ESG in Canada and the United States: Impacts on Canadian Exports

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Dr. Fenner Stewart

University of Calgary, Faculty of Law

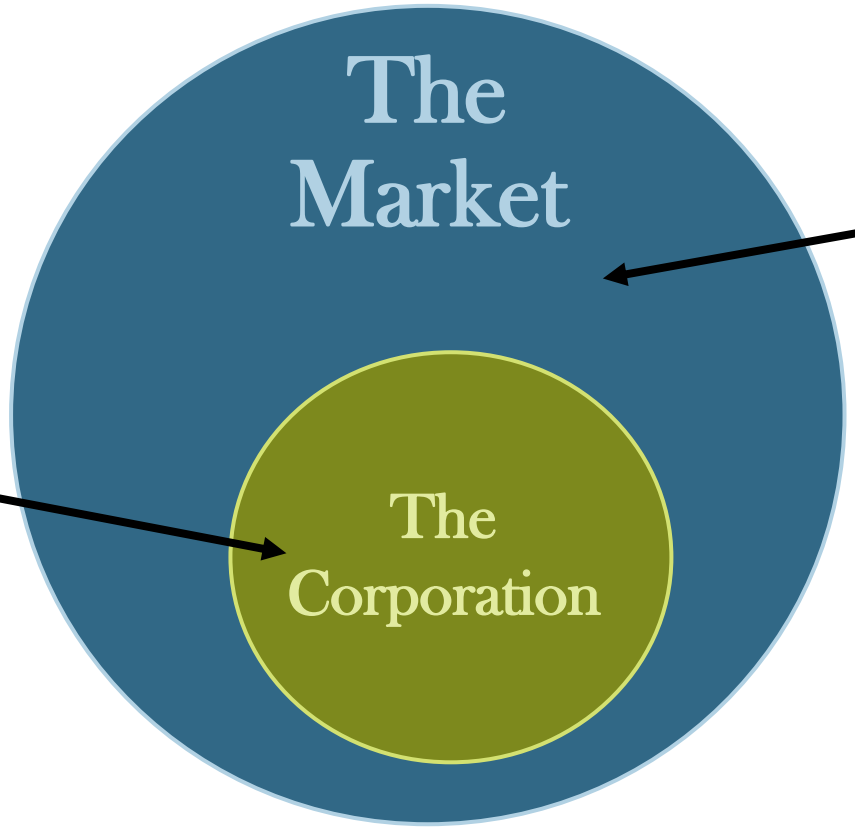
What are Environmental, Social, and Corporate Governance (ESG) criteria?

A measure that investors use to select between investments

It isolates these 3 basic indicators of societal impact

How does EGS work in relation to other mechanisms for corporate regulation?

- Many approaches to corporate regulation target the corporation to effect a change in behavior. For instance:
  - State-based regulations do this whether it be:
    - a compliance mechanism, or
    - the corporate charter itself
  - Non-state corporate social responsibility mechanisms such as
    - Norms that create reputation risk for non-compliance



- ESG targets the financial actors that the corporation relies upon for equity and debt financing.

Why can targeting the market be more effective than targeting the corporation?

By targeting the market, ESG strategies ensure that legal norms **(legal)** and market norms **(profitable) align,** allowing an actor to avoid a **hard choice, enhancing compliance**

Does ESG work?

Yes, because its popular amongst investors

So, no ESG = increase cost of finance

ESG & Canada–U.S. Trade

With such highly integrated economies, it is not surprising to see a similar ESG trend in both countries

