

Time for Legal Obligations on Companies to Achieve Net Zero

Without businesses reaching net zero, society will not meet the goals of the Paris Agreement. To ensure companies play their part, we must introduce legal obligations requiring them to achieve net zero as quickly as they reasonably can. The transition from voluntary to mandatory climate commitments is necessary and inevitable. While voluntary corporate climate pledges have been a useful starting point, they are insufficient, and there is a risk that companies will abandon these commitments too readily.

A duty to reach net zero as soon as reasonably possible could be added to existing legislation, such as through an amendment to the UK Companies Act. This would hold businesses accountable for decarbonisation while acknowledging the economic and political constraints they operate under.

This is not about imposing decarbonisation on companies at any cost or granting governments undue control over business operations. Rather, we need to create a flexible and enduring legal framework to align investable corporate strategies with climate goals, while recognising the economic realities companies face. The objective of this principles-based approach is to encourage private-sector innovation and investment while permanently embedding climate obligations into corporate governance structures.

What is considered reasonable will change as companies gain experience and as the economic environment shifts. The concept of “reasonableness” is well-established in law. In this context, it means a company has acted with care and diligence in reducing emissions, considering its specific circumstances and market conditions. While some might argue this obligation already exists or could be tested in court, it should be clearly defined in law.

The pace at which a company can decarbonise depends on several factors. Economic feasibility, the availability of new technologies, and market conditions all play a role. A company’s ability to invest in net zero solutions is shaped by these forces, as well as by customer demand for sustainable products.

Policy and regulation are equally important. Coherent and supportive regulations can speed up progress, while inconsistency can slow it. Competitive pressures also shape what is “reasonable” within a sector. Tools like Carbon Border Adjustment Mechanisms (CBAMs) can help prevent carbon leakage and protect competitiveness, while raising the bar on what can be considered reasonable.

This approach does not prescribe specific actions. It allows boards and management to own their decarbonisation strategies, fostering innovation and enabling them to tailor approaches to their business models and competitive environments. By focusing on net zero as quickly as reasonably possible, this obligation respects the diversity of industries and the specific challenges faced by each business.

A related requirement could focus on scaling durable carbon removals. Companies should not only reduce emissions but also support the deployment of technologies to scrub carbon from the atmosphere. This would complement decarbonisation efforts, but with reduction remaining the primary goal.

Transition plans provide a structured path for companies to reach net zero. These plans break down decarbonisation into clear steps and timelines, guiding investment, innovation, and

operations. They also provide transparency, allowing stakeholders to track progress and hold businesses accountable. Transition plans create a framework for assessing what is reasonable as conditions change. New legal obligations should be paired with measures to promote widespread adoption of transition plans by all large companies, both public and private.

To evaluate the credibility of transition plans, we need high-ambition yet realistic net zero pathways for sectors and countries. Regularly updated benchmarks would help assess whether companies are decarbonising as fast as they reasonably can. Without clear pathways, it will be hard to hold businesses accountable or assess their contribution to climate goals.

Enforcement of these obligations should use existing legal processes, with courts and arbitration panels applying the principle of reasonableness fairly. Specialised net zero arbitration panels should be established and could offer rapid, expert assessments of whether companies are meeting their duties, allowing for dispute resolution and giving businesses clarity. The UK is well-positioned to take a leadership role in this area and could establish itself as a global hub for net zero arbitration. As climate-related requirements, such as net zero targets and transition plans, become more integrated into private law contracts, demand for such expertise will inevitably grow.

This approach gives governments a way to accelerate climate action without more public spending. By embedding legal obligations in corporate structures, we can accelerate the transition to net zero while maintaining fiscal responsibility. Importantly, it encourages innovation and investment, leveraging the private sector's strengths, while avoiding the pitfalls of rigid, one-size-fits-all regulation. In doing so, it creates a principles-based legal framework that supports a clear and adaptable route for businesses to achieve net zero. This is the kind of structural change needed to ensure businesses, financial institutions, and governments work together to meet climate targets.

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