



# Sustainability Outlook

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FEBRUARY 2026



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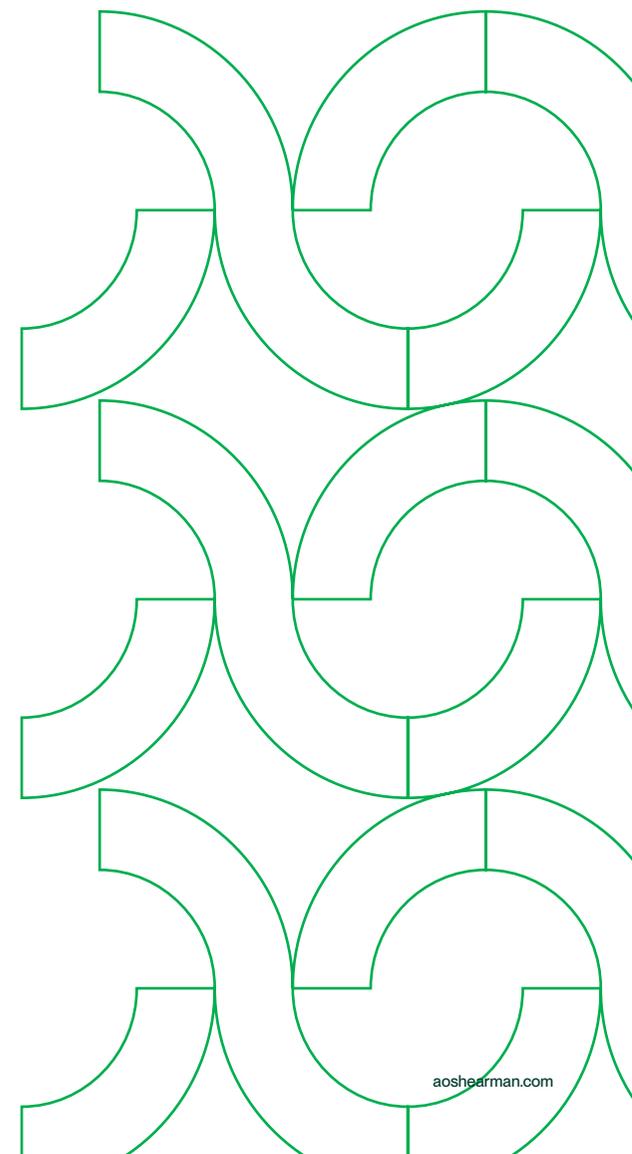
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# Foreword

Matthew Townsend, Danae Wheeler, Gauthier Jacqmin and Philippe Allen

## ABOUT THIS PUBLICATION

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This publication surveys sustainability-related legal and policy developments across the globe over the last year. It seeks to provide decision-makers with a concise, practice-ready overview of where regulatory frameworks are moving, how market dynamics are interacting with law and policy, and what that might mean for business strategies.

The Outlook pairs a high-level narrative with jurisdiction-specific legal snapshots, setting out forward-looking expectations across the short, medium, and long term.

## THIS YEAR'S THEME: SECURITY, SOVEREIGNTY AND THE FRACTURED ENERGY TRANSITION

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Support for global decarbonization is becoming more contested. The hard-won multilateral consensus around climate ambition is fraying as governments assign higher priority to domestic energy security and its associated investment and job creation, and grapple with financial pressures. Yet, in the face of these headwinds, progress on decarbonization endures. This is particularly so where governments align legal instruments with industrial strategy and deploy credible pathways for investment at scale. In parallel with legal and regulatory action, businesses have been competing for central roles within global supply chains, with cheaper clean energy technologies continuing to emerge as a result.

## THE 2026 REGULATORY INFLECTION

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Against this shifting backdrop, law and regulation have been in flux. This will continue in 2026 as authorities amend environmental and energy laws to reflect emerging technologies and embed security of supply as a primary goal. In the coming year, climate targets will be reviewed and sequenced, disclosure frameworks and taxonomies will consolidate, and courts will continue to shape outcomes on fiduciary duties, green claims, and climate liability. The result for global businesses is an uneven map of legal risk and opportunity, where cross-border operations must navigate diverging standards, subsidy regimes, trade protection measures and inconsistent disclosure requirements.

## OBJECTIVE OF THIS REPORT

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This publication offers an overview of the most important recent regulatory developments in the jurisdictions covered, and provides predictions to help businesses navigate the evolving rules of the energy transition. Within each chapter, we take one of two approaches. In some, we identify the near-term changes most likely to affect investment allocations and compliance programs, the mid-cycle developments that could realign value chains and the longer-term shifts that signal where policy is ultimately heading. In others, we offer reflections on recent developments and predictions for the future. In all cases, the goal is to assist decision-makers in developing and implementing strategy in a world where security and sovereignty compete with climate ambition to set the pace of transition.

The articles in this publication reflect the position as at January 18, 2026, and do not take into account any developments after that date.

# Introduction: global fragmentation, energy security, and the evolving ESG agenda

Matthew Townsend, Danae Wheeler, Gauthier Jacqmin and Philippe Allen

Law and clear policy signals are key drivers of the energy transition but they operate in markedly different ways across jurisdictions.

The articles in this year's Sustainability Outlook identify regulatory divergence as a feature of sustainability developments globally. In certain jurisdictions, most notably the U.S., laws and regulations promoting sustainability have been lightened or withdrawn entirely. Even the EU, a long-time frontrunner in this space, is recalibrating its approach.

At the same time, other countries such as Australia, China, the Gulf Cooperation Council (**GCC**) states, and Singapore are pressing ahead with new climate or climate-adjacent legislation. Accordingly, global businesses face a fragmented map of legal risks and opportunities.

The geopolitical landscape is now dominated by concerns over defense, energy security, and the race on AI. We may be in an era where political concerns over the price and secure supply of energy are bigger drivers of the energy transition than environmental regulation.



Five major themes emerge from the Sustainability Outlook.

## THEME 1: SECURITY AND STRATEGIC AUTONOMY

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Perhaps the most important thread running through these contributions is the increasing premium countries are placing on security of supply and strategic autonomy. Global tensions remain elevated, and many countries place increasing emphasis on sourcing goods, components, suppliers and energy domestically. This has had a marked effect on the legal and regulatory landscape across jurisdictions.

Heightened demand for energy security is driven by volatile energy prices, by supply shocks following the Russian invasion of Ukraine in 2022, and by the significant energy demand from the rapid growth in data centers. These factors have catalyzed regulatory change. U.S. regulation in 2025 strongly favored domestic energy supply, with measures including the Unleashing American Energy and Beautiful Clean Coal executive orders seeking to bolster domestic production. Japan's Seventh Basic Energy Plan, released in February 2025, marks a significant pivot from the decarbonization-focused 2021 plan, elevating energy security as a central theme. Non-western countries with lingering exposure to Russian energy also took measures to boost domestic production. China, for example, brought its Energy Law into force in 2025, prioritizing energy security alongside emissions reduction.

In other areas, strategic autonomy has been a key policy driver. The Ukraine war has pushed defense to the top of European agendas, and EU policymakers recognized the need to build European defense capability, with the European Defence Industrial Strategy targeting 50% EU sourcing of defense equipment by 2030.

Chemicals policy is reflecting the same move toward strategic autonomy: jurisdictions are treating key chemical inputs as strategic commodities, tightening controls on high-risk substances while incentivizing onshoring of critical intermediates for batteries, semiconductors and pharmaceuticals. In the EU, proposed reforms to the REACH chemicals regime underscore a dual track of supply security and hazard reduction that is reshaping sourcing strategies and reweighting markets toward domestically-produced, lower-risk alternatives.

But what does this mean for sustainability? In some jurisdictions, including China and the GCC, renewables build-out has played an important part in efforts to strengthen domestic capacity. In the U.S., by contrast, legislative emphasis at the federal level is still being placed on traditional sources of energy, as exemplified by 2025's Unleashing American Energy and Beautiful Clean Coal executive orders.

## THEME 2: ADJUSTMENT SPEED AND CENTRALISM

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Our analysis has also highlighted the need for businesses to act quickly in order to secure an advantage. Countries have sought to support the ambition for speed in various ways. In the GCC, flexible legal systems allow entities to move fast and deploy capital in pursuit of strategic objectives, which include decarbonization. In the more rigid European legal architecture, faster permitting has emerged as a key enabler of accelerated capital allocation, with the EU Clean Industrial Deal delivering multiple reforms in this area. More time, however, will be needed before a conclusion can be reached on whether these reforms have been a success.

Centralism, including in procurement, benefits countries that can execute at scale. It gives statist systems an edge, as their governments often have the resources and positioning to act as first movers and primary buyers. China's centralized procurement of clean energy equipment exemplifies this advantage. However, other economies are also viewing centralized procurement as a key element of the strategy, including in the EU, with joint procurement becoming a feature of EU defense. The ability to carry out purchases or push through changes centrally, at scale, is enabling countries to act fast—in sustainability, defense, and other areas. Indeed, the very fact that defense, once excluded from ESG frameworks, is now part of the sustainability conversation is testament to the pace of change in this area.



### THEME 3: THE RISE OF SUSTAINABILITY DISCLOSURES

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Corporate disclosures are also a central battleground of the ESG debate.

Many countries have either pushed forward with, or rolled back, requirements for businesses to disclose ESG-related information publicly, and sometimes both. In the first category, Australia adopted new corporate disclosure standards in 2024, including AASB S2, a mandatory climate-related disclosure standard. Requirements are set to be phased in over financial years commencing on or after January 1, 2025 through to July 1, 2027, with the rules first applying to larger listed and other public interest entities. On the other side, climate rules have been rolled back in the U.S. (with the Securities and Exchange Commission voting to end its legal defense of the Climate Disclosure Rule in March 2025), and been recalibrated in the EU. As we explore in the Outlook, the EU's Corporate Sustainability Reporting Directive and other aspects of its sustainable finance agenda continue to undergo revision amid pushback from industry and from politicians at home and abroad.

