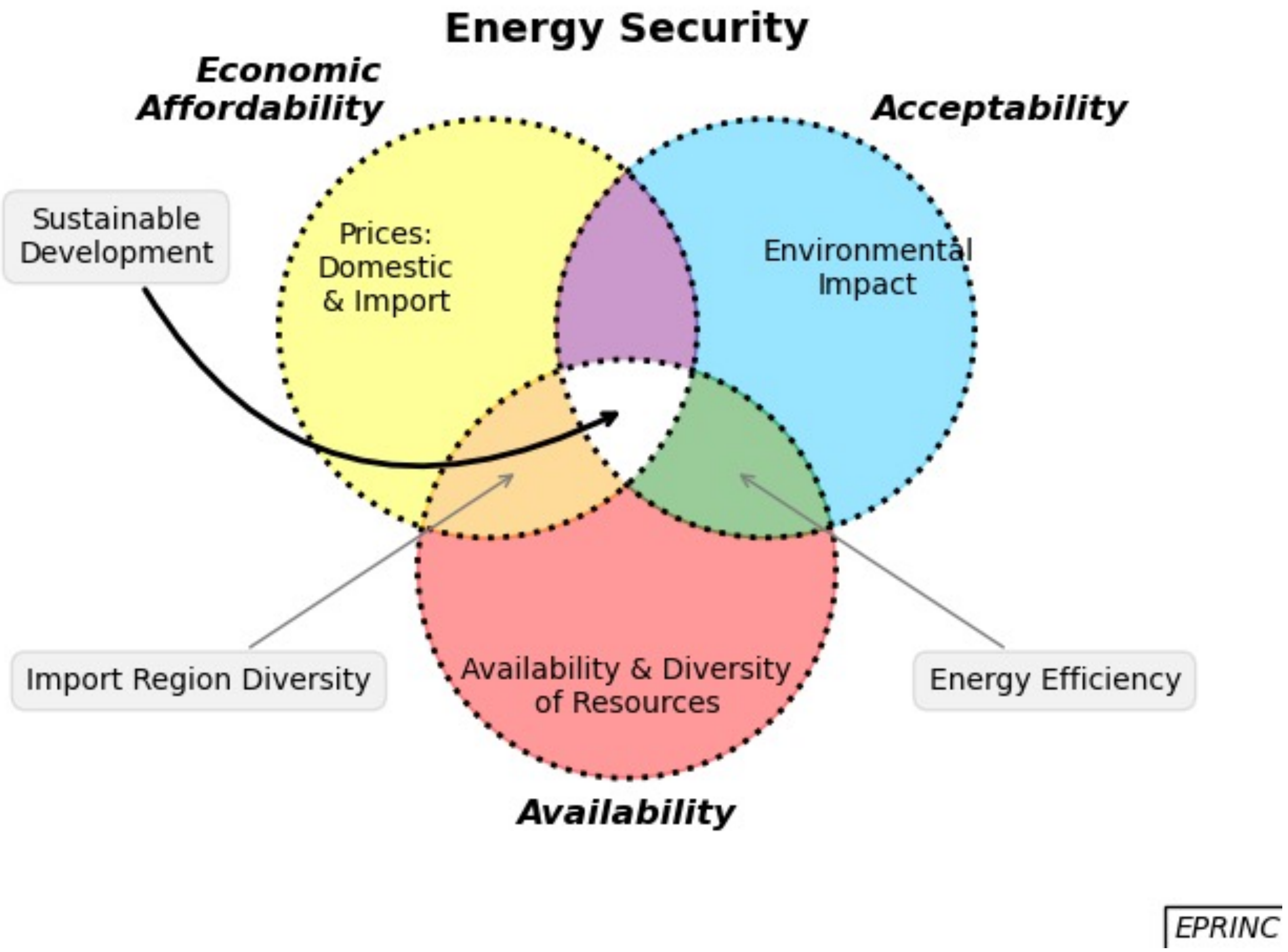
- **Legacy Energy Security – A Taxonomy with Examples**
- **Introducing Energy Policy Research Foundation's New Briefing Series: *FYI In Brief***
- ***FYI In Brief*: Energy Security Topics Under Consideration**

