



B Lab Controversial Issues Statement - Fossil Fuels and Energy Companies

B Lab's Approach to Controversial Issues and B Corp Certification

As for-profit companies that meet the most rigorous standards of overall social and environmental performance, accountability, and transparency, Certified B Corporations are leaders in the movement to use business as a force for good.

Whether through information a company provides in its [Disclosure Questionnaire](#), an issue raised by a third-party through B Lab's formal [Complaints Process](#), or public discourse on B Corp certification requirements and standards, difficult and complex questions regularly arise as to how controversial issues in the world of business should affect a company's eligibility for B Corp certification. Judgments on these issues are then determined by B Lab's independent [Standards Advisory Council](#) as part of a disclosure review process.

B Lab's Disclosure Questionnaire forms the basis of the disclosure review process, which covers sensitive industries, practices, outcomes, and penalties and is based on third party screenings and standards like the IFC Excluded Industries List and International Labor Organization Conventions. Recognizing that any list of sensitive issues may be incomplete, however, B Lab also reserves the right to conduct similar reviews on issues that are not currently featured in the Disclosure Questionnaire, but are deemed subject to material stakeholder concern and a potential violation of the B Corp movement's Declaration of Interdependence.

When new industries or issues where a decision making model has not already been developed arise, B Lab conducts research into the issue in order to guide the Standards Advisory Council's decision. Research is based on secondary sources compiled by B Lab staff, with the overall intent of identifying and understanding the different concerns related to the industry or issue and the different perspectives of stakeholders. This includes a review of press related to the industry and its impact, how the issue is covered by other standards, existing public policy and public policy recommendations from non-profit organizations and other topical experts, examples - potentially both good and bad - of actors within the industry, as well as interviews with expert stakeholders. This content is in turn used to develop the framework for Standards Advisory Council review, and determines the types of questions that individual companies are required to answer as part of their review.

Particularly when it comes to industries that are controversial, there is a natural and healthy tension between the inclination to exclude all companies in those industries from eligibility for B Corp Certification, and *the need for leadership* that has the potential to transform the culture,

behavior, and impact of those industries. While B Lab and its [Standards Advisory Council](#) may determine that an industry as a whole is ineligible for certification because of its negative impacts or practices, they also recognize that in controversial industries it may be possible for companies to be meaningfully managing those potential negative impacts or controversies. In these circumstances, the need may be greatest to distinguish between good and bad actors, as well as good, better, and best performance by using rigorous standards of verified social and environmental performance, legal accountability, and public transparency. All stakeholders are best served by the existence of credible and transparent standards that facilitate improved policy, investment, purchasing, and employment decisions.

Along with the recognition that there are many diverse and reasonable perspectives as to what contributes to a shared and durable prosperity for all, B Lab and its Standards Advisory Council will make determinations regarding eligibility for B Corp Certification and, if eligible, will require companies in controversial industries, with controversial policies, or engaged in controversial practices to be transparent about their practices and how they work to manage and mitigate concerns. B Lab will also document and share these positions publicly in order to enable all stakeholders, including citizens and policymakers, to make their own judgments about a company's performance, as well as further thoughtful, constructive public discussion about important issues. Existing B Lab statements and frameworks on controversial issues are available [here](#).

These frameworks, like B Lab's standards generally, are works in progress, and we look forward to improving upon them in the future. B Lab invites other perspectives as it continues to refine its views and, hopefully, contribute to a constructive conversation about the role of business in society.

Independent of eligibility for B Corp Certification, all companies in any industry are able to use the [B Impact Assessment](#) as an internal impact management tool to assess and improve their overall practices, and/or adopt a stakeholder governance legal structure (such as [benefit corporation](#)) appropriate to the company's current corporate structure and jurisdiction.

If you have questions or comments about B Lab's approach to the below issues, please email B Lab's Standards Management team at standardsmanagement@bcorporation.net.

Fossil Fuel and Energy Companies and B Corp Certification

While fossil fuels have played an important role in powering our lives and economies, the emergency posed by climate change has highlighted the importance of transitioning away from them as quickly as possible because of their central role in global greenhouse gas emissions. Companies involved in the production and sale of fossil fuels, including those that generate or sell energy derived from fossil fuels, pose a significant risk to achieving a global transition away from fossil fuels in order to avoid a climate disaster.

In response to this risk, B Lab and its independent Standards Advisory Council have rendered the following decision regarding their eligibility for B Corp Certification:

Fossil fuel and energy companies engaged in the following practices are currently ineligible for B Corp Certification:

Involvement in coal, oil sands¹

- Companies that earn revenue from coal mining and/or oil sands extraction.
- Companies that operate coal-fired energy generation plants without a clear retirement plan for all coal-fired capacity in line with a science-based carbon budget.
- Companies that have constructed new coal-fired energy generation plants since 2010, or have plans for expanding their coal-fired generation in the future.

Compensation and performance incentives linked to fossil fuels

- Companies that have components of their executive compensation tied to the growth of their fossil-fuel portfolio.