At a more micro level, many countries have placed increased requirements on businesses to provide more ESG-linked information as part of their day-to-day business operations, without necessarily requiring businesses to disclose such information publicly. For example, the recent introduction of the UK's Biodiversity Net Gain (**BNG**) requirement, and its proposed expansion in scope to new developments, requires businesses to disclose biodiversity information when making planning applications. Where these requirements and the public-facing disclosure obligations set out above operate, businesses often face higher compliance costs resulting from the need to build and maintain governance and monitoring structures to meet them.

Set against these disclosure dynamics, France's 2017 Duty of Vigilance Law provides a complementary due diligence model: it imposes a corporate duty to identify and prevent severe human rights, environmental and health and safety risks across companies' own activities, subsidiaries and certain suppliers, and it has served as a blueprint for Germany's supply chain due diligence act and the EU's Corporate Sustainability Due Diligence Directive.

Against this backdrop of evolving disclosure rules and emerging due diligence regimes, the EU's Omnibus package seeks to ease mounting implementation strains flagged by businesses, foreign governments and Member States. It aligns with the agenda outlined in Mario Draghi's September 2024 report on the Future of European Competitiveness, which calls for a lighter administrative burden, clearer sequencing, and greater regulatory predictability.



### THEME 4: THE CENTRALITY OF THE GRID

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Grid connectivity and efficiency have also been central to developments in the last 12 months. With demand for energy increasing rapidly in some areas due to the AI and data center boom, interconnection backlogs have become a key obstacle to economic growth, notably in the U.S..

Countries worldwide are pushing through law and regulation to address this problem. China's Energy Law is designed to strengthen grid infrastructure, with policies promoting intelligent grid upgrades and the construction of smart microgrids. The U.S. and EU have advanced proposals for grid reforms. The European Grids package, for instance, announced by the European Commission in January 2025, is expected to require transparency in grid connection queues and faster permits for grid upgrades. This will continue to be a major area to watch, a key determinant in each country's sustainability success story.

## THEME 5: SUSTAINABILITY AS AN ECONOMIC DRIVER

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Some commentators view ESG requirements as a handbrake on growth, at least in the short term. Every penny spent on complying with regulation, so the argument goes, is one that is not spent on R&D or capital investment.

However, a striking feature in the contributions is how often sustainability emerges as a driver of growth. In the UK, for instance, the BNG requirement is likely to support investment in areas where the UK already has strengths, including consulting and data. In the GCC, large-scale renewables deployment has allowed surplus fossil fuels, previously burnt domestically, to be exported. In Singapore, low-carbon hydrogen is seen as a key area of focus, given its potential applications in aviation and maritime shipping—a reflection of the country’s role as a global transport hub. Law and regulation have played an important role in shaping the picture, whether as hard-edged catalysts for the development or strengthening of new industries (as with the UK’s BNG requirement) or as softer-edged responses to developments instigated by businesses themselves (as in Singapore).

Similarly, innovation and sustainability have advanced in tandem. COP 30 recognized multilateral finance as a critical pillar of the financing mix underpinning climate adaptation and mitigation. Recent developments underscore this. For example, the Asian Development Bank’s Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP) uses first-loss guarantees from financing partners on portions of its sovereign loan portfolio to free up regulatory capital and expand climate lending capacity. Yet the scale of the financing challenge still demands further and faster progress.

## REFLECTIONS: A CENTRAL ROLE FOR LAW AND REGULATION?

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Law and regulation do not exist in a vacuum: they inform and respond to external economic, social and political factors. 2025 has been no different. Key political drivers, including the ongoing fallout from the Russian invasion of Ukraine and continued geopolitical tension over trade, have played a leading role in many of the issues we touch upon in the Outlook.

However, if politics has been a critical catalyst behind many of the themes in this Outlook, law and regulation have been an important aid for delivery. That said, different countries and regimes strike very contrasting balances between a regulation- or market-led approach to the decarbonization transition.

With the law and regulation behind the transition just as contested globally as the politics, if not more so, businesses are starting to face requirements to behave in markedly different ways worldwide. As such, an important conclusion from this Outlook is that businesses that treat law and regulation with strategic focus—shaping business strategy, capital allocation, technology choices and supply-chain design—will be best placed to navigate the rules that will define competitiveness in a fractured but decarbonizing global economy.



# North America



# ESG trends in the U.S.: navigating fragmentation, backlash, and energy security

Ken Rivlin and Felise Cooper

2025 has been defined by pronounced legal fragmentation and an intensifying backlash against ESG, reshaping the terrain for businesses, investors and policymakers. Federal retrenchment on climate and sustainability measures has collided with assertive state-level initiatives—both pro- and anti-ESG—producing a patchwork of conflicting mandates, enforcement postures, and political scrutiny. Litigation risk has accelerated in parallel, from greenwashing class actions to state investigations and claims asserting novel tort theories, amplifying uncertainty around disclosure, advertising, and fiduciary practice. In this unsettled environment, legal readiness and strategic adaptability have become decisive competitive tools. We explore some of the year's key legal developments and their implications below.





## PRIORITIZING ENERGY SECURITY

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Starting on the first day of his new term, the president issued a broad executive order (Unleashing American Energy) instructing agencies to review, pause and revise energy-related actions seen as impeding dependable domestic energy supply—“with particular attention to oil, natural gas, coal, hydropower, biofuels, critical mineral, and nuclear energy resources”. The order also contained explicit directions to accelerate permitting under the National Environmental Policy Act, revisit regulatory analyses, and refocus program funds.

Additional executive orders bearing on climate and energy issues followed in April. In the Protecting American Energy from State Overreach executive order, certain states are called out as having “burdensome and ideologically motivated ‘climate change’ or energy policies that threaten American energy dominance and our economic and national security”, including New York’s Climate Superfund Act and California’s Cap-and-Trade Program. The order also directs the attorney general to identify “State laws purporting to address ‘climate change’ or involving ‘environmental, social, and governance’ initiatives, ‘environmental justice,’ carbon or ‘greenhouse gas’ emissions, and funds to collect carbon penalties or carbon taxes”, and take all appropriate action to stop the enforcement of these laws.

This position was bolstered by the “Beautiful Clean Coal” executive order. This order requires the Environmental Protection Agency (**EPA**) and the Departments of Transportation, Interior, Energy, Labor, and Treasury to identify any guidance, regulations, programs, or policies that “seek to transition the [U.S.] away from coal production and electricity generation.” Furthermore, the order requires agencies to (i) rescind policies or regulations that discourage investment in coal production and coal-fired electricity generation, (ii) encourage coal exports, and (iii) assess potential uses for coal in steel production and the operation of AI data centers.

## RETREAT ON FEDERAL ESG PROGRAMS

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The EPA acted in March 2025 to terminate grant agreements worth USD20 billion which had been granted to eight NGOs through the Inflation Reduction Act’s Greenhouse Gas Reduction Fund. After legal challenge, the U.S. Court of Appeals for the District of Columbia Circuit sided with the EPA in September, finding that federal officials have broad latitude to cancel funds that have been appropriated by Congress.

Likewise, many other Obama- and Biden-era environmental regulations and mandates have been rescinded or revised.

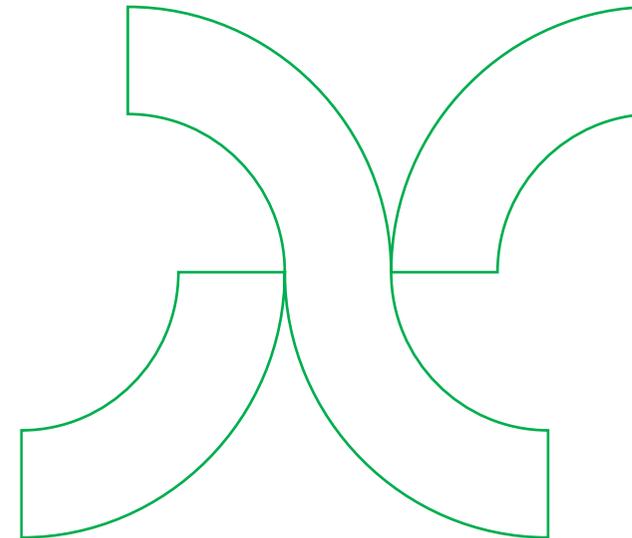
In September, the EPA proposed amending the Greenhouse Gas Reporting Program (**GHGRP**) to remove program obligations for most source categories (i.e., industries required to report under the GHGRP), including the distribution segment of the petroleum and natural gas systems source category. The proposal included suspending other program obligations until 2034. If finalized, the proposal would remove reporting obligations for most large facilities, as well as for fuel and industrial gas suppliers and CO<sub>2</sub> injection sites.

In March, the Securities and Exchange Commission (**SEC**) voted to end its legal defense of the Climate Disclosure Rule, calling the rule “costly and unnecessarily intrusive”. In a filing with the U.S. Court of Appeals for the Eighth Circuit, the SEC said its lawyers are “no longer authorized to advance” arguments the agency had made in support of the 2024 rule. Then, on September 12, 2025, the court issued an order holding in abeyance petitions for review of the SEC’s climate disclosure rules. The court stated that the order will remain in place until the SEC decides to rescind or modify the Climate Disclosure Rule through ordinary rulemaking, or renews its defense of the rule in the litigation (which appears unlikely).