Legacy Energy Security: A Taxonomy

- Availability & Diversity of Energy Resources – as measured by Import Region Dependency / Diversity
- Affordability – as measured by Domestic & Import Prices
- Acceptability – as measured by Efficiency and Environmental Impact

Legacy Energy Security
A Taxonomy - Visualized

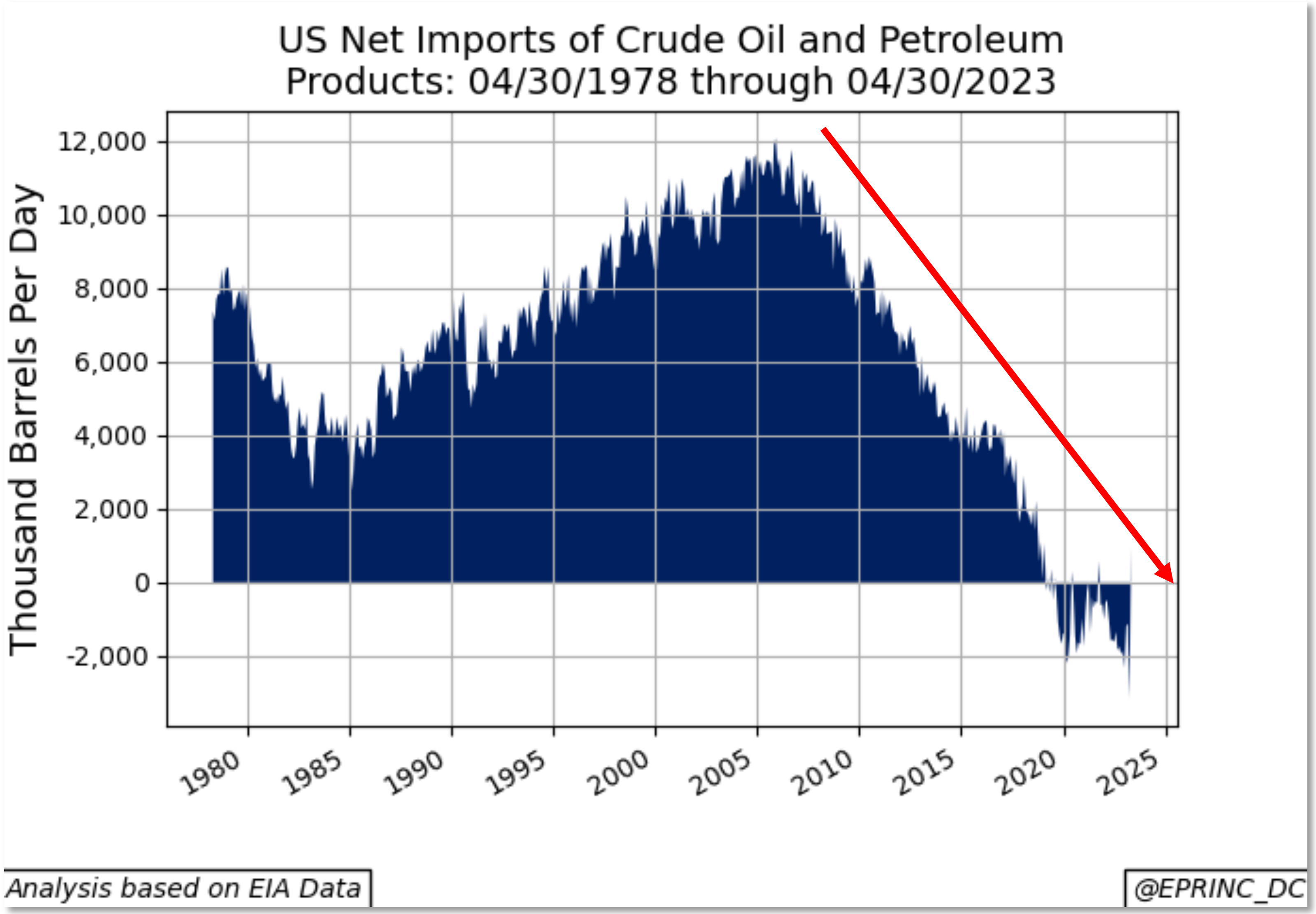
Energy Policy Research Foundation



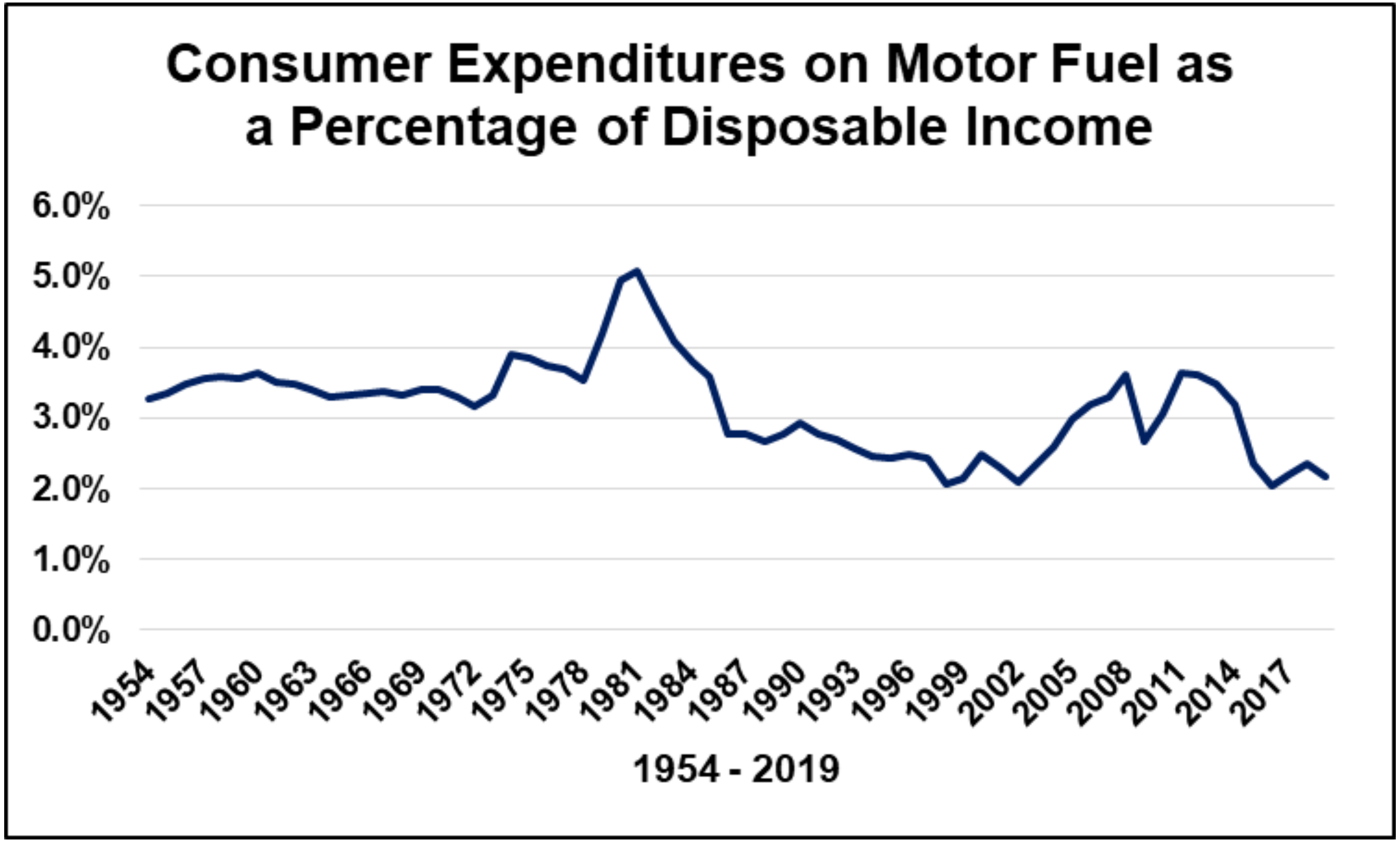
Legacy Energy Security: Policies

- **IEA – Emergency response is one of its critical predicates. Established in the 1970s during periods of sharp oil supply shocks, IEA makes several requirements of its thirty member countries, the critical one being to hold stocks equivalent to at least 90 days of net oil imports.**
- **U.S. – Since the 1950s, <u>Oil import dependency/vulnerability</u> has been a recurring theme in U.S. energy security discussions. During this period a lot of legislative and executive measures have been enacted including the <u>1959 Mandatory Oil Import Quota Program</u> seeking to restrict U.S. oil imports to 12.2% of domestic production and President Reagan's January 1989 determination that oil imports threaten U.S. national security recommending strong Congressional action to counter it.**

