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Climate, Sustainability & ESG: Top 5 for 2025

KEY ISSUES FOR NEW ZEALAND COMPANIES AND DIRECTORS IN 2025

The start to 2025 has seen major shifts in the landscape for climate, sustainability & ESG law and policy. As the world seeks to keep pace with developments, we distil key trends of relevance for New Zealand companies and directors this year.

1 | Geopolitical dynamics shift – but ESG regulation continues

Political changes in key jurisdictions, most notably the US, are reshaping climate policy worldwide. The year began with a range of Executive Orders from the White House affecting climate and clean energy, while other leaders, particularly EU, announced at Davos their continued commitment to fighting climate change. The release of countries' 2035 Nationally Determined Contributions (NDCs, or Paris Agreement commitments) early this year will indicate the level of ambition in the global political economy.

New Zealand's new NDC, released in late January, pledges a 51-55% reduction in emissions compared to 2005 levels by 2035, with some criticism this does not reflect the ratcheting up of ambition the Paris Agreement requires.

New international trade dynamics also have the potential to impact climate action. For example, while trade wars are almost universally projected to have a negative impact on global GDP, they could also bring new carbon border adjustment-style measures (currently contemplated in only a handful of places including the EU, Taiwan, Australia and the UK). The Trump administration has not ruled out implementation of the bipartisan PROVE IT Act, which contains such a measure. Meanwhile, we expect to see further supply chain calibration in response to these events, including supply chain diversification in response to geopolitical risk, as well as near shoring and reshoring of manufacturing to avoid newly-imposed tariffs.

The shifts in trade and political climate response will all be against the backdrop of companies grappling with changing ESG supply chain reporting requirements, a trend covered in our 2024 report for The Aotearoa Circle. Nearly one year on the global picture is starting to diverge: although the US SEC has moved to withdraw its climate disclosure rule last week, state level requirements will require climate disclosure from 2026 including in California and New York. In addition, Canada has introduced a new supply chain due diligence rule to protect human rights and the Shanghai Stock Exchange recently expanded its voluntary ESG reporting framework.

EU sustainability reporting rules continue to be implemented, albeit with changes proposed to streamline some mandatory reporting which some fear could reopen negotiation on the regulations.

Against this background, New Zealand domestic politics have focussed on the banking sector's economy wide emissions reduction commitments in the context of Parliament's Finance and Expenditure Committee's Banking Inquiry, with MPs questioning the role of our banking sector in the shift to a lower emissions economy.

2 Investors lead the charge on the sustainable transition, with potential for private markets in the energy transition

FTSE Russell's 2024 survey of asset owners showed that 74% of investors are now incorporating sustainable investment considerations, with a preference for passive over active investment strategies. Robust reporting and data from portfolio companies are crucial, with 90% of investors finding ESG regulations, including new disclosure requirements, helpful in meeting their 2024 goals. Similarly, Morningstar's 2024 asset owner survey found ESG has consistently become more material to investment considerations over the last five years, a trend expected to continue.

Some projections indicate that when it comes to returns, private markets have the most potential to gain from the energy transition; MSCI research to June 2024 showed that five year cumulative returns from private low carbon solutions investments reached 123% by June 30, 2024 — outperforming the returns of all other asset classes surveyed. Private markets are projected to continue to play a pivotal role in decarbonisation in 2025 and beyond.

Meanwhile, the concerns about AI's energy consumption - and the associated implications for required investment in new energy sources and grid infrastructure - are being revisited in light of the launch of China-based DeepSeek, which purportedly consumes 50 - 75% less energy than other generative AI offerings.

3 Climate litigation – the legal lever for climate action remains firmly in hand

The rise of climate litigation in the decade since the Paris Agreement continues to be significant. Whilst the Grantham Institute's 2024 climate litigation snapshot shows the growth in cases may have peaked in 2021, the diversification of types of cases, defendants and forums continues. Corporates are increasingly in focus, with just over a quarter of cases globally being brought against corporate actors.

While such cases have traditionally focused on the fossil fuel sector and "Carbon Majors" (both producers and the combustion of fossil fuels in the energy sector), the last two years have seen a diversification of industries targeted, including airlines, agriculture, the food and beverage industry, e-commerce, and financial services.