The Unleashing American Energy executive order also specifically targeted several key electric vehicle policies, mandates and funding mechanisms, including a prior Biden executive order that established a goal for 50% of new light-duty vehicle sales to be zero-emission by 2030. This effectively eliminated the federal government’s policy goal for electric vehicle adoption. It also called for terminating, “where appropriate”, state emissions waivers granted by the EPA that allow states to enforce stricter standards.

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*“The ESG landscape at the state level continues to be highly fragmented, with an increasing number of actions from both anti-ESG ... and pro-ESG states”*





## FRAGMENTATION IN THE U.S. ESG LANDSCAPE

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The ESG landscape at the state level continues to be highly fragmented, with an increasing number of actions from both anti-ESG states and pro-ESG states, including policy letters from groups of states on both sides of the issue, legal investigations, and statutory initiatives.

Although California has been a leader among states that are pursuing their own climate reporting and disclosure laws, the U.S. Court of Appeals for the Ninth Circuit recently froze California law SB 261, which would have required companies with more than USD500 million in annual revenue that do business in California to disclose financial risks from climate change starting in January 2026. In the same order, the Ninth Circuit denied a bid to halt SB 253, a related law requiring companies with more than USD1bn in annual revenue to start reporting their greenhouse gas emissions in June 2026.

The Ninth Circuit's ruling bars California from enforcing SB 261 as the claimants pursue their litigation seeking to permanently enjoin the two laws. At oral arguments on January 9, a three-judge panel questioned the parties on freedom of speech issues. Despite this uncertainty, many companies have invested significant time and resources preparing to comply with SB 261's climate risk disclosure rules, and are continuing their preparations while monitoring the litigation developments. A written decision is expected from the Ninth Circuit in the coming months, which will determine whether the law will be permanently blocked or allowed to move forward.

In August, a coalition of 23 state Attorneys General sent a letter to the Science Based Targets initiative (**SBTi**) challenging SBTi's "Financial Institutions and Net-Zero Standard" and demanding information about the organization and its members. The letter cited concerns about potential violations of antitrust and consumer protection laws.

The Texas Attorney General announced in September his office's investigation into two proxy advisory firms for allegedly issuing voting recommendations that "advance radical political agendas rather than sound financial principles", potentially misleading institutional investors and public companies. The announcement cited examples that included "aggressive climate activist policies".

Seeking to combat the surge of "anti-ESG" actions, Democratic state officials from 17 states sent letters to at least 18 major asset managers urging them to actively consider long-term risks such as climate change, supply chains, and corporate governance in investment decisions, and to reject Republican pressure to abandon ESG considerations in their investing decisions. The officials argue that "fiduciary duty calls for active oversight, responsible governance, and the full exercise of ownership rights", warning that the GOP's anti-ESG stance puts American retirement money at risk.



## LITIGATION GROWTH

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Greenwashing litigation has also continued to expand in the U.S., especially consumer class actions challenging marketing and labeling. Watchdogs report well over 150 U.S. greenwashing class actions tracked through early 2025, with California and New York being the most active venues.

While private greenwashing suits may be proliferating, many complaints end up being pared back or dismissed when the challenged statements are aspirational, generalized, or “puffery”, or when the defendant “shows its working” with transparent methodologies and qualifications. On the other hand, a meaningful number of claims survive motions to dismiss—particularly when plaintiffs challenge concrete, product-specific claims (for example, using terms like “recyclable”, “reef safe”, “humane”, or “sustainable”) on labels or websites and can show demonstrable inaccuracies or a plausible theory of reasonable consumer deception. Securities class actions premised on ESG statements have generally proceeded at a slower pace and with mixed results, with several losses at the pleadings stage and occasional settlements (which are often tied to other claims such as breach of fiduciary duty, rather than being pure “greenwashing” actions).

Private litigants may also seek to link oil and gas businesses to personal losses under novel legal theories. A claim filed against major oil companies in a Washington county court in May claimed to be the first-ever climate change wrongful death lawsuit. The complaint alleged that the defendants’ deceptive conduct delayed measures to mitigate and adapt to climate change and was the proximate cause of the plaintiff’s mother’s death in an extreme heat event. Similarly, in November, a proposed class action was filed in Washington federal court by two Washington homeowners against six major oil companies. The plaintiffs argued that because the defendant companies had not taken responsibility for climate change, homeowners had suffered rising insurance costs from weather-related disasters.

The plaintiffs alleged that the companies violated (i) the federal Racketeer Influenced and Corrupt Organizations Act (**RICO**) and (ii) various state laws, to conceal the industry’s impact on the environment. They asked the court to certify a class of “all persons who purchased homeowner insurance at any time after 2017” in connection with the RICO claims.

### WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, one of the key challenges emerging this year is that regulatory certainty and consistency are increasingly in short supply in the ESG arena. Most businesses should therefore focus on mapping legal exposure across federal and state rules. Double-check that your external messaging is aligned with financially material, reliability-relevant risks and opportunities, and establish a litigation-aware review of your claims and marketing.

**In the medium term (12–18 months)**, create or refine your reporting architecture so that it is capable of serving multiple jurisdictions and managing emerging assurance expectations. Consider embedding energy security into your existing climate transition plans. Prepare for potential regulatory inquiries and enforcement by reviewing your escalation protocols.

**Over the long term (18 months–5 years)**, continue to actively manage climate-related risks, balancing current sustainability practices with tangible business and financial impacts and your overall approach to enterprise risk. Related considerations include pressure from shareholders, investors, customers, clients and other stakeholders, scrutiny from regulators, disclosure and governance requirements from non-U.S. regimes, and reputational risks. These risks obviously cannot and should not be ignored. Rather, the key will be to ensure that you are managing them prudently, consistent with your wider obligations to protect the integrity of your business, your obligations to your stakeholders, and your obligations under applicable law.





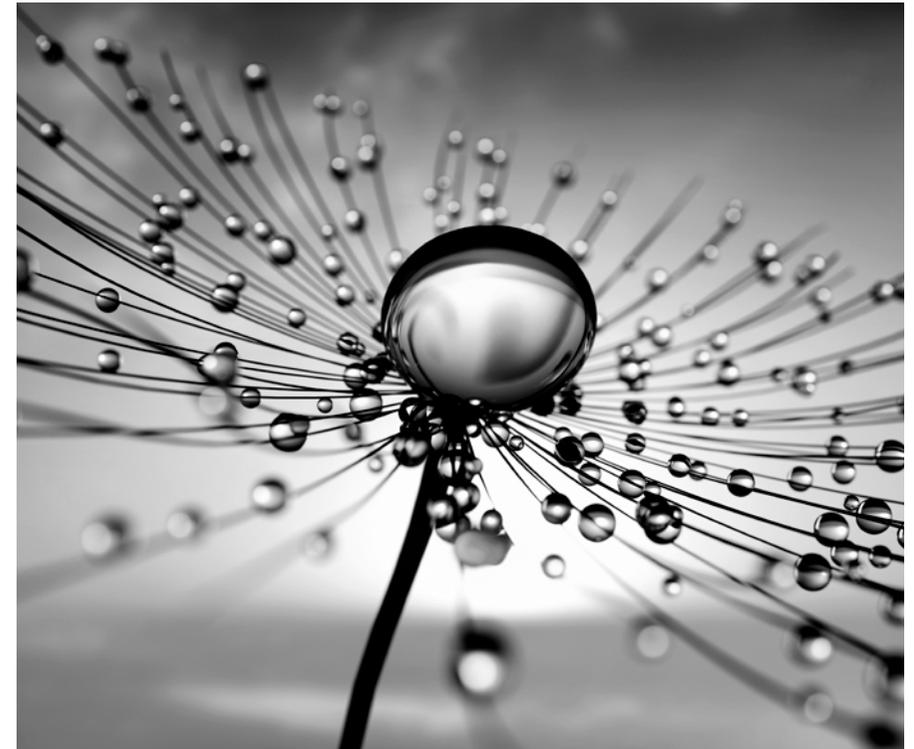
# U.S. renewables market poised to remain critical to energy supply mix despite regulatory uncertainty

Katy McNeil, Jason Pham and Kara Altman

Historically in the U.S., a key component of enacting green energy policy was through federal income tax incentives. While recent legislation in the form of the One Big Beautiful Bill Act (**OBBBA**) has significantly reduced the future availability of federal tax credits, businesses and state-level governments continue to implement sustainability targets for which renewable energy projects remain a vital source of lower-carbon energy production.

Additionally, the demand for energy continues to rise in the U.S. due to energy security needs, industrial re-shoring priorities, and accelerating data center load. Small-scale renewable energy projects, particularly solar projects, are expected to continue to be a pivotal part of the energy mix in the country in the coming years. Over the next six to 12 months, investors should expect tariff volatility, increased scrutiny of tax credit eligibility, and economic stress around growing insolvencies in the solar sector.

In the medium term, election-driven policy recalibration could reshape the availability of subsidies and redefine supply chain requirements. Over the longer term, the market is likely to consolidate around legally robust, reliability-aligned frameworks that benefit domestic manufacturing by non-Chinese-controlled businesses, grid reliability, and disciplined consumer protections.





## CAPITAL ALLOCATION BETWEEN PROJECTS: THE DRIVERS

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Tariff policy, tax credit eligibility, and residential-solar solvency are now mutually reinforcing drivers of risk and opportunity. Trade policies and actions are placing additional strain on supply chains, just as (i) the recent OBBBA raises the bar for tax credit qualification, and (ii) consumer protection rules strengthen in response to residential solar insolvencies. Additionally, developers are contending with a growing need to provide grid reliability in the face of known transmission constraints: queue backlogs; protracted interconnection study timelines; escalating network upgrade costs; and congestion-driven curtailment are delaying commercial operation dates and eroding project economics. Together, these market forces are steering capital allocation toward projects that can withstand legal scrutiny and deliver reliability.

