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Climate Transition Plan: Legal Considerations in Europe

Environmental

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This article was created with an effective date of July 10, 2025, by members of the ACC Europe ESG working group with the purpose of supporting in-house counsel with their understanding of what a **Climate Transition Plan** is and to serve as a starting point for reflection based on a selection of best practices. The article complements the Framework for an ESG Approach in Europe that provides guidelines for in-house counsels on broader ESG topics governance.

The article does not constitute legal advice for any entity or individual. It does not intend to be fully comprehensive, does not provide an exhaustive list of relevant legislation (which is constantly evolving), and does not recommend any specific voluntary standard. This resource should not be considered representative of the views of the Association of Corporate Counsel (ACC) or any of its lawyers.

What is a climate transition plan?

A climate transition plan (CTP) is a strategic roadmap that outlines how a company will reduce its greenhouse gas emissions and align its business model with **a net-zero economy***. It's a mix of climate ambition and business strategy that usually includes the following key elements:

- **Targets:** Clear science — based goals for reducing emissions (e.g., net zero by 2050). Targets commonly include interim targets dates. A phased approach shows both, an immediate action and long-term commitment.
- **Scope:** Clear definition on which scopes (1 and 2, or 1, 2 and 3) are within the targets.
- **Baseline and metrics:** Current emissions data and how progress will be measured over time.
- **Actions:** Concrete steps the company will take to achieve its targets.
- **Governance:** Who is responsible for implementing the plan and how it will be overseen.

- **Financial planning:** How the transition will be funded.
- **Engagement:** How the company is working with third parties, suppliers, industry, and customers to support the transition.
- **Disclosure:** Transparency about progress and updates aligned with reporting standards like TCFD or CSRD/ESRS in the EU.

*For definitions of “Net Zero” vs “Carbon Neutrality” check the Annex 1.

Why have one?

Companies may have many reasons for adopting a CTP, such as:

Regulatory compliance

For example, in the EU, companies may have a duty to adopt a CTP. For a summary of the duties under the CSDDD (currently under legislative review) and other legislative examples see Annex 2.

Investor and financial pressure

As an increasing number of companies adopt CTPs, companies that wish to play a leading role in their business sectors will be under increasing pressure to do so.

Organizations such as CDP* that track climate transition plans, show that 25 percent of companies disclosing through CDP have a 1,5C aligned climate transition plan in place, and over one third plan to set one within two years.

*source: CDP, The State of Play: 2023 Climate Transition Plan Disclosure

Reputation and customer expectations

By proactively addressing climate risks, a company may reduce reputational damages and strengthen its brand.

While a company’s customers may view favorably initiatives to mitigate climate change, the risk of being accused of greenwashing for climate related claims increases. A credible CTP may help a company to support its climate-related claims.

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Resilience and risk management

Companies may choose to adopt a CTP voluntarily in order to identify and integrate their climate related risks and opportunities into their business strategy, to improve risk and opportunity management, and to increase their resilience to climate change.

Innovation and competitiveness

With emissions and sustainability constraints a CTP can become an innovation trigger. Teams may need to reimagine supply chains, logistics, or product design. Innovations — whether in green technologies, business models, social or digital — are much needed to mitigate and adapt to climate change. Companies who are able to innovate in this space have the opportunity to gain a competitive advantage in their industries.

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Top things to consider when providing legal advice on a CTP

Are the climate transition plan targets specific Clarify the scope of the target Which products,

and measurable?	services, or operations are within the scope of this target? Scope of emissions (scopes 1 and/or 2 and/or 3?) **Clarify the target and break it down** Net zero or climate neutrality?; Timeline and milestones: short-, mid-, and long-term; Emissions reduction targets; and Residual emissions offsets targets.
Are the targets backed up by science based evidence?	Climate science is a fast-moving field and it can be challenging for any company to keep up. There is no mandatory method, nor a one-size fits all method for all sectors. Companies may rely on recognized frameworks such as: SBTi — Science Based Targets initiative IPCC — Intergovernmental Panel on Climate Change reports and pathways for mitigation of climate change ACT — Assessing low-Carbon Transition, developed by CDP and ADEME
Is the implementation plan realistic?	In order to avoid risks of greenwashing or non-compliance with relevant regulations, and to enable the company to derive the full opportunities from the plan, it is important to assess the robustness of the plan. Asking the following questions can help: Have the climate risks been properly assessed in the first place?; Is the CTP covering the biggest GHG emitter activities/all GHG scopes of the entity?; Is the financial planning of the company in accordance with the CTP, or is there still big investment in 'brown assets' or in activities incompatible with the CTP?; Has the company established a financial mechanism to reasonably implement the plan?
Do you report on progress and on any changes/deviations?	To be realistic, a climate transition plan needs to be measurable and progress followed-up upon. In case the follow-up shows that the plan was not realized, (or was over-achieved), the company may update its targets in subsequent reports, and/or add corrective actions to its plan. It is important to justify and document any updates in targets to avoid greenrinsing* accusations. There may be a legal duty to report annually on the CTP (for example under CSRD, if the company is in scope) Even if there is no duty to report: It is best practice to report on a CTP that has been adopted. Failure to do so might trigger a risk of greenwashing claims and erode trust. *a form of greenwashing when a company repeatedly changes or weakens its environmental goals, often to appear committed to sustainability without making real progress. See Point 5 of this document.

