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Expert Opinion

ESG in 2025: Amid Turbulence, Focus on the Fundamentals

June 14, 2025

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2025 is proving to be a bumpy ride for environmental, social, and governance (ESG). The Trump Administration has issued a number of executive orders impacting ESG topics, including a rollback of the Biden Administration's climate change policies, U.S. withdrawal from the Paris Agreement, dismantlement of federal diversity, equity, and inclusion (DEI) programs and initiatives, and revocation of support for the U.S. Securities and Exchange Commission's (SEC) rules on climate-related disclosures. In the European Union (EU), the EU Commission is advancing omnibus legislation to consolidate and streamline the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CS3D), and the Taxonomy Regulation, which has resulted in a two-year delay in reporting for certain EU-based companies and will impact the scope of reporting. In California, the California Air Resources Board (CARB) is sprinting to issue regulations to implement the Climate Accountability laws (SB 253 and SB 261, as amended by SB 219), with initial corporate disclosures required in 2026.

At the same time, there is great debate about what ESG is and is not. The term "ESG" serves as a broad umbrella for a wide range of topics, from climate change to energy transition to worker health and safety to human rights to board diversity to anti-bribery and anti-corruption. Some view ESG as an investment tool, using various ESG factors as a predictor of future financial performance. Others view ESG as an indicator of an alignment of shared values, attracting employees, customers, and investors who choose to work for, do business with, or invest in companies that prioritize issues that align with their own values. Still others question whether a singular focus on ESG is misaligned with a corporation's purpose to maximize returns to its shareholders.

Amidst the ongoing debate of the role of ESG in corporate decision making and increasing regulatory uncertainty, companies should continue to focus on the fundamentals—compliance, risk mitigation, and long-term strategy.

Compliance – Prepare for Disclosure

Starting in 2026, companies not just located in but merely doing business in California with more than $1 billion in total annual revenue will be required to disclose their Scope 1 and Scope 2 greenhouse gas emissions, and companies doing business in California with more than $500 million in total annual revenue will be required to publish a climate-related financial risk report. Although CARB has not yet issued implementing regulations, companies should act now to determine whether these requirements will apply to them and/or their subsidiaries and identify actions that will be needed to prepare for disclosure next year.

While the EU recently enacted "Stop-the-Clock" legislation to extend the compliance deadlines for CSRD for certain EU-based companies, the 2029 deadline for compliance by non-EU companies was not extended. Therefore, U.S.-based parent companies subject to CSRD should continue to plan for compliance by conducting gap assessments to identify gaps with current disclosures, developing processes and controls for data collection and reporting, and preparing timelines to ensure compliance readiness. In addition, although some changes to CS3D are expected, significant work will be required to prepare for compliance with the Directive's extensive due diligence requirements for the company's value chain and preparation of a climate transition plan. Accordingly, companies subject to CS3D should also develop a plan for compliance.

In addition, a growing number of countries are incorporating the International Sustainability Standards Board (ISSB) standards into national law (*e.g.*, Australia, Brazil, Japan, Singapore). For

U.S. companies operating globally, it is important to track regulatory developments and prepare for compliance with ISSB standards in jurisdictions in which they have been adopted.

Finally, notwithstanding the SEC's recent decision to no longer defend its climate disclosure rules in court, federal securities laws still require public companies to disclose material risks in their public filings. Therefore, companies should continue to disclose material ESG-related risks in their securities filings or risk enforcement actions or shareholder litigation.

Risk Mitigation – Know Your Supply Chain and Manage Green Claims

Among the multitude of ESG risks, there are two that commonly present the greatest risk of reputational or financial harm to global companies—supply chain risks and green claims.

First, it is important for companies to know their supply chain. With rising concerns about forced labor, child labor, and human rights violations, companies should remain vigilant in implementing and enforcing supplier codes of conduct and auditing their supply chain (either with internal resources or through reputable third parties). Focusing on supply chain due diligence will also benefit companies that are subject to the EU's CS3D and similar member state laws, helping them prepare for compliance. Moreover, developing a supply chain strategy that considers global tariffs and trade policies, as well as evaluating the benefits of shortening the supply chain (*i.e.*, decreasing transportation costs), could also create value for the company.

Second, there remains an increased focus on green claims globally, with a significant number of greenwashing cases being filed each year. In the U.S., green claims have historically been products-based, focusing on the environmental attributes of a specific product. However, there is a growing number of cases being brought by state attorneys general and private plaintiffs focusing on broader corporate claims around carbon neutrality, net-zero goals, or being a more sustainable company. In the EU and the UK, actions continue to be brought by regulators and non-governmental organizations targeting green claims made by companies and compelling a change in conduct (*e.g.*, withdrawal of advertisements or development of detailed plans for reducing carbon emissions) or imposing monetary penalties. To mitigate the risks of greenwashing allegations, companies should evaluate all green claims made, develop procedures for review and approval of claims before they are made, and monitor global ESG developments to allow for a change in approach, as needed.

Long-Term Strategy – Alignment with Corporate Values

There is no one-size-fits-all strategy for managing ESG-related risks and opportunities. Each corporation has its own set of values and priorities that drive financial performance. In turbulent times, it is important for companies to focus on the strategies that best align with their unique values and priorities. Questions to be considered include what matters most to our stakeholders and why, what risks and opportunities do we see over the short, medium, and long term, how can we best manage those risks and take advantage of those opportunities, are we ready to meet global compliance deadlines, and if not, what steps do we need to take, and when, to ensure compliance. With the rapidly changing ESG landscape, it may be time for companies to re-evaluate their long-term ESG strategies, potentially narrowing the scope of their efforts to prioritize value creation (and value protection) for the business in alignment with corporate values.

By focusing on the fundamentals – compliance, risk mitigation, and long-term strategy—companies will be better positioned to effectively manage ESG-related risks and opportunities over the long term, making the company more resilient to change, even in times of transition.

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