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*“The U.S. renewables market is not de-risking through cost declines alone; it is being actively shaped by legal and policy evolution. Energy security is reframing approvals, standards, and subsidies toward reliability, domestic content, and enforceable compliance”*

## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, tariff volatility will continue to be a feature. Bid repricing and origin tracing under anti-dumping, countervailing duties, and Section 301 trade actions are raising module costs and delivery risk, which in turn will cause heightened scrutiny for compliance with IRS standards for federal income tax credits. Simultaneously, net-metering reforms and higher consumer interest rates compress residential cash flows, elevating insolvency risk of residential solar developers and prompting tougher consumer servicing oversight. Concurrently, feeder constraints and interconnection queue backlogs are extending project timelines while the OBBBA has shortened the periods in which projects can be placed in service to qualify for tax credits. In total, investors should expect projects to face construction timing and pricing hurdles, as well as increased regulatory and consumer protection scrutiny.

**In the medium term (12–18 months)**, enforcement convergence is likely. Heightened customs scrutiny will align with more rigorous legal review of whether projects satisfy legacy tax credit standards or the new, and still unsettled, standards of the OBBBA. State utility commissions and attorneys general will continue to prioritize consumer protection actions in rooftop solar. At the federal level, the likelihood of interconnection reforms is increasing, alongside emerging reliability requirements for inverter-based resources (i.e., sources of electricity that are asynchronously connected to the grid).

These developments are likely to steer developers toward pairing projects with storage to satisfy reliability objectives and toward U.S. manufacturing to capture domestic content value while avoiding regulatory and political scrutiny associated with foreign-sourced, particularly China-origin, components. Financing parties are expected to tighten terms accordingly, with enhanced covenants that include pass-throughs of tariff exposure to well-capitalized sponsors, step-in rights to facilitate compliance remedies, and more stringent curtailment and congestion covenants.

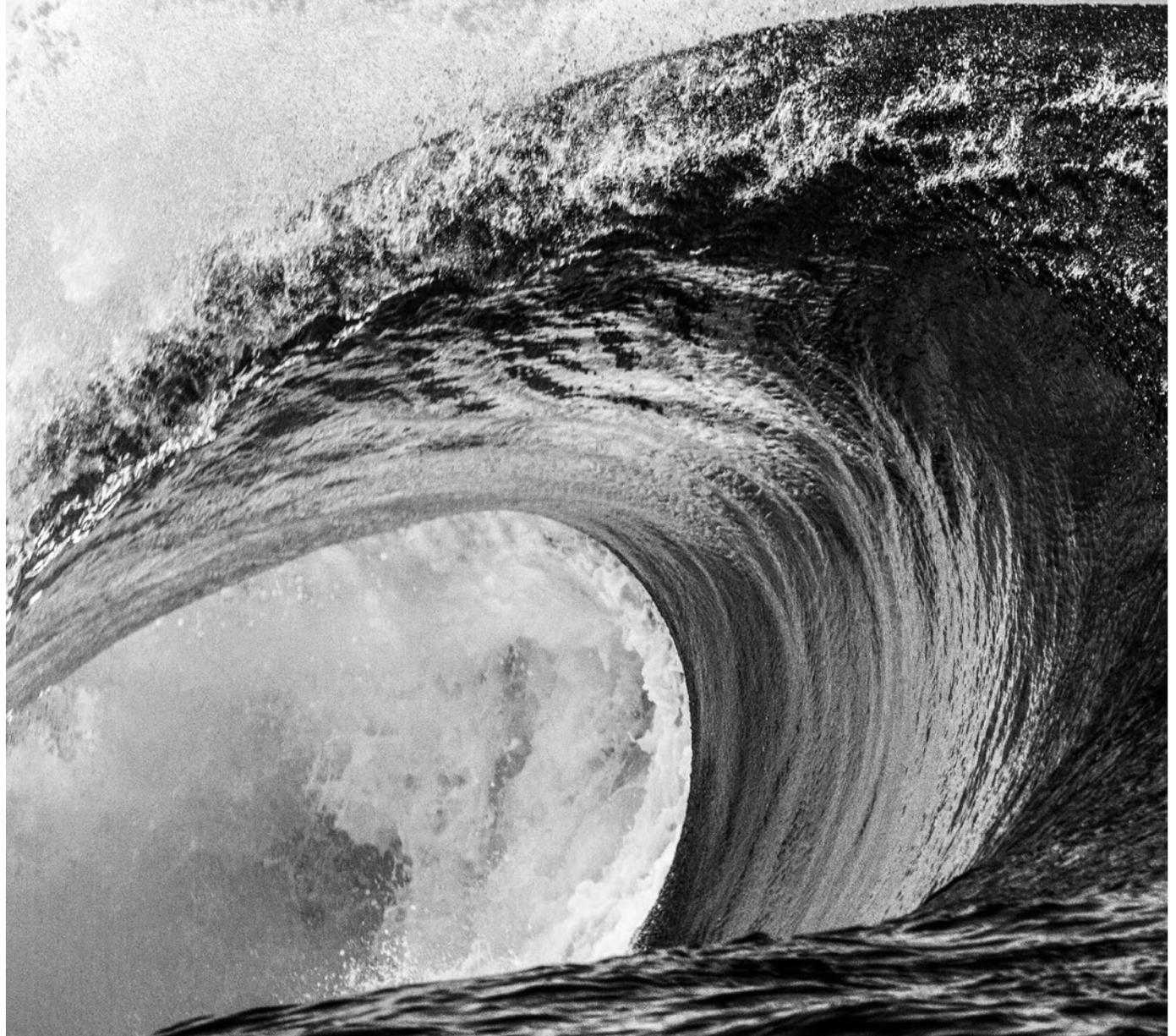
**Over the long term (18 months–5 years)**, investors should anticipate convergence not only in enforcement, but also across market practices and policymaking. Project budgets and access to capital will increasingly reflect the premium placed on domestically-sourced modules, while price-sensitive components will benefit from diversified import channels. EPC practices will coalesce around standardized product-sourcing protocols, and storage-led offerings aligned with evolving grid rules will draw greater investment. At the same time, consumer protection regimes will tighten requirements for disclosures, warranties, and service continuity, improving credit quality but raising compliance costs. The net effect will be that developers who stay apprised of regulatory shifts and maintain their projects' budgets and schedules despite the evolving landscape will attract a greater market share than their competitors who are unable or unwilling to showcase regulatory resilience.



## **CONCLUSION: LAW, POLICY AND THE SHIFTING U.S. ENERGY LANDSCAPE**

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The U.S. renewables market is not de-risking through cost declines alone; it is being actively shaped by legal and policy evolution. Energy security is reframing approvals, standards, and subsidies toward reliability, domestic content, and enforceable compliance. For investment, banking, and legal teams, the practical implication is the need for enhanced diligence encompassing counterparty supply chains, workforce compliance, documentation establishing adherence to the new standards of the OBBBA, and contractor financial hygiene. Contracts should anticipate tariff shocks and guidance shifts with pass-throughs, cure mechanics, and audit-ready recordkeeping. Portfolios should run stress tests for net-metering changes and rate sensitivity and include transition plans for contractor failures so tax credit monetization survives distress. The rules will determine who leads and who lags, and those who treat regulation as the operating system of the energy transition will be best placed to capture value in a secure and sustainable U.S. renewables future.





# Europe



# UK Biodiversity Net Gain: the requirements, the context, and what businesses need to know

Matthew Townsend, Danae Wheeler, Gauthier Jacqmin, Philippe Allen and Cara Walmsley

In early 2024, the Biodiversity Net Gain (**BNG**) requirement was adopted for certain developments in England. Introduced under the Environment Act 2021, BNG aims to restore habitats and biodiversity on planning sites. In doing so, it demonstrates the UK's ongoing commitment to leadership in the ESG space amidst a global recalibration on the topic. With the recent launch of a biodiversity credits policy forum at COP 30, the UK's notable steps on biodiversity regulation coincide with heightened global policy attention on this area. We are seeing increased moves to establish regulatory frameworks for biodiversity outcomes and to incorporate nature-related risks into financial and corporate decision-making. In parallel, markets are emerging to quantify and trade biodiversity units, echoing in certain respects the trajectory of carbon pricing mechanisms over the past decade.

While some jurisdictions have adopted a form of "no biodiversity net loss" requirements or policies, the UK model is significant in placing a positive obligation on stakeholders to contribute to a net gain.

Seen through a UK lens, this represents an important step in integrating environmental policies with planning permissions, and is intended to ensure measurable improvements to natural habitats that might otherwise be disrupted by infrastructure development.





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*“BNG is part of the UK positioning itself as an early mover on nature-positive regulation”*

## **BNG: THE REQUIREMENTS**

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Under the requirements, in-scope planning applications submitted on or after February 12, 2024 will not be able to secure planning permission without showing a biodiversity net gain. To demonstrate this, developers must provide a biodiversity gain plan, detailing how they intend to deliver a 10% net gain in biodiversity, which must be legally secured for a 30-year period (e.g., by way of planning conditions or conservation covenants). The central idea is to reverse the long-term decline in biodiversity by ensuring improvements to natural habitats are enduring rather than temporary.