We expect 2025 will see continued focus on "climate washing" cases, with focus on the credibility and integrity of net zero targets and plans. Many entities are refocussing on their public emissions reduction targets to meet both economic pressures and (international and domestic) customer expectations. Transition planning disclosures, now mandatory in New Zealand for climate reporting entities, are a key tool to demonstrate an entity's basis for its forward looking statements including emissions reduction targets, and bridge the delta between ambition and action. For more on this topic, see our 2024 publication on the "New Net Zero".

At the international level, over 100 states and other groups participated in hearings before the International Court of Justice in the Hague in November in the request for the Court to issue an advisory opinion on climate change. The decision may be released later this year.

4 | Adaptation and resilience comes to the fore in the face of extreme weather events

Climate change and related crises still pose long-term threat to global stability: according to the World Economic Forum's Global Risks Report 2025, while state-based armed conflict is the top-rated risk in 2025, extreme weather events come in second, and the top four long term global risks all relate to climate and nature. This is reflected in investor sentiment, with FTSE Russell research showing that 91% of investors are still very concerned about the investment impact of climate risks.

It's expected that worsening climate hazards alongside more stringent climate disclosure standards will shine a light on corporate adaptation needs – and exposure. The External Reporting Board (XRB) in New Zealand expects mandatory plans to include adaptation elements, i.e. how an entity will respond to climate related physical risks, not simply how it will reduce emissions. However, early reviews of transition planning disclosures indicate that few companies are reporting an adaptation plan as part of their transition plan.

While changes to data availability and consistency are set to make benchmarked disclosures regarding physical climate risk slightly easier, there remains uncertainty over the central Government approach to adaptation policy. The Government's response to the Finance and Expenditure Committee's Inquiry into Climate Adaptation indicated "broad alignment" between the Committee's findings and the Government's objectives for New Zealand's adaptation framework, which include minimising total cost to the Crown, maintaining effective housing, financial and insurance markets, and increasing access to climate risk data to support decision making. Legislation to progress the adaptation framework is planned to be introduced in 2025.

5 | Voluntary carbon and nature markets – the stage is set for a comeback

This year may see voluntary carbon markets take flight again, with a range of developments laying the groundwork for a shift. COP29 achieved a breakthrough in carbon market negotiations under Article 6 of the Paris Agreement, with key steps taken to set up the Paris Agreement Crediting Mechanism to trade credits between countries.

Key demand sources for high-integrity voluntary credits include the aviation sector's Carbon Offsetting and Reduction Scheme for International Aviation scheme and, potentially, "compliance" (i.e., official) carbon markets. Meanwhile, the Science-based Targets Initiative (SBTi) is reconsidering its approach to Scope 3 target setting after facing debate on this topic last year, possibly allowing a limited role for offsetting achieving in corporate SBTi targets.

Carbon credit integrity is more verifiable than ever, with international standards such as the International Council on Voluntary Carbon Market's Core Carbon Principles, Gold Standard and Verra providing investors with confidence. Discussion on biodiversity credit markets is evolving into a focus on "Carbon Plus" units, that achieve mitigation outcomes alongside nature restoration, an approach that brings to life the New Zealand Government's policy pillar of nature-based solutions for climate change. However, the Government's focus remains on rebuilding confidence in the Emissions Trading Scheme's regulated market as the key emissions mitigation tool (leaving aside 2024's ongoing questions regarding the role of forestry and agriculture). As a result, it appears unlikely that we will see definitive Government action this term to develop a regulated voluntary "carbon plus" or biodiversity credit market.

Chapman Tripp's leading climate change and ESG practice includes climate change experts in a range of practice areas including litigation, finance, corporate disclosures, regulatory compliance and reform. More information about our work in this area is available here

Nicola Swan
Partner
D +64 4 498 6389
M +64 27 308 6000
E nicola.swan@chapmantripp.com

Alana Lampitt
Partner
D +64 9 357 9891
M +64 27 390 5890
E alana.lampitt@chapmantripp.com

Kate Wilson Butler
Director - Climate, Sustainability & ESG
D +64 4 460 6907
M +64 21 632 050
E kate.wilsonbutler@chapmantripp.com