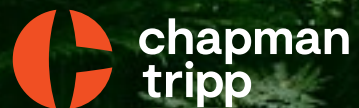


The new net zero

Targets, transition planning & the evolving risk environment for corporate climate action

SEPTEMBER 2024



High profile withdrawals and restatements of corporate climate targets are making global headlines. At the same time, climate litigation is targeting corporate climate claims, including the credibility of net zero targets, while offshore regulation against well-used claims such as “carbon neutral” is rapidly shifting expectations.

With research showing only a small proportion of public companies have robust transition plans to meet their emissions reduction goals, lenders, investors and regulators are increasingly requiring the disclosure of transition planning. For New Zealand banks, insurers and listed businesses (“climate reporting entities”) that have recently become obliged to publish climate statements, this requirement will kick in from FY25.

This publication explores some of the changing factors affecting the risk environment for corporates navigating this “new net zero”.

What’s changed in the net zero landscape?

Corporate climate targets have been changing

Recently, Air New Zealand received headlines around the world when it elected to withdraw its 2030 emissions reduction targets and from the Science Based Targets initiative (SBTi). But it has not been the only company to change its climate approach.

In June 2023, Nestlé announced it would stop using carbon offsets and withdraw its pledges to make certain brands ‘carbon neutral’, in favour of investing in absolute emissions reductions. Closer to home, other brands, including The Warehouse Group, have followed suit.

The SBTi has reported an exponential increase in applications for SBTi validated emissions reduction targets.¹ However, earlier this year, hundreds of companies (including large multinationals such as Unilever) were removed from the SBTi target validation process for not having submitted a target by the required deadline.

Scrutiny of company climate claims is stronger than ever

In Australia, energy company Santos is subject to ongoing litigation which claims it misled investors by stating it had a “clear and credible path” to net zero 2040 when allegedly it did not.² In the US, a claim that Evian water could not use the phrase “carbon neutral” where that position relies on purchased carbon offsets has been allowed to proceed.³ Claims against corporate “net zero” claims and targets are expected to be an emerging frontier in climate litigation.⁴ Climate targets may be the subject of allegations of misrepresentation or claims based on inadequate response to an entity’s climate-related risks. In New Zealand, the first private legal action concerning alleged greenwashing in a climate change context is progressing through the courts.⁵

What is driving these changes?

A growing public awareness of emissions reductions and targets, supported by regulation such as climate disclosures

Understanding of the detail of corporate climate claims, including emissions reduction targets and greenhouse gas inventories, is quickly evolving. This is supported by companies disclosing more detailed information on climate-related risks and performance, including in response to New Zealand’s mandatory climate-related disclosures (CRD) regime. Similar regimes are being implemented in many countries, with over 80% of New Zealand’s exports by value now going to markets with mandatory CRD regimes in place or proposed (our recent report for The Aotearoa Circle [here](#) details global ESG and CRD requirements for New Zealand exporters).⁶ Australia has just passed legislation – on 9 September – introducing mandatory CRD, with the first reporting required from 2025. As a result, stakeholders are developing a much more sophisticated understanding of claims being made than even 12 months ago.

The evolving ‘green claims’ regulatory landscape internationally

In addition, new regulation has been recently introduced overseas, in the European Union, California and Canada, regulating ‘green claims’.⁷ The EU and California have both just legislated to prohibit claims such as “net zero” or “carbon neutral” where carbon offsets are relied on. These laws do not apply directly in New Zealand, but we expect them to affect market norms and expectations on the credibility of using offsets to claim “net zero”.

In New Zealand, the Office of the Auditor General has recently issued guidance to auditors to question terms like “net zero”, “carbon neutral” or “climate positive” and related statements by public organisations.⁸ This type of guidance reflects the significant shift in expectations and understanding as the transition to ‘net zero’ has become a common reference point.

Our research shows that, of the mandatory climate-related disclosures published to mid-August 2024, approximately:⁹

77% disclose emissions reduction or supplier engagement targets.

43% disclose some kind of net zero target or ambition.

Less than **20%** published a transition plan in their first year CRD report.

The new market benchmark of 1.5°C for corporate climate targets and credible transition plans

The last several years has seen huge growth in the number of businesses setting emissions reduction targets aligned to a 1.5°C pathway (including, as noted above, through SBTi). Coupled with the inclusion of 1.5°C in the purpose of New Zealand’s Climate Change Response Act 2002 and by the New Zealand Climate Standards in the requirements for descriptions of emissions reduction targets, private sector climate action aligned to a 1.5°C pathway is increasingly common.