In practice, this will involve developers carrying out a survey of the development site before construction and using the statutory metric provided by the Department for Environment, Food and Rural Affairs (**DEFRA**) to assess a site’s biodiversity value before the proposed development. There are then three possible methods developers can use to demonstrate the required 10% BNG, which must be applied in the following order:

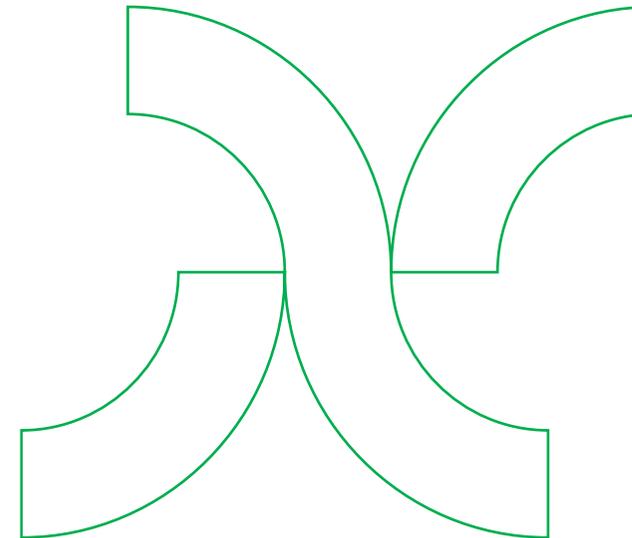
1. first and foremost, creating biodiversity on-site;
2. (if developers cannot achieve all required BNG through 1) making biodiversity gains off-site, either by making gains on their own off-site land or by buying off-site biodiversity units on the market; and/or
3. (if developers cannot achieve all required BNG through 1 or 2) buying statutory biodiversity credits from the government.

## **HOW DOES BNG FIT IN WITH GLOBAL ENVIRONMENTAL FRAMEWORKS?**

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First, BNG is aligned with the Kunming-Montreal Global Biodiversity Framework, agreed under the Convention on Biological Diversity—which the UK has signed and ratified—in 2022. The Framework sets out 2030 targets across a variety of sectors. Mandatory BNG is one of the UK’s principal tools for delivering those targets at a national level, including Target 4, which requires entities to “manage human-wildlife interactions to minimize human-wildlife conflict for coexistence”.

Second, BNG dovetails with private sector disclosure frameworks, including the Task Force on Nature-related Financial Disclosures (**TNFD**). When preparing TNFD disclosures and reports, developers will be able to rely on BNG data to supplement their nature-related disclosures, allowing the frameworks to operate in tandem.





## BNG AND UK COMPETITIVENESS

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The current Labour administration has a manifesto commitment to build 1.5 million new homes over the current parliament (i.e., by August 2029). The UK's high construction costs stand in the way of this goal, with London, in particular, consistently ranking among the most expensive places to build globally. Since its introduction, BNG has been criticized for contributing to costs and delays in planning, with 94% of respondents in one industry survey stating that they had experienced planning delays due to BNG. Any material BNG-induced costs and delays to UK planning approvals necessarily dampen the attractiveness of the UK as a place to invest and build. These considerations contributed to DEFRA launching a consultation in May 2025 on the possibility of exempting “minor” developments (i.e., very small-scale residential or commercial developments) from the BNG requirement.

However, from a macro perspective, BNG is part of the UK positioning itself as an early mover on nature-positive regulation. If implemented pragmatically, BNG could underpin a competitive advantage in nature-based solutions, environmental consultancy services, data and verification—sectors in which the UK already has strengths. Conversely, if delivery is hampered by inconsistent local authority practice or unresolved interactions with housing and infrastructure objectives, the loss in predictability—both within a single planning application and across planning authorities—risks outweighing any gains to be made in these areas.

For overseas investors, the UK will increasingly be judged not simply on the existence of BNG requirements, but on regulatory certainty and clarity, speed of consenting and pricing levels of off-site biodiversity units (market-based) and statutory biodiversity credits (set by DEFRA).

## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, businesses should stay on top of any changes to these requirements. Changes are anticipated in the near term, including bringing Nationally Significant Infrastructure Projects (**NSIPs**) into scope and DEFRA publishing its responses to consultations on (i) BNG for NSIPs, and (ii) exempting minor developments from the requirements (see above). Further, as the requirements bed in, some bottlenecks are to be expected around local authority capacity and the availability of off-site units.

**In the medium term (12–18 months)**, focus is likely to shift from minimum compliance to optimization and integration. We may see BNG become an element of portfolio-level strategies for housebuilders, utilities, and other land-rich businesses. Rather than treating compliance for each site as an isolated tick-box exercise, businesses may seek to identify “core” nature recovery sites within their estate from which BNG units can be generated to support multiple projects. At the same time, where businesses set nature-positive performance targets, the data and governance built for BNG compliance may be leveraged to demonstrate progress more broadly.

**Over the long term (18 months–5 years)**, BNG will become a “business as usual” planning requirement. Businesses that have invested early in internal capability and strategic land management will be better placed to navigate this landscape efficiently. Further, there is a plausible trajectory in which BNG acts as a stepping-stone towards broader nature-related regulation—for example, extending “net gain” principles to supply-chain-driven nature risk.





# The French Duty of Vigilance Act: lessons from the past five years and predictions for the next five

Romarc Lazerges, Arthur Sauzay, Pauline Choplin and Adélie Sallou

Adopted in 2017, the French Duty of Vigilance Law establishes a pioneering corporate duty to identify and prevent severe human rights, environmental, and health and safety risks. It applies to risks arising from the activities of a company, its subsidiaries, and certain subcontractors or suppliers. It has since inspired Germany's law on supply chain due diligence and the EU's Corporate Sustainability Due Diligence Directive (**CS3D**). For businesses, the core question is not only what the law requires on a micro level, but also how to embed compliance with the law as part of an enterprise strategy that manages litigation, reputational, and operational risk. This article distills business-facing lessons from the first five years and flags open issues that should inform board oversight and day-to-day implementation.





## LESSONS FROM THE PAST FIVE YEARS

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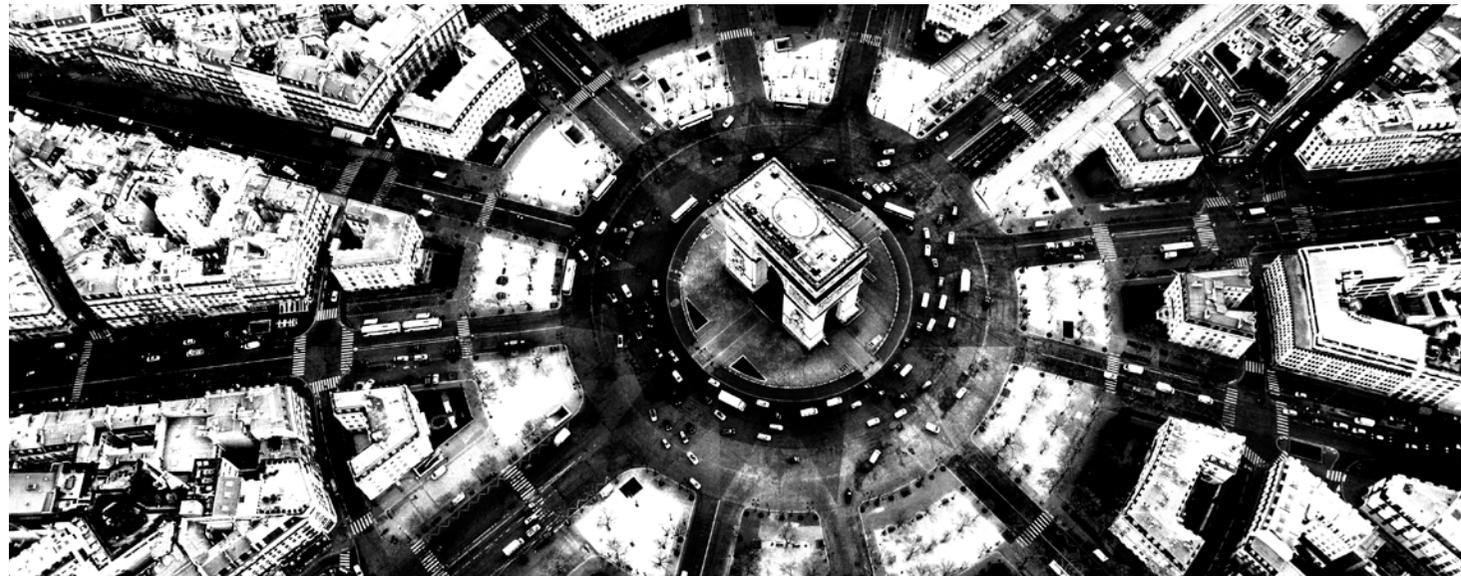
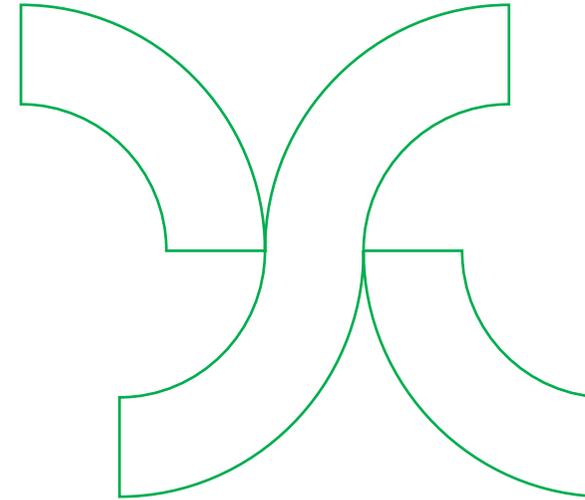
The law has triggered a broad corporate response. Companies now publish longer vigilance plans, with more detailed risk mapping and clearer remediation measures. These disclosures have had ripple effects across global value chains, including on foreign entities. Some subcontractors and suppliers have been pushed to adopt commitments for their own value chains on environmental harm, human rights, and health and safety.

Civil society has used the law to press for change. NGOs, and to a lesser extent trade unions, have not hesitated to request meetings with companies, write letters to them alleging deficiencies in their vigilance plans, or even issue formal notices requiring companies to comply with the Duty of Vigilance Law as part of a pre-litigation process. This notice is seen as a core element of stakeholder dialogue: courts have confirmed that a formal notice is a mandatory precondition to proceedings. Alternative dispute resolution has also shown itself to be a viable way of concluding proceedings. For example, a dispute between a French food products company and a coalition of NGOs over the company's vigilance plan was resolved through mediation.