Legacy Energy Security: Import Dependence



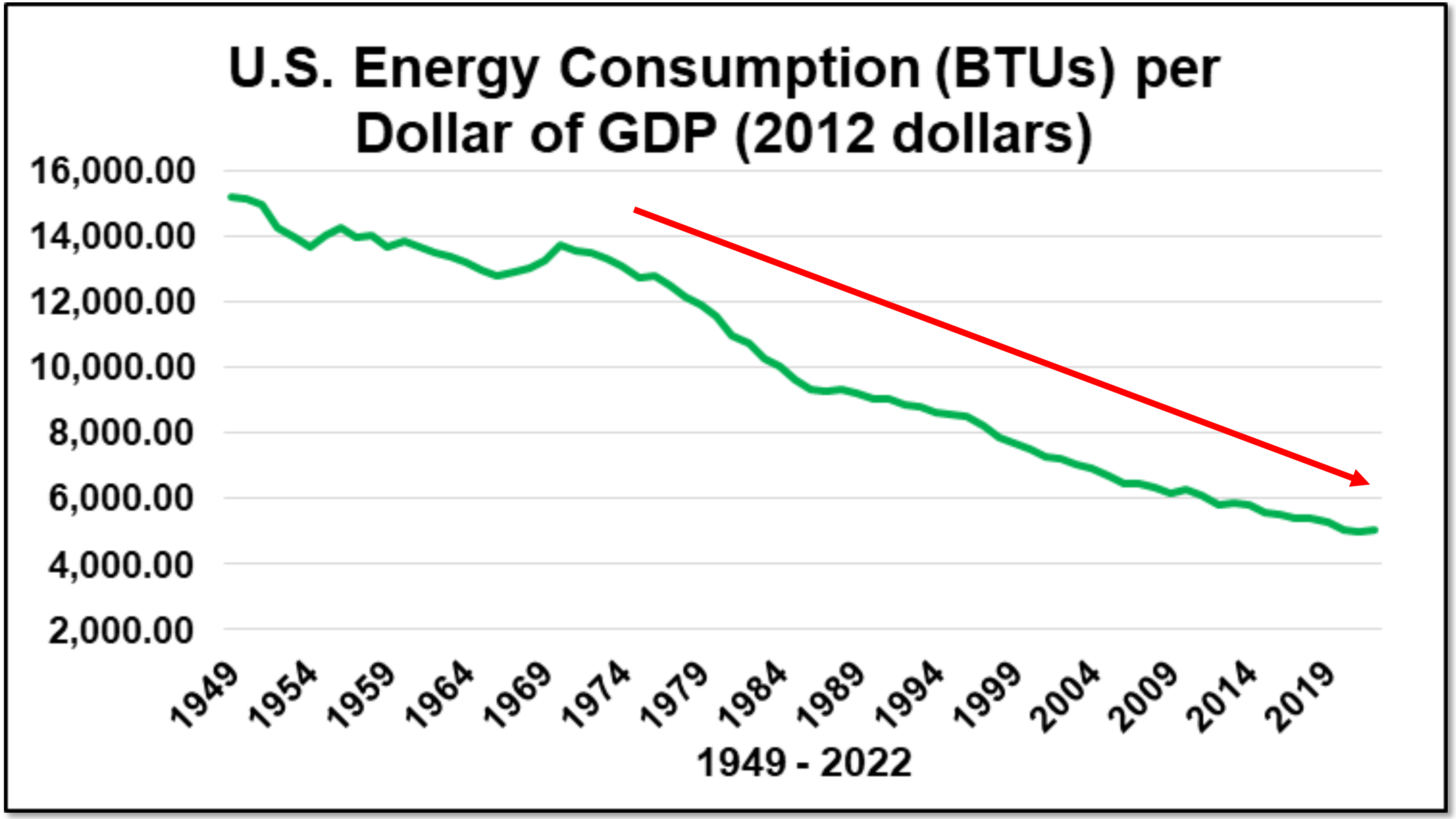
Legacy Energy Security: Affordability



Long-term trajectory is downward.