Attention is now squarely turning to whether companies have credible transition plans to deliver those targets and are investing to achieve them.

In New Zealand, more than three quarters of climate reporting entities have disclosed emissions reduction targets, with transition planning still a work in progress – only around a fifth of entities voluntarily elected to disclose transition planning aspects of strategy in their first reporting year.¹⁰

How can companies best navigate this changing landscape?

Careful communication of targets and robust transition planning will be increasingly essential to navigate the 'new net zero'

Transition planning is emerging as a critical tool to enable companies to stay the course on their long-term climate goals whilst communicating with the nuance needed to mitigate the emerging risks associated with climate targets. The New Zealand Climate Standards require, from the second year of CRD (which for most entities is FY25) disclosure of transition planning aspects of an entity's strategy. Internationally, a range of frameworks exist to guide transition planning, with the Transition Plan Taskforce emerging as market standard.¹¹

Key areas to consider as you build a transition plan in this 'new net zero' landscape include:

- How to manage potential liability risk relating to targets and transition planning, while also recognising the legal and reputational risk of inaction.
- Reconciling the various transition planning requirements and expectations, from the New Zealand Climate Standards through to international frameworks that are informing investor and lender requirements.
- Understanding and managing evolving legal risks relating to the use of voluntary offsetting and impacts on the ability to use claims such as "net zero" and "carbon neutral".

Contact one of our expert team if you would like targeted advice on setting, recommunicating targets or developing your transition plan.

“While no entity can predict the path to 2050, frequently updated transition plans make pledges concrete while highlighting uncertainties, assumptions and barriers.”

UN High Level Expert Group, November 2022 Integrity Matters: Net Zero Commitments by businesses, financial institutions, cities and regions.

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REFERENCES

1. According to SBTi Monitoring Report 2023, 113% more companies set targets during 2023 than in 2022. See <https://sciencebasedtargets.org/resources/files/SBTiMonitoringReport2023.pdf>.
2. *Australasian Centre for Corporate Responsibility v Santos Limited* (ACN 007 550 923), Federal Court of Australia, NSW Registry, NSD858/2021, filed 25 August 2021 (*ACCR v Santos*).
3. *Dorris v Danone Waters of America* (United States, original complaint filed October 2022, plaintiffs granted leave in January 2024 to file an amended complaint).
4. Joana Setzer and Catherine Higham *Global trends in climate change litigation: 2024 snapshot* (Grantham Research Institute on Climate Change and the Environment, June 2024) at 37.
5. *Consumer NZ Inc & Ors v Z Energy Ltd* CIV-2023-485-771 (HC).
6. The International Sustainability Standards Board (ISSB) estimates that jurisdictions representing 55% of global GDP, or half of global emissions, are now implementing climate-related disclosures aligned to the ISSB's IFRS S2 standard. See our report for The Aotearoa Circle, [Protecting New Zealand's Competitive Advantage](#), for an overview of the jurisdictions that are introducing such requirements.
7. Voluntary Carbon Market Disclosure Act (VCM DA) 2023 (California); Green Claims Directive (CDG) 2023 (European Union); Fall Economic Statement Implementation Act, 2023 (Canada).
8. <https://oag.parliament.nz/reports/climate-change>: "The Auditor General's expectations for public organisations are... that emissions targets, actions, achievements, progress, and the terminology used are well considered, accurate, and honest (that is, no deliberate or inadvertent "greenwashing")."
9. Based on review of climate-related disclosures lodged with the Companies Office register as of 12 August 2024: <https://www.companiesoffice.govt.nz/all-registers/climate-related-disclosures/>.
10. New Zealand Climate Standard 2, Adoption Provision 3, provides adoption relief from the requirement to disclose transition plan aspects of an entity's strategy, provided that the entity discloses a description of its progress towards developing its transition plan.
11. The Transition Plan Taskforce Framework now being administered by the International Sustainability Standards Board a part of its implementation of the IFRS S1 and IFRS S2 sustainability and climate-related disclosures standards.

Every effort has been made to ensure accuracy in this publication. However, the items are necessarily generalised and readers are urged to seek specific advice on particular matters and not rely solely on this text. Analysis of climate statements was undertaken using a mix of automated and human analysis. While reasonable care has been taken, we cannot guarantee the analysis is completely free of error.

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