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*“These disclosures have had ripple effects across global value chains, including on foreign entities”*

The adoption of the French Duty of Vigilance Law also had an impact on the judicial system. The Paris Judicial Court created a specialized ESG chamber (the 34th) to hear cases concerning the law and related issues, mirrored on appeal by the Paris Court of Appeal's chamber 5–12. These chambers have heard high-profile cases, among them several proceedings against large French multinationals, including an energy company (in respect of alleged human rights and environmental risks linked to overseas projects) and a bank (in respect of climate-related financing). Although these chambers might have been expected to take a bold line as a result of their specialist role, their approach in practice has been one of caution at this stage (bearing in mind some important cases will be judged in 2026). Where they have ruled on substance, such rulings have included confirmation that risk mapping is the backbone of a vigilance plan, with other measures of the plan, including remediation actions, flowing logically from that mapping.





## PREDICTIONS FOR THE NEXT FIVE

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A central question concerns the implications of the European CS3D for the French vigilance regime. To date, French courts have adopted a deferential approach. Even though the CS3D has not yet been transposed the Paris Court of Appeal has held that the French Duty of Vigilance Law should be construed in a way that does not frustrate the objectives of the directive—a ruling informed by the EU principle of sincere cooperation under Article 4 of the Treaty on European Union.

In addition, over the next five years, courts are expected to clarify how intensely they are to monitor vigilance plans adopted by companies. There are good arguments that review should be on the less intrusive side, confined to verifying completeness and internal coherence. Such arguments include promoting certainty for companies and taking into account the nature of the vigilance plan, which is a self-regulatory document by companies falling within the scope of the law.

As with the CS3D, an important aspect of the French Duty of Vigilance Law is its extraterritoriality. As a consequence, questions as to its interaction with foreign legal regimes remain open. By potentially requiring companies to surpass host-state standards, the law risks encroaching on foreign sovereign regulatory choices. Future case law will therefore need to clarify the role of the French courts.

Another critical issue concerns the status under the law of suppliers and subcontractors in the value chain. The obligation placed on companies by the law to identify and prevent environmental and human rights impacts extends to suppliers and subcontractors with which that company has an “established commercial relationship”. If suppliers and subcontractors beyond immediate counterparties are covered, there is force in the view that it would be disproportionate to hold companies liable for harm caused by indirect suppliers and subcontractors, over whom they often have limited leverage.

## CONCLUSION

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In the coming years, the contours of the French Duty of Vigilance Law will likely be clarified through case law. In this regard, courts may consider the CS3D, including any amendments thereto. This evolving legal landscape will shape how companies operationalize due diligence and manage ESG risks across their value chains.





# The European Green Deal at five: progress, fault lines, and the next chapter in EU sustainable finance

Axel de Backer and Danae Wheeler

Over five years ago, the European Green Deal promised to make climate neutrality Europe's new industrial strategy. Introduced in 2019, it marked a fundamental, long-term shift in European policy priorities.

Specifically, the cross-cutting strategy sought to (i) achieve a climate-neutral EU economy by 2050, consistent with the Union's commitments under the Paris Agreement, and (ii) implement the Sustainable Development Goals set out in the United Nations 2030 Agenda.

More than 150 policies were introduced to address global environmental challenges such as climate change, biodiversity loss, and pollution by driving ambitious transformations across key sectors, including energy, industry, buildings, transport, and food systems.

Today, emissions are down, clean tech investment has scaled up, and reporting frameworks have matured at great speed. Yet slow economic growth, inflation, geopolitical shocks, and shifting national politics have tested public patience and political will. In response, the EU embarked on a major project to simplify sustainability laws and regulations. The next five years will help determine whether the Green Deal becomes a durable economic settlement, or an ambitious first draft which becomes much less effective as a result of rollbacks.





## WHAT WORKED: ARCHITECTURE, ACCOUNTABILITY, AND ALLOCATION

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One of the Green Deal's most successful contributions is institutional. Europe's taxonomy set green goals and developed the architecture and systems needed to deliver results. For example, reform of the Emissions Trading System tightened the cap and price signal, extending coverage and laying the groundwork for a parallel system for buildings and road transport. The Carbon Border Adjustment Mechanism (**CBAM**) began its transition, advancing the principle that carbon-intensive imports should not undercut decarbonization at home.

Equally significant is Europe's accountability revolution in corporate reporting. The Corporate Sustainability Reporting Directive (**CSRD**) seeks to move sustainability disclosure into the financial mainstream, expand mandatory reporting, and introduce assurance over key metrics through the European Sustainability Reporting Standards (**ESRS**), which operationalizes double materiality. The EU Taxonomy and the Sustainable Finance Disclosure Regulation (**SFDR**) complement this by providing a legally grounded definition of environmentally sustainable activities, with technical screening criteria and a minimum safeguards framework for financial market participants. Together, the CSRD, Taxonomy, and SFDR create a coherent, enforceable disclosure system that aims to channel capital based on comparable and comprehensive data, and curb greenwashing.

Public financing for green projects has followed with funding supporting priorities such as clean tech manufacturing and environmental sustainability.

## THE SUSTAINABLE FINANCE BACKBONE: FROM TAXONOMY TO BONDS

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The EU Taxonomy provides both the definitional backbone as well as a first disclosure framework on environmentally sustainable (i.e., green) economic activities. The EU Taxonomy's disclosure rules are supplemented by other disclosure frameworks, including in particular the CSRD. A key purpose of these prescriptive disclosure rules is to ensure that the markets are supplied with the appropriate data to assess the level of sustainability of businesses' operations and investments.

It is well established that these disclosure rules imposed significant compliance burdens on businesses and exposed them to legal risks, and this led the European Commission to significantly revise these rules in the so-called "Omnibus" package announced in February 2025, discussed in more detail below. It goes without saying that the lighter reporting requirements and the significant reduction in scope of the reporting rules (only the largest companies and groups will need to draw up detailed reports) were applauded by many, but also criticized by certain political actors, civil society, and even by investors that were keen to assess and compare this new trove of detailed sustainability data. The discussions on the Omnibus package again demonstrated that the balance between data availability and compliance costs will continue to be a political hot iron, particularly as robust data is essential to allocating capital efficiently to sustainable investments and activities.

In that regard, it is useful to consider the European Green Bond Regulation, which entered into force in December 2024, and which provides the EU capital markets with a voluntary, legally grounded label for bonds whose proceeds align with Taxonomy criteria.

The Green Bond Regulation (which supplements the widely-used ICMA green bond standards, a market-driven initiative) matters for three reasons. First, it introduces standardization into a crowded European bond market. It creates a close alignment between the Taxonomy and use-of-bond proceeds and introduces a mandatory factsheet and reporting templates. Second, it elevates assurance with independent third-party entities evaluating transactions and providing authorization and supervision. Third, it creates positive pressure upstream. Issuers cannot credibly wear a European green label without data on eligibility and alignment, driving better internal controls, supply chain transparency, and improved capex planning.

Critics will note that participation in respect of this European green bond label is voluntary and that Taxonomy coverage is still incomplete in some sectors and objectives. Both points are correct, but change is inevitably incremental. Market standards harden gradually, and although no comprehensive data on the Green Bond Regulation's success is yet available, take-up is rising and issuers who have invested in taxonomy alignment see the benefit of the combination of a recognized public label and enhanced assurance.

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*“Simplification will be the political and technical project of the mid-2020s. Simplification measures need to retain the overarching goals of the Green Deal, be sufficiently flexible to accommodate technological progress and sectoral priorities, and prevent greenwashing”*



## CHALLENGES AHEAD: COMPLEXITY, CONSISTENCY, AND THE POLITICS OF PACE

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Success has come with substantive trade-offs. Firms face overlapping requirements across sustainability reporting, labeling, and prudential compliance. Aspects of the SFDR illustrate the problem: launched to channel capital towards environmental sustainability goals, firms have struggled with interpreting requirements and with inconsistent application across market participants.

Consistency has also been strained by the multitude of delegated acts, updates, and evolving supervisory expectations. Adjustment and compliance costs faced by SMEs, energy-intensive industries, and households have become politically sensitive.

After two years of feedback that CSRD, Taxonomy, ESRS, SFDR, CBAM and related rules were too complex, fast-moving, and difficult to operationalize, the Commission, in February 2025, unveiled a sustainability Omnibus to stabilize and simplify the EU's reporting and due diligence architecture. The Omnibus enables the Commission to amend several laws at the same time. The package responds to mounting implementation strain flagged by businesses and Member States and aligns with the competitiveness agenda contained in Mario Draghi's September 2024 report on the Future of European Competitiveness, which called for a lighter administrative burden, clearer sequencing, and greater regulatory predictability. It also reflects lessons from the first CSRD reporting cycle and the need for better interoperability across EU sustainable financing proposals.

Taken together, the Omnibus is more of a recalibration than a retreat, with fewer moving parts and more usable data, while preserving the core objectives of the Green Deal.

## THE NEXT FIVE YEARS: STABILIZE, SIMPLIFY, AND SCALE

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Looking ahead, the Green Deal's credibility hinges on three interlocking tasks: stabilizing the rulebook, simplifying where possible, and scaling up green investment.

Stabilizing means fewer surprises and more roadmaps. Investors and corporates need predictable timelines and standards, and clear, long-dated transition pathways for hard-to-abate sectors. Some early movers have rued changes in sustainability laws after committing resources.