But the spikes along the way have led to policy interventions.

Legacy Energy Security: Acceptability/Efficiency



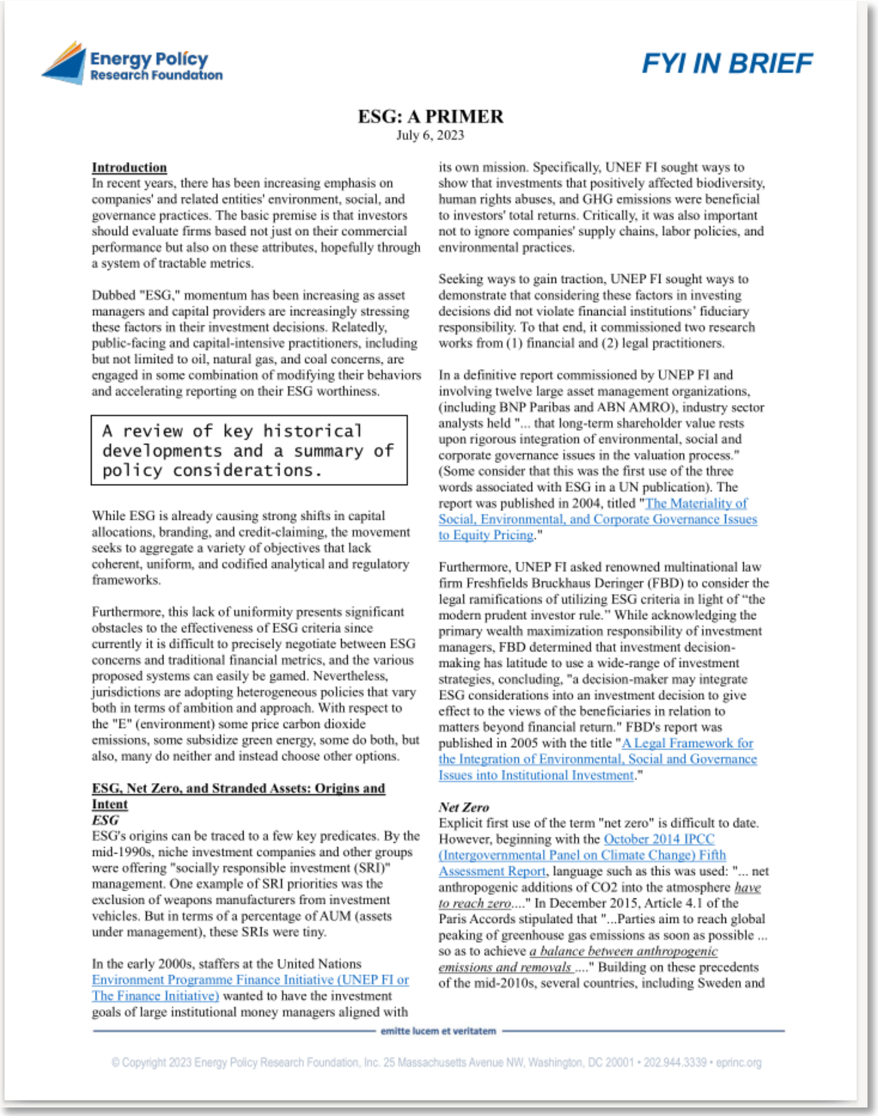
Conclusion: Incredible Success Story at meeting past metrics of that understanding of Energy Security

What’s different today?

Energy Security Today:
A list of emerging issues

- Environmental Redefinitions, both legitimate and excessive
- Expanding Energy Security Criteria to include components of both
    - National security
    - Economic interdependence
- Potential long-term political changes to the energy landscape

Introducing Energy Policy Research Foundation's New Briefing Series: ***FYI In Brief***



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FYI IN BRIEF

ESG: A PRIMER

July 6, 2023

Introduction

In recent years, there has been increasing emphasis on companies' and related entities' environment, social, and governance practices. The basic premise is that investors should evaluate firms based not just on their commercial performance but also on these attributes, hopefully through a system of tractable metrics.