Do you have internal controls in place?	The robustness of a CTP relies heavily on the effectiveness of internal control mechanisms. Companies should ensure that: clear governance structures are in place, assigning responsibility for climate-related targets and reporting at board and senior management levels; internal policies and procedures are established to integrate climate targets into business operations, investment decisions, and risk management frameworks; processes for collecting, verifying, and monitoring climate-related data are formalized and documented; regular internal audits are conducted to assess compliance with the CTP and identify areas for improvement; training programs are implemented to build internal capacity and ensure employees at all relevant levels understand their role in achieving the CTP objectives; and systems for escalation and corrective action are in place to address deviations from the plan or shortcomings in implementation.
Is the plan verifiable by having a 3rd party monitoring system?	If the plan or the targets are part of an industry/collaboration initiative (e.g., SBTi) a verification is required. Third-party auditors may provide assurance on different aspects: setting of the metrics, achievement of targets, data management, or systems used to calculate the level of achievement of the targets.
How does the CTP integrate supply chain considerations?	Scope 3 or indirect emissions can come from the value chain (e.g., suppliers' manufacturing of raw materials, transport, or customers' use of products. These emissions can be a substantial part of a product or service's life-cycle impact and so might be material in a company's total impact. Consider if your company should integrate those emissions and if yes, how.
Consider expectations from financial players	Markets (e.g., investors, capital markets, rating agencies) are looking at corporate climate readiness as a key driver of financial risk and opportunity. Companies failing to present a robust CTP risk being penalized with higher financing costs, lower valuations, or exclusion from mainstream capital pools. Those with a strong, credible CTP can gain preferential access to capital and position themselves competitively. **Here are some examples of expectations from Markets: Integrate climate risks into company valuations:** Markets increasingly expect that climate transition risks (e.g., carbon pricing, stranded assets, regulatory

	shifts) will be reflected in company valuations; **Design effective climate scenario planning and financial resilience analysis:** Markets expect companies to model and disclose how different climate futures (e.g., “orderly transition”vs “disorderly transition”) impact their profitability, asset base, and creditworthiness. **Implement proper sustainable capital allocation:** Markets expect companies to consider climate externalities into investment decision making; **Link capital raising to green transition:** Markets expect issuers of “green financing” instruments (e.g., green bonds, sustainability-linked loans (SLLs), transition finance) to have credible climate transition plans to qualify for favorable pricing or investor appetite.
Does the CTP acknowledge the need for a just transition?	Consider the social and economic impact of the transition on workers, communities, and vulnerable populations and pro-actively address those potential negative consequences in your plan.

What are the potential risks associated with a weak CTP?

If the CTP is unrealistic

An over-ambitious CTP, if not backed up with data, could be considered greenwashing. Any statements about future related environmental impact should be assessed as any marketing claims and be: specific, backed by evidence and transparent. This is reinforced by the Empowering Consumers for Green Transition Directive, which in its Unfair Commercial Practices Directive (UCPD) amendment clearly states the requirements for future environmental claims substantiation, including setting out in a detailed and realistic implementation plan.

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A company can be accused of greenrinsing if it repeatedly adjusts or weakens their sustainability targets, without making substantial progress. For example, setting carbon reduction goals but later revising them to less challenging targets without transparent communication. Adjusting the targets is possible, as long as it's not happening too often and if done in a transparent way to ensure this adjustment is backed up by data and explained.

Capital market risks from weak CTP

Some of the major investors/capital market related risks are:

- **Higher cost of capital:** Lenders and bond markets might charge higher rates due to reputational and regulatory risks;
- **Credit rating downgrade:** Rating Agencies (e.g., Moody's, S&P) might cut credit ratings for governance failings or ESG mismanagement;
- **Index removal:** Companies could be removed from ESG indices (e.g., MSCI ESG Leaders, Dow Jones Sustainability Index), reducing passive investment inflows;
- **Reduced analyst coverage:** Some banks may downgrade their stock coverage based on ESG failures;
- **Short selling pressure:** Opportunistic investors might short the stock, betting on reputational and financial damage.

Conclusion

Legal has a key role to play in shaping credible, compliant climate transition plans. By ensuring alignment with current laws and anticipating future risks, in-house lawyers can help safeguard their companies' strategy and reputation.