Anti-climate lobbying

- Companies engaged in any form of lobbying or policy advocacy to oppose climate-friendly policies and/or support climate-negative policies in the past five years, including membership, Board involvement, or funding of trade associations that have climate-negative activities or positions.

In order to be eligible for B Corp Certification, fossil fuel and energy companies must meet the following requirements regarding their current product / energy portfolio, future transition plans, and climate justice issues:

Current Product / Energy Portfolio¹

- Companies must have a current product portfolio / energy mix that consists of at least 50% carbon free energy², which may include the purchase of green energy certificates or their equivalents.

¹ Fracking was not explicitly reviewed in the context of this decision, and further review is necessary before any companies involved in fracking can certify.

² Carbon free energy includes renewable energy, nuclear energy, and green gas alternatives such as biogas and biomethane.

Formal Targets and Transition Plan³

- Companies must have a formal commitment to transition 100% of non-generated electricity sales (i.e. electricity that is not directly generated by the company) to carbon free sources by 2030, and to transition entirely to a carbon free product portfolio / energy mix by 2040, both of which may include the purchase of green energy certificates or their equivalents. This commitment is aligned with a science-based emissions target based on a 1.5°C scenario. The commitment must include a transition plan and interim targets.

Climate Justice Policy

- Companies must formalize a policy that acknowledges the issue of climate justice⁴ and includes an assessment of how their operations might impact individuals and communities, particularly those who are already marginalized.

Companies meeting the above requirements are eligible to certify with incremental disclosure on their B Corp Profile that includes details explaining how the company has met each of the above requirements as well as the company's Scopes 1, 2, and 3 GHG emissions.

Overview of Fossil Fuel and Energy Companies, Associated Risks, and Best Practices

Broadly speaking, climate change is the most significant global issue related to the use of fossil fuels. Greenhouse gas emissions (GHG emissions) are the primary link between fossil fuels and climate change, with carbon dioxide emissions from fossil fuel combustion accounting for about 73% of global GHG emissions in 2016.⁵ As the primary contributor to GHG emissions and thus the climate emergency, as well as their role in providing power for other businesses and consumers, fossil fuel and energy companies serve as necessary linchpins to transition entire economies towards being low carbon or carbon free.

In addition to their direct and indirect GHG emissions, companies in these industries also have a history of resisting efforts to switch to carbon free sources by hiding the potential effects of climate change, having internal governance structures misaligned with public commitments, and/or engaging in lobbying activities that oppose or delay climate action. For instance, the

³ While mitigating the impacts of climate change requires global efforts to meet a 1.5°C scenario, it is important to note that the energy transition will vary depending on local context. For example, emerging economies will likely be slower to transition away from fossil fuels due to factors such as higher forecasted development, energy access and affordability, and less mature renewable energy generation and trading infrastructure. For companies that do not meet the minimum energy portfolio and transition plan thresholds, but can demonstrate evidence that their current performance and transition plans are market-leading, B Lab will present such cases to the Standards Advisory Council for review.

⁴ The concept of climate justice recognizes that those who are least responsible for climate change are more likely to experience its most severe consequences.

⁵ <https://www.climatewatchdata.org/ghg-emissions?breakBy=sector&chartType=percentage>

world's five largest publicly owned oil and gas companies spend over \$200 million annually on lobbying efforts to combat climate change policies.⁶

Beyond its environmental implications, climate change and the global effort to combat it also have effects on individuals and communities. The concept of climate justice recognizes that those who are least responsible for climate change are more likely to experience its most severe consequences, as evidenced by poor farmers throughout the world facing more frequent droughts and severe weather and Black, Indigenous, and people of color (BIPOC) communities in the United States facing disproportionate exposure to toxins and environmental hazards from power plants.⁷ Similarly, the transition to a low carbon economy could result in far-reaching impacts on workers, communities, and customers, for example through significant losses of conventional jobs and the subsequent need for career transitions.

There are various initiatives and frameworks that identify leading best practices on climate issues, including the [Science Based Target Initiative \(SBTi\)](#), [Assessment for Low Carbon Transition \(ACT framework\)](#), [the World Benchmarking Alliance Climate Benchmark](#), [CDP \(including the A List\)](#), and [TCFD](#).⁸ A core component of all of these frameworks is a science-based climate commitment and transition plan for decarbonization with interim targets. In addition, these frameworks emphasize that companies need to ensure their advocacy policies, political contributions, governance policies, and other activities align with their commitment to decarbonize.

These frameworks generally acknowledge that a more concerted and ambitious effort towards meeting science-based commitments is required from those industries that have more influence in the value chain, such as power generation and oil & gas companies. In addition, energy retailers that do not have direct control over power generation can still play a role in this transition through the purchase of energy attribute certificates (e.g. RECs in the US & Guarantee of Origin in the EU), a practice acknowledged by the SBTi.⁹

Finally, while the awareness and prevalence of specific business action on climate justice is quite new, there is wide acknowledgement that climate change and environmental degradation directly and indirectly interfere with the enjoyment of all human rights.¹⁰

Rationale for the Standards Advisory Council Decision

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<https://www.forbes.com/sites/niallmccarthy/2019/03/25/oil-and-gas-giants-spend-millions-lobbying-to-block-climate-change-policies-infographic>

⁷ <https://www.social-ecology.org/wp/wp-content/uploads/2012/12/Tokar-Climate-Justice-2013.pdf>

⁸ Fossil fuel and energy companies on CDP's A-list and those scoring highly on the ACT framework would likely be meeting most of the B Corp eligibility requirements.