Dubbed "ESG," momentum has been increasing as asset managers and capital providers are increasingly stressing these factors in their investment decisions. Relatedly, public-facing and capital-intensive practitioners, including but not limited to oil, natural gas, and coal concerns, are engaged in some combination of modifying their behaviors and accelerating reporting on their ESG worthiness.

> A review of key historical developments and a summary of policy considerations.

While ESG is already causing strong shifts in capital allocations, branding, and credit-claiming, the movement seeks to aggregate a variety of objectives that lack coherent, uniform, and codified analytical and regulatory frameworks.

Furthermore, this lack of uniformity presents significant obstacles to the effectiveness of ESG criteria since currently it is difficult to precisely negotiate between ESG concerns and traditional financial metrics, and the various proposed systems can easily be gamed. Nevertheless, jurisdictions are adopting heterogeneous policies that vary both in terms of ambition and approach. With respect to the "E" (environment) some price carbon dioxide emissions, some subsidize green energy, some do both, but also, many do neither and instead choose other options.

ESG, Net Zero, and Stranded Assets: Origins and Intent

ESG

ESG's origins can be traced to a few key predicates. By the mid-1990s, niche investment companies and other groups were offering "socially responsible investment (SRI)" management. One example of SRI priorities was the exclusion of weapons manufacturers from investment vehicles. But in terms of a percentage of AUM (assets under management), these SRIs were tiny.

In the early 2000s, staffers at the United Nations Environment Programme Finance Initiative (UNEP FI or The Finance Initiative) wanted to have the investment goals of large institutional money managers aligned with its own mission. Specifically, UNEF FI sought ways to show that investments that positively affected biodiversity, human rights abuses, and GHG emissions were beneficial to investors' total returns. Critically, it was also important not to ignore companies' supply chains, labor policies, and environmental practices.

Seeking ways to gain traction, UNEP FI sought ways to demonstrate that considering these factors in investing decisions did not violate financial institutions' fiduciary responsibility. To that end, it commissioned two research works from (1) financial and (2) legal practitioners.

In a definitive report commissioned by UNEP FI and involving twelve large asset management organizations, (including BNP Paribas and ABN AMRO), industry sector analysts held "... that long-term shareholder value rests upon rigorous integration of environmental, social and corporate governance issues in the valuation process." (Some consider that this was the first use of the three words associated with ESG in a UN publication). The report was published in 2004, titled "The Materiality of Social, Environmental, and Corporate Governance Issues to Equity Pricing."

Furthermore, UNEP FI asked renowned multinational law firm Freshfields Bruckhaus Deringer (FBD) to consider the legal ramifications of utilizing ESG criteria in light of "the modern prudent investor rule." While acknowledging the primary wealth maximization responsibility of investment managers, FBD determined that investment decision-making has latitude to use a wide-range of investment strategies, concluding, "a decision-maker may integrate ESG considerations into an investment decision to give effect to the views of the beneficiaries in relation to matters beyond financial return." FBD's report was published in 2005 with the title "A Legal Framework for the Integration of Environmental, Social and Governance Issues into Institutional Investment."

Net Zero

Explicit first use of the term "net zero" is difficult to date. However, beginning with the October 2014 IPCC (Intergovernmental Panel on Climate Change) Fifth Assessment Report, language such as this was used: "... net anthropogenic additions of CO2 into the atmosphere *have to reach zero*...." In December 2015, Article 4.1 of the Paris Accords stipulated that "...Parties aim to reach global peaking of greenhouse gas emissions as soon as possible ... so as to achieve *a balance between anthropogenic emissions and removals* ...." Building on these precedents of the mid-2010s, several countries, including Sweden and

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FYI In Brief: Energy Security Topics in Progress or Under Consideration

- Primer on ways Environmental Concerns are changing Economic Outcomes by way of ESG Investing
- Central / Eastern Europe's (3SI's) Energy Security options: a look at the East Med
- Eastern Asia's Energy Requirements and China's Threats to Taiwan's Sovereignty
- Prospective Outcomes of Russia's War and Implications for Global Energy Balances

Thank you.

Questions?