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Please note that the considerations in this article cannot provide an exhaustive list of all legal requirements and recognized best practices, as this list will be highly specific to each company, economic activity, and jurisdiction. These are very fast-moving areas of the law, and setting voluntary goals can help a company to be best prepared for emerging requirements.

To go further, you can find some additional resources and examples in Annex 3 of this document.

Annex 1 — Difference between net-zero and carbon neutrality

To speak about a climate transition plan, it is important to understand the difference between those two concepts which are often confused.

- **Net-zero:** A company reaches net-zero when it reduces its greenhouse gas emissions as much as possible and only removes the remaining emissions from the atmosphere.

Key characteristics:

- Requires deep emissions reductions across Scope 1, 2 and 3 (for explanation, see below);
- Remaining emissions must be permanently removed using methods like carbon capture or reforestation;

- Align with global climate science targets (like the Paris Agreement and SBTi); and
- Viewed as long term, science base goal.

- **Carbon neutral:** A company is carbon neutral when it balances its measured greenhouse gas emissions with purchasing carbon offsets or credits to cancel out its emissions.

Key characteristics:

- Focus is on offsetting emissions, not necessarily reducing them;
- Does not require deep reductions beforehand, although it’s encouraged;
- Can be achieved quickly by buying verified carbon credits; and
- Often applies to scope 1 & 2.

***source:** ISO 14068, SBTi, Net Zero Standard, 2024

Scopes 1, 2 and 3 are commonly referring to: a company’s own emissions or from operations owned by the company (scope 1), emissions associated with a company’s purchase of electricity (scope 2), and other emissions such as from upstream supplier or downstream customer activities associated with the company’s products (scope 3).

****source:** The Greenhouse Gas Protocol, Corporate Standard

Annex 2 — Duty to adopt a CTP and examples of evolving legislations

In the EU, the CSDDD* requires companies in scope **to adopt and put into effect** a transition plan for climate change mitigation, which aims to ensure that the business model and strategy of the company are compatible with the transition to a sustainable economy, with limiting global warming to 1,5 C, and with the objective of achieving climate neutrality as per European Climate Law*.

It is an obligation of best efforts, not results.

In particular, the requirements under CSDDD include:

- Time-bound targets for 2030 and in five year steps to 2050;
- Based on conclusive scientific evidence; and
- Where appropriate, absolute emission reduction targets for scopes 1, 2 and 3 for each significant emissions category.

Recent developments: The European Commission proposed an "Omnibus simplification package" in February 2025 ("Omnibus"). As well as other proposed adjustments (including some deadlines postponements), with regards to the CTP the Omnibus proposes to:

- require in-scope companies **to adopt, rather than implement** a CTP
- replace best efforts with reasonable efforts obligations

For the most current information, you can refer to the European Commission's official page on corporate sustainability due diligence.

In Switzerland, certain companies may be required to have a net zero roadmap by 2050 (including Scope 1 and 2 is mandatory, while Scope 3 is voluntary). An ordinance regulates the details of those net zero roadmaps.

In the UK, the government committed to mandating "UK-regulated financial institutions (including banks, asset managers, pension funds, and insurers) and FTSE 100 companies to develop and implement credible transition plans that align with the 1.5°C goal of the Paris Agreement" and as of June 2025, launched consultations on implementing sustainability reporting standards as well as climate transition plan requirements.

For up-to-date information consult the Gov.uk website.

*Regulation 2021/1119 (art. 22 Directive 2024/1760 on Corporate Sustainability Due Diligence).

*Regulation (EU) 2021/1119

Annex 3 — Additional resources to go further

- **Blueprint for Implementing a Leading Climate Transition Action Plan:** This guidance is designed to help companies create leading climate transition action plans. It spotlights 45 company examples and case studies, helping businesses move from climate goals to action.

- **WWF's criteria for credible climate and nature transition plans for financial institutions.**

- **Voluntary standards for CTPs:**
  - The EFRAG Voluntary Reporting Standard for SMEs (VSME) of 17 December 2024.
  - The IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information, maintained by the International Sustainability Standards Board.
  - **Guidance on interoperability of the ESRS and ISSB standards**, published jointly by the EFRAG and IFRS.

- **Case Law:**
  - **UNEP report:** Global Climate Litigation Report 2023 Status Review.
  - **Climate change litigation database:** By Sabin Center Columbia University Law School.
  - **Global trends in climate change litigation:** 2024 snapshot, Grantham Research Institute on Climate Change and the Environment.
  - **France - Duty of vigilance radar:** The cases currently underway that rely on the Duty of Vigilance law, including formal notices that have not yet led to court action.

Written by

Arielle Visson

Irina Michkina

Maria Cecilia Pizzorno

Nasser Alreshaid

Piero Luigi Fratini

Gabriela Rypinska

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Staff

ACC