⁹ <https://sciencebasedtargets.org/faq/>

¹⁰ <https://www.ohchr.org/EN/Issues/Business/Pages/Climate-Change-and-the-UNGPs.aspx>

Given the significance of fossil fuels' contributions to climate change and the role that fossil fuel and energy companies need to play in a just transition, it is essential that all fossil fuel and energy companies pursuing B Corp Certification be able to demonstrate significant leadership on climate issues, and that a meaningful pathway towards eligibility exists when those conditions are met. For these eligibility requirements to be meaningful, they must prohibit specific practices that are known to cause the most material negative impacts related to fossil fuels, as well as require a set of aspirational practices that demonstrate both a historic and ongoing transition to carbon free businesses. A rationale for each of the B Corp eligibility requirements is as follows:

Coal and Oil Sands. Coal and oil sands are two of the most problematic fossil fuels both in terms of their emissions impact and the environmental impact of their extraction. An effective transition away from coal-fired power plants, on the other hand, may need to be gradual and thus this practice should not in itself be prohibitive as long as the company hasn't recently expanded their coal-fired operations (since 2010). Recent expansion of coal-fired power plants would demonstrate a lack of historic leadership even when the issue of climate change and coal's impact on climate has been abundantly known.

Compensation and Lobbying. Compensation structures that incentivize the growth of a company's fossil fuel products as well as anti-climate lobbying positions would undermine a company's stated climate ambitions and signal that they are inauthentic. For example, having a commitment to zero emissions by 2040 is largely symbolic if the current compensation structure for company leadership continues to incentivize the expansion of fossil fuels, or if the company is actively combatting legislation that seeks to impose carbon budgets or carbon reduction targets more broadly.

Transition Performance. A transition away from fossil fuels is the most material responsibility for fossil fuel and energy companies as evidenced by future targets and past performance. The required commitment to a carbon free product portfolio / energy mix by 2040 (2030 for purchased electricity) is based on the [SBTi's guidance](#) for the power sector, which states that emissions must approach zero by 2040-2045 in order to be in line with a 1.5°C scenario. While SBTi accepts targets based on a well-below 2°C scenario, it recommends setting a 1.5°C target as the preferred approach. The 50% requirement for a company's current product portfolio / energy mix to be from carbon-free sources serves as an indicator that a company has already made meaningful progress toward an energy transition and is on track to meet science based targets. While initiatives to improve energy efficiency and optimization or purchase carbon offsets are important for the transition to carbon-free energy, they are not a replacement for decoupling products from fossil fuels.

Importantly, these thresholds are applicable to energy retailers that sell electricity and/or natural gas in addition to companies producing fossil fuels or generating energy. This recognizes both the opportunity for energy retailers to transition to carbon-free energy sources (such as

renewable electricity and green natural gas alternatives) as well as their systemic involvement in and benefit from fossil fuel emissions regardless of whether they operate their own power generation facilities. The earlier target date of 2030 for purchased electricity acknowledges that a transition pathway via purchasing energy attribute certificates can be implemented at any time without the need to transition any physical infrastructure.

Climate Justice. Climate change is increasingly recognized as a social and economic issue, not solely an environmental one. Given the disproportionate impact of climate change on marginalized communities and the impact that fossil fuel and energy companies have on the communities they operate in, these companies should explicitly acknowledge this dimension of their impact and their efforts to mitigate it.

Disclosure Requirement. All of the performance requirements detailed above are material issues of concern for fossil fuel and energy companies and their relevant stakeholders. Therefore, companies meeting the above requirements should make their performance transparent publicly as a means for accountability. In addition, disclosure of the company's Scopes 1, 2, and 3 GHG emissions creates an additional layer of accountability as it makes progress towards its transition goals.

Beyond the additional minimum requirements outlined in this position statement, there are also existing aspects of B Corp Certification standards that are particularly relevant for fossil fuel and energy companies. All companies pursuing B Corp Certification are required to complete the Disclosure Questionnaire, which features disclosures on topics such as biodiversity impact, hazardous discharges, facilities located in sensitive ecosystems, and regulatory complaints. Any such topics raised in the Disclosure Questionnaire, background check, or public complaints process would be reviewed by B Lab and could result in additional disclosure requirements, remediation, or ineligibility in their own right. In addition, companies with over \$5 billion USD in revenue are required to meet [B Lab's baseline requirements for multinational and public companies](#), which requires that these companies identify, manage, and set aspirational targets for their most material social and environmental issues.

The decision of the Standards Advisory Council has been informed by independent research conducted by B Lab and stakeholder consultations including topical experts.

This statement is effective as of September 2020 until further judgment from the Standards Advisory Council.

Please send your feedback or questions to B Lab's Standards Management team at standardsmanagement@bcorporation.net.