Corporate climate action was sidelined in 2024. This year may be worse

ESG and green concerns became relative afterthoughts last year. A Trump presidency may push them further into the weeds to go the way of diversity, equity and inclusion.

Mark Wembridge | 19 Jan 2025 | AFR Resources reporter

Despite being the hottest year on record, 2024 saw a cooling in attitudes towards climate action, with the realpolitik of corporate profits sidelining environmental, sustainability and governance concerns. For some companies, the reality of taking steps to achieve their green targets was shoved into the “too hard”, “too expensive”, or “just plain irrelevant” baskets.

Wall Street giants are walking away from green finance groups

The cost-of-living crisis, high inflation and vocal net zero sceptics painted the green agenda with an off-colour hue, as consumers and companies alike concentrated on their bottom lines.

In Australian annual shareholder meetings, Baby Boomers grilled boards about why they were spending money on green targets instead of boosting their dividends.

Miners pumped out environmentally focused press releases at the same pace that their diesel-powered truck fleets spewed tonnes of carbon.

Green parties around the world were snubbed at the ballot box, while the election of the Oval Office’s next occupant, climate sceptic and fossil fuel advocate Donald Trump, further waylaid green prospects.

The COP 24 summit was held in Azerbaijan, a nation whose economy depends on oil and gas exports, and the lack of progress left participants questioning the value of the annual climate talkfest.

The **Net Zero Asset Managers Initiative**, the world's biggest climate finance alliance backed by major asset managers, suspended its activities early in the new year, citing the Trump administration's "different regulatory" expectations.

Corporate greenwashing became even more pervasive, and, to many observers, the most significant achievement was to kick the climate can down the road. What changed, and what is in store for 2025?

Sceptics assemble

Most Australians say they are concerned by climate change, according to data from the Australia Institute, and expect genuine corporate action on the issue.

"The uncomfortable truth for the corporate sustainability world is that there is a very real risk that – except for a few companies – the majority of businesses, and the ecosystem of advisers and advocates that support them, are actually contributing to the problem," says Lindsay Hooper, CEO of the **Cambridge Institute for Sustainability Leadership**. They are doing this "by creating the impression that we are making good progress, and thereby delaying required radical changes to markets and the policies that frame them."

Climate change is a global issue, and Australian companies are pressured to keep a lid on costs as they face competition from regions with less rigorous environmental standards. One of the first areas earmarked for cost-cutting is green targets.

"As we move beyond the ESG hype bubble, it is time for business to recognise that, irrespective of short-term market sentiment, an economic transition is inevitable," Hooper says.

Richie Merzian, CEO of the Clean Energy Investor Group, agrees. "A lot of companies signed up to net zero commitments not really knowing what it meant for them," he says.

The recent establishment of mandated corporate reporting on ESG and climate risk has brought the issue to the forefront for many companies, but the cost of achieving their targets can be problematic, says Catherine Bell, partner at advisory group RSM specialising in climate change and sustainability. "We got to the end of 2024, and people have realised that [reaching ESG targets], it's not easy," she says. "Companies had a few years of talking about how they would get to net zero, how they were aligned to the Paris Agreement, how they were going to reduce their emissions. But they now understand what that means for their business, how it's hard and potentially expensive. "For many organisations, they have questioned whether they can afford it. We have seen a few companies that are now stepping back," Bell says.

Banking on indifference

A case in point is US banks, which are aligning themselves behind the unravelling of the diversity, equity and inclusion (DEI) and the anti-climate agenda flagged by Trump.

Since the November US elections, the six biggest banks have ditched their memberships of the Net Zero Banking Alliance, a climate-focused group. BlackRock became the latest US financial institution to follow suit when it quit Net Zero Asset Managers, a similarly minded group.

Anti-ESG laws have been enacted in several Republican-led US states, while asset manager Vanguard gave its investors the opportunity to decide whether it should put profits above all else – a move widely seen as an attempt to avoid a conservative backlash against ESG.

In Australia, research from RSM found that the number of companies reporting net zero targets declined by 15 per cent between 2023 and 2024. Bell attributed this to increased litigation over allegations of greenwashing, which has prompted some companies to quietly withdraw their unverified net zero claims.

While the number of net zero targets being disclosed in Australia is going down, climate risk disclosures are rising due to mandatory reporting requirements. "Companies disclosing green credentials and net zero targets should undertake robust assessments to ensure targets are realistic and achievable," Bell says.

"While ambition remains, there's a pragmatic shift given the requirement to link emissions reduction targets to financials, including costs and how they may impact future cash flows, such as revenue."

Sustainability and governance

Some more cynical types might say that the gas industry's biggest achievement in sustainability has been to successfully lobby for Western Australia's North West Shelf gas project to be sustained until 2070.

The deal will extend the life of the Karratha Gas Plant on the Burrup Peninsula, and pave the way for the $30 billion Browse joint venture between Woodside, BP and Mitsui. Western Australia's environment minister has proudly proclaimed that "gas is good".

However, on Friday, a BPH Energy-led gas drilling project proposed just off the NSW coast was blocked by a joint federal and NSW state panel on public interest and financial grounds.

For corporate governance failures, look no further than lithium and iron ore producer Mineral Resources and its founder Chris Ellison, who was caught in a string of related party transactions and self-enrichment schemes.

The fact that large shareholders backed Ellison so publicly reinforced that the power of profit can overcome governance concerns.

Hazy horizon

Australia's climate response in 2025 will "largely come down to the federal election", says Tim Buckley, a former Citi equities research chief who oversees climate finance at Climate Energy Finance. "[Opposition Leader Peter] Dutton is more skewed to [the] Trump view of the world, whereas [Prime Minister Anthony] Albanese is more aligned with the European and Asian view. So this election will have a material impact."

The coalition vowed to repeal laws requiring businesses to disclose their greenhouse gas emissions if it wins this year's federal election, following the expected lead from the Trump White House.

Merzian says the Coalition's proposal to scrap disclosure was "a captain's call" by Dutton, and that it would not fare well should it come to pass. "Most businesses are on board and want that reporting," he says. "It helps them with their own risk management, and for most businesses, it will not shift investment in a major way."

Buckley and Bell do not believe that ESG will "die" in 2025, but acknowledge that the movement is facing headwinds. A global tax on carbon is the best way to tackle climate change, Buckley says. "The only way we solve the climate crisis is by moving money at speed and scale," he adds.

The CISL's Hooper is even blunter in her assessment of the importance of corporate action to tackle climate change. "We cannot do business on a dead planet, and we can be certain that business as usual will not continue," she says. "In short, we need to design out the prevailing tension between profitability and sustainability."

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