United States

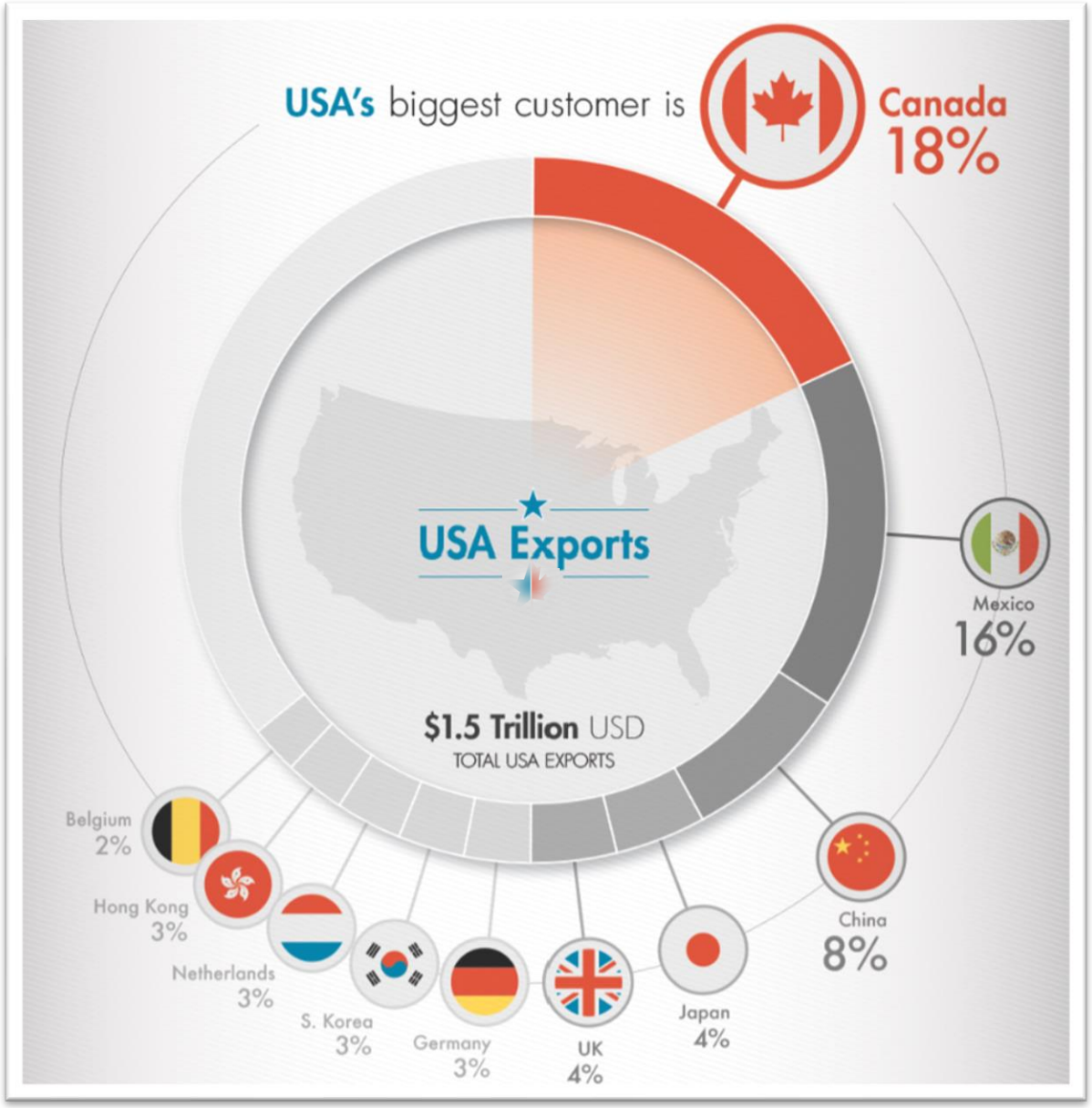
1/3 of assets under management (approx. US$17.1 trillion) invested in ESG

Canada

3/5 of assets under management (approx. CAN$3.2 trillion) invested in ESG

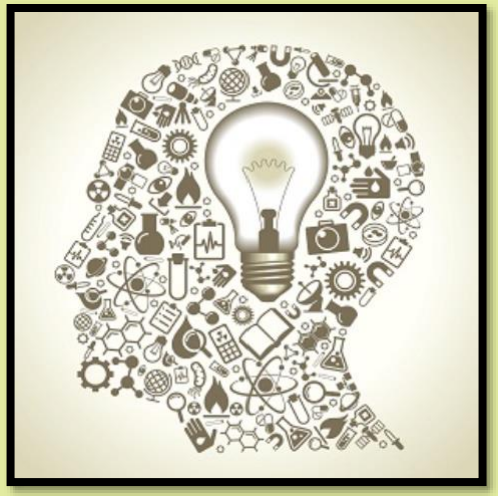
Canada–U.S. Trade

Canada–U.S. Trade



Canada–U.S. Trade

My research



Emerging problems with ESG in the U.S.?

- Not everyone is confident that the ethical choice and the profitable choice is so often aligned.
- In 2020, the U.S. Department of Labor applied a break to this rapid trend in ESG adoption by issuing new regulations on retirement fund managers, which limit their ability to invest based on criteria other than ones linked to future financial performance.

AGENCY:

Employee Benefits Security Administration, Department of Labor.

ACTION:

Final rule.