Simplification will be the political and technical project of the mid-2020s. Simplification measures need to retain the overarching goals of the Green Deal, be sufficiently flexible to accommodate technological progress and sectoral priorities, and prevent greenwashing. There is considerable scope for simplification. A streamlined SFDR—one that clarifies product categories, harmonizes sustainability indicators, and reduces duplicative documentation—is essential. Continued work extending and calibrating the Taxonomy without over-engineering is also important, as is reducing the number of data points required under the CSRD.

Scaling up sustainable finance will likely require continued financial innovation and financing structures that pair green bonds with other project financing instruments. Such blended financing could crowd in private capital to support decarbonization and other environmental sustainability goals and assist investors by enhancing the liquidity of the green bond market.





# REACHing for resilience: the recalibration of EU chemicals law

Gauthier van Thuyne and Fee Goossens

EU chemicals law, once seen merely as a risk management framework, is now increasingly a lever for strategic autonomy, supply security, and the energy transition.

## FROM HAZARD CONTROL TO STRATEGIC BALANCING

EU REACH—the EU’s main chemicals regulation—sits at the center of this recalibration. Amendments to this Regulation are expected as part of the EU’s Chemicals Strategy for Sustainability.

The REACH regime has long prioritized hazard identification and risk management through registration, evaluation, authorization, and restriction. That legal architecture is not fundamentally changing.

However, two political drivers have forced a shift in emphasis for the regime:

- first, supply chain fragility, exposed by geopolitical tensions and energy shocks, has heightened Europe’s appetite to reduce dependencies on non-EU inputs; and

- second, the unevenness of the energy transition: the chemicals that drive decarbonization may be subject to net-zero initiatives at EU level, but the national permitting regimes which often underpin these are patchy.

The proposed revisions to REACH first presented by the European Commission in April 2025 include the setting of a limited (ten-year) validity period for chemicals under REACH, to account for the pace of change of technological understanding in this area. These proposals form part of a spate of recent developments at the EU level on this topic, including the release of a Communication by the Commission setting out how an “essential use” concept could underpin regulation of the most harmful substances. Under the Communication, use of such substances would only be permitted if it was essential, namely if (i) that use was necessary for health or safety or was critical for the functioning of society, and (ii) there were no acceptable alternatives. The concept, so framed, could be used to support the EU’s energy security and green transition goals.





This newfound focus on balancing risks against socio-economic goals is not intended to dilute hazard standards. Rather, careful scoping of derogations to well-characterized uses will be required. Businesses active in these fields should therefore engage at the early stages of the introduction of new restrictions or revisions of existing restrictions, to secure exemptions for crucial uses.

### ENFORCEMENT

Although enforcement of EU chemicals legislation mainly lies with Member States, the upcoming EU-level chemicals revision includes calls for a new strategic approach on customs enforcement relating to environment, health, and product safety. It is expected that actions will be set for all relevant players to step up enforcement of chemicals rules, not only nationally, but also cross-jurisdictionally by (i) strengthening collaboration between enforcement authorities under the auspices of the European Chemicals Agency (**ECHA**), (ii) increasing border controls, and (iii) building European audit capacity to ensure effective controls.

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*“This newfound focus on balancing risks against socio-economic goals is not intended to dilute hazard standards”*

### WHAT TO EXPECT IN THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, stakeholders can expect the legislative change long trailed in this area to finally arrive: while a targeted revision of EU REACH was foreseen for Q4 of 2025, this has been postponed and is now expected in the course of 2026, including a full assessment on the ban of PFAS. Other steps are also being taken in support of the EU’s security of supply goals, such as the Commission’s September 2025 launch of its second call for strategic projects to secure critical raw materials supply for European industry in the context of the EU’s Critical Raw Materials Act.

**In the medium term (12–18 months)**, enforcement will be driven up—as recently announced by the ECHA’s Enforcement Forum in its work program for 2026–2027. Although enforcement remains national, ECHA will continue to coordinate cross-border actions and businesses should anticipate more joint inspections between Member State authorities (e.g., at borders) or in collaboration with enforcement authorities in other sectors.

**Over the long term (18 months–5 years)**, EU policy initiatives should align the European Commission’s Transition pathway for the chemicals industry—a strategy document published in 2023 setting out steps for the chemicals sector’s green and digital transitions—with the European Chemicals Industry Action Plan, a 2025 plan aimed at securing the resilience and competitiveness of the sector. The result is expected to be a coherent framework across resilience, decarbonization, and regulatory initiatives. The Critical Chemical Alliance, launched under the 2025 Action Plan, could play an important role in the long-term development of regulation in this sector, defining transparent and robust criteria for identifying critical chemical production capacities and critical molecules underpinning strategic value chains in the EU.



# EU Defence Readiness Omnibus: security, industry, and ESG intersections

Udo Olgemöller

European defense policy is undergoing a profound transformation. 2025's Defence Readiness Omnibus marks a regulatory reset that prioritizes preparedness, industrial scalability, and strategic autonomy.

This shift integrates defense into the EU's broader resilience agenda while embedding ESG principles into procurement and financing. For businesses, the implications are significant. Navigating the new regulatory and security environment will involve managing complex compliance frameworks, adopting multi-strategy investment models, and anticipating long-term sector risks, including by leveraging dual-use technologies for strategic flexibility.





## THE FRACTURED TRANSITION AND THE DEFENSE IMPERATIVE

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Europe is navigating a convergence of crises: the war in Ukraine, intensifying geopolitical competition, supply chain fragility, and the accelerating climate emergency. These shocks have exposed structural vulnerabilities in energy and security systems, prompting a strategic pivot toward resilience and autonomy.

To address this new reality, the EU in March 2025 introduced the White Paper for European Defence—Readiness 2030, also known as the ReArm Europe Plan, marking a shift from a peacetime mindset focused on regulation and compliance to one focused on preparedness, deterrence, and industrial scalability. With these shifts, defense has become a central driver of European policymaking.

This transformation is embodied in the Defence Readiness Omnibus, adopted by the European Commission in June 2025. The package combines legislative and non-legislative measures to strengthen Member States' self-defense capacity and align national security strategies under the Common Security and Defence Policy (**CSDP**). It also seeks to foster innovation to meet technological and operational challenges.

## DRIVING STRATEGIC AUTONOMY: OPERATIONALIZING READINESS 2030

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The next phase is implementation—and the immediate priorities here are creating industrial depth and promoting joint procurement at scale.

The White Paper translates strategic intent in this area into concrete policies:

- Security Action For Europe (**SAFE**) Regulation—a new financial instrument providing long-term loans for urgent defense investments and joint procurement;
- European Defence Industry Programme (**EDIP**)—EUR1.5bn to boost industrial readiness, surge capacity, and secure supply chains; and
- European Defence Industrial Strategy (**EDIS**)—targets 50% EU sourcing of defense equipment by 2030.

EDIP also creates a Defence Industrial Readiness Board to coordinate priorities. Indeed, flagship projects like the European Air and Space Shields and initiatives such as the European Drone Defence Initiative underscore the urgency of capability coalitions as they would not be achievable without Member States acting in concert. Combined with measures like the Defence Omnibus Simplification and the European Armament Technological Roadmap, these actions aim to build an agile, interoperable, and technologically advanced defense ecosystem.

## THE EU DEFENCE READINESS OMNIBUS: A REGULATORY RESET

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The Omnibus removes structural barriers that have long slowed defense investment and cooperation.

Key measures include:

- creating a 60-day fast-track for defense infrastructure projects;
- streamlining the licensing of intra-EU transfers of military goods; and
- setting higher procurement thresholds to accelerate collaborative programs.

These reforms could unlock EUR800bn in defense investments over four years, delivering an estimated EUR42–51bn in cumulative benefits over the next decade.

Beyond the simplification and streamlining of procurement rules, the Omnibus clarifies that the existing “national security” exemptions allowing deviations from strict EU procurement rules also apply to tenders aimed at improving the EU's/NATO's defense readiness.

Further, the Omnibus embeds sustainability principles in procurement—requiring transparency and risk-based due diligence. In this way, it serves as both a regulatory reset and a strategic enabler of industrial scalability, technological innovation, and responsible investment under the CSDP.



## ESG MEETS DEFENSE: A COMPLEX CONVERGENCE

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Defense, once largely excluded from ESG frameworks, is now becoming a part of these, marking a move to a more risk-based and pragmatic approach. The documents published by the European Commission in 2025 like the White Paper for European Defence—Readiness 2030 and the 2026 Work Programme (“Europe’s Independence Moment”) reframe defense as a contributor to resilience and social sustainability. This shift is reflected in a June 2025 Commission Notice within the Defence Readiness Omnibus, clarifying how the EU sustainable finance framework applies to defense. Activities that exclude prohibited weapons and meet transparency and due diligence requirements may qualify for ESG-linked financing, aligning with sustainability goals.

However, several challenges remain, including:

- human rights risks in export markets;
- the carbon footprints of military operations; and
- reputational concerns for investors.

To reconcile sustainability goals with security imperatives, the Omnibus streamlines defense procurement by simplifying procedures, raising thresholds, and introducing fast-track permitting to accelerate critical projects. Financial signals confirm the shift: the European Investment Bank now permits up to EUR3bn in defense-related loans, including EUR1bn for dual-use infrastructure.

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*“Defense, once largely excluded from ESG frameworks, is now becoming a part of these, marking a move to a more risk-based and pragmatic approach”*

## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, businesses should prioritize compliance by strengthening internal governance, tightening export control screening, and ensuring alignment with EU and national requirements. Simultaneously, track the Omnibus—aimed at streamlining procurement and permitting—to identify compliance gaps and assess where new rules may ease obligations and improve efficiency.

**In the medium term (12–18 months)**, leverage new EU rules and funding by submitting proposals under European Defence Fund and upcoming EDIP calls. To secure funding, prioritize high-impact projects—such as capacity expansion, innovation, and supply chain resilience—while fostering strategic partnerships and aligning internal processes with streamlined procurement and permitting requirements.