SUMMARY:

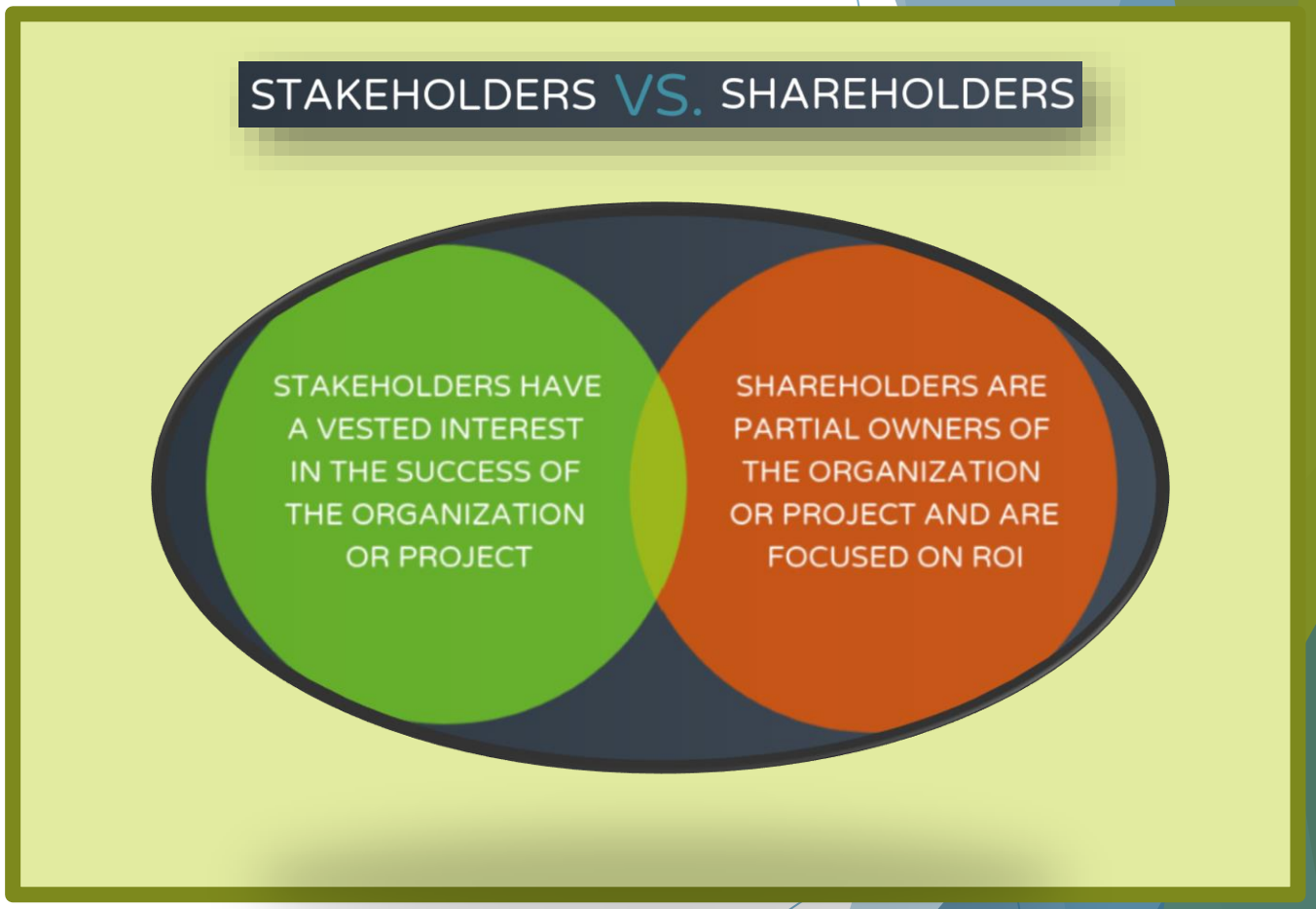
The Department of Labor (Department) is adopting amendments to the "investment duties" regulation under Title I of the Employee Retirement Income Security Act of 1974, as amended (ERISA). The amendments require plan fiduciaries to select investments and investment courses of action based solely on financial considerations relevant to the risk-adjusted economic value of a particular investment or investment course of action.

DATES:

The final rule is effective on January 12, 2021.

Might a similar problem arise in Canada?

- Possibly… though subtle ideological differences do exist as to market /corporate function between countries:
  - Canada = stakeholder primacy
  - United States = shareholder primacy
- So maybe the demands for profit maximization over ESG do not arise in the Canadian context… or, if they do, they are not as acute.



… or maybe

- I need to inspect more carefully the role that predicting market outcomes plays in producing them.
- That is, maybe believing that a market will act in a certain manner and then acting accordingly will predestine that result.
- If so, then issues associated with the investment risk of ESG may not be as serious as some suggest.

Thank You