**Over the long term (18 months–5 years)**, focus on balancing defense, dual-use, and adjacent industrial sectors to diversify risk and maintain exit options, while localizing critical management and operations within the EU to strengthen resilience and secure eligibility for public support. Regularly refresh exit strategies to reduce reliance on defense-only markets and capture value from assets with durable civilian demand.

Ultimately, businesses that prioritize these focus areas and pair compliance mastery with strategic flexibility will be best positioned to thrive in Europe’s defense-driven transition.





# Fast permitting: the EU's climate and competitive response to a fractured order

Jochem Spaans

Faster permitting for energy transition projects has become a strategic priority for meeting the EU's climate goals. Streamlining permits will likewise bolster European competitiveness, with the September 2024 Draghi Report on the Future of European Competitiveness underscoring that cutting permitting delays for clean energy projects is pivotal to the EU's economic strength. These priorities are reflected in the Clean Industrial Deal, which positions permitting simplification as a key enabler of both decarbonization and industrial resilience.

The test is whether the EU can reengineer its rules and institutions to make faster permitting standard practice, without compromising legitimacy, democratic accountability, legality, or environmental protection. In competition with jurisdictions where centralized state machinery can deliver scale, the EU must make law work faster.

Not by bypassing rights, but by redesigning procedures to front-load environmental review, consolidating decision making, and clarifying public interest tests. Such smarter legal design can deliver the speed that Europe needs.





## THE EU'S NEW ARCHITECTURE OF SPEED

Three legislative pillars now define the EU's accelerated permitting model.

First, the Renewable Energy Directive (**RED III**) recasts time as a legal entitlement by establishing maximum permitting deadlines and mandating one-stop shops and digital portals. It also aims to shift environmental assessment from project level to plan level, through “renewables acceleration areas”. These are predefined areas, selected and assessed by government at a plan level, where the environmental review is front-loaded through strategic environmental assessment. Within renewables acceleration areas, renewable energy projects that comply with the rules and measures identified in the plans prepared by government are in principle exempt from the obligation to carry out a specific environmental impact assessment at project level. These projects also benefit from shorter permit deadlines and streamlined procedures. By moving key impact assessments to the stage of designating the renewables acceleration areas, RED III aims to convert litigation risks for projects into ex ante planning obligations for government. The European Commission recently proposed the Grid Package, which proposes an amendment of RED III. The amendment would exempt smaller solar and storage installations from any administrative permits and would limit the permit-granting procedures to six months (three months for grid connection procedures).

Legal challenges are expected to focus on the designation of and rules for the renewables acceleration areas, rather than on individual permits for projects within such areas. At the project level, contestable matters are expected to narrow to compliance with the renewables acceleration area rules and unresolved site-specific issues. RED III also introduces further mechanisms for speeding up permitting, including a presumption that renewable energy and related grid and storage are overriding public interests when balanced against nature considerations.

Second, while RED III focuses on clean power generation, the Net-Zero Industry Act (**NZIA**) applies a comparable fast track framework to both the manufacturing of clean tech equipment and the entire carbon capture, transport, use, and storage system. Maximum deadlines for permit-granting, “Strategic Project” priority and “acceleration valleys” (government-designated specific areas to accelerate net-zero industrial activities) are a deliberate industrial policy. For example, designation of a project as a Strategic Project under the NZIA confers concrete speed advantages. Strategic Projects benefit from shorter maximum permitting deadlines compared with non-strategic projects, and are prioritized in administrative sequencing. In practice, these measures will compress timelines for equipment manufacturing facilities and for carbon capture, transport, use and storage infrastructure.

The third pillar concerns accelerated permitting for electricity networks. Under the Trans-European Networks for Energy Regulation (**TEN-E**), in-scope cross-border energy infrastructure projects benefit from fast track administrative and judicial procedures, including streamlined permitting processes. The aim is to prevent the electricity grid becoming the bottleneck that slows the EU's transition to clean energy. TEN-E similarly mandates coordinated permitting through a one-stop shop and sets binding overall time limits for the permitting of certain projects. In addition, the above-mentioned Grid Package intends to streamline permitting for Projects of Common Interest and Projects of Mutual Interest, with a maximum of 42 months across the pre-application and statutory phases. The Grid Package also aims to speed up the permitting process for (regular) electricity networks and connection procedures for renewable installations. In this respect the Grid Package intends to introduce a time limit of two years for grid authorization procedures, extendable by up to one additional year in duly justified extraordinary cases.

It also states that requests for additional information from project promoters must be made within three months of application. Tacit approval applies where authorities fail to act within the deadline, except for environmental decisions and grid connection permits.

Taken together, the EU is rebalancing administrative burdens and streamlining permitting procedures for energy transition projects, with the aim of prioritizing decarbonization and industrial resilience.

However, such recalibration will hinge on Member States building the administrative capacity to do it well. For instance, strategic environmental assessments for renewables acceleration areas must be sufficiently granular to displace project-level studies in practice. That requires better data, expert staffing, and genuine early participation, all at the Member State level. One concrete danger is that if authorities do not put enough resources into the planning stage, projects will again necessitate one-off, project-specific studies, negating the anticipated benefits.





## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

**In the short term (6–12 months)**, elements of the EU’s permitting reforms will inevitably be challenged, including the new deadlines. Issues will therefore be tested in court. In parallel, however, authorities will gain experience in dealing with the accelerated permitting procedures. For lawyers and project teams, the immediate job will be to design projects to fit the new simplified model (including by using standard design envelopes and combined permits) and to keep clear records showing how they meet pre-approved environmental measures at plan level so they can withstand legal scrutiny.

**In the medium term (12–18 months)**, the grid will be both the main bottleneck and the key opportunity. As indicated above, the European Commission aims to accelerate the permitting procedures for the electricity grid with the Grid Package. The Grid Package will need to be enacted in the medium term and subsequently implemented in national law.

**Over the long term (18 months–5 years)**, faster permitting will progress from a policy imperative to an established reality. Day-to-day government practice will adopt the fast permitting approach for clean energy projects, with clean energy infrastructure treated as an overriding public interest. Difficult issues will remain, including on cumulative impacts, biodiversity recovery, and local opposition. But as new instruments such as renewables acceleration areas and net-zero acceleration valleys mature, the default is likely to move away from project-by-project challenges, with pre-assessment of suitable areas becoming a more established norm. That is how the EU’s permitting system can remain one that prioritizes transparency and consequential openness to legal challenge, and at the same time supports the rapid scaling up of the future’s green projects.

## CONCLUSION

The EU cannot simply replicate the top-down permitting pace used elsewhere. But it can win by sticking to strong, consistent rules, and if each stakeholder maintains a clear view of the public interests at stake. This calls for treating permitting authorities as critical infrastructure, attaching enforceable consequences to deadlines, and declining to revisit plan-level decisions for each project. If the EU maintains that legal discipline, ‘faster permitting’ stops being a slogan and becomes the EU’s practical answer to a more fragmented world.

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*“The EU cannot simply replicate the top-down permitting pace used elsewhere. But it can win by sticking to strong, consistent rules, and if each stakeholder maintains a clear view of the public interests at stake ... If the EU maintains that legal discipline, ‘faster permitting’ stops being a slogan and becomes the EU’s practical answer to a more fragmented world”*





# Middle East



# The GCC energy transition 2026: energy security meets energy transition in a fragmented world

Joe Clinton and Mike Campbell

The Gulf Cooperation Council (**GCC**) has long sat at the center of the world's energy markets and provided security of energy supply to its partners with reliable oil and gas deliveries, even in times of political instability. Now, as the energy transition is colliding with a period of profound geopolitical fragmentation, it is expanding that traditional energy supply role from hydrocarbons to the industries and energy systems of tomorrow.





## DECARBONIZATION

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Maintaining oil and gas revenues will enable the region's plans to diversify economies, and that means national oil and gas businesses in the region must respond to customer demand for low cost, low carbon, and reliable hydrocarbon supplies. As a result, most national oil companies (**NOCs**) have taken steps to decarbonize their own production as well as looking to generate additional revenues by supporting others in their own decarbonization journeys (with large regional investments in LNG as a transition fuel, lower carbon petrochemicals, and even carbon capture and storage).

At the same time, an electro-petrostates dynamic is emerging as GCC grids decarbonize with large-scale renewables and battery storage—lowering power sector emissions while freeing barrels previously burned domestically for export. For example, Saudi Arabia's build-out could reduce domestic use by roughly one million additional barrels per day by 2030, thereby reshaping regional energy revenues and creating further demand for grid, storage, and transmission projects.

## BARRELS TO ORES—THE PIVOT TOWARDS METALS AND MINERALS

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Decarbonization will mean an enormous increase in demand for certain metals and minerals, including lithium, nickel, and cobalt for gridscale batteries, copper for build-out of the power grid, silicon and polysilicon for solar panels and rare earth elements for wind turbines. The GCC is targeting this growth market, with outbound investment in mines and processing facilities and plans to develop entire domestic value chains—including mining in Saudi Arabia and Oman, the building out of refineries and smelters across the region, a large number of new iron and steel projects (often green or blue) and potentially the establishment of trading hubs in the GCC. There are also moves to grow downstream industry and manufacture solar panels, wind turbine blades, and other components in GCC countries. This trend has a global energy security element to it as well, as Western governments respond to Chinese dominance of these sectors and seek to ensure their own secure supply chains.

## TRANSITIONING TO THE AI AGE

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The race to develop AI systems is the other trend that the region is determined to be central to. GCC countries are focused on the widespread deployment of AI and the enormous infrastructure investment that this will need—as evidenced by the establishment of key partnerships and joint ventures between major players (combined with large capital commitments). The region's excellent track record of infrastructure deployment combined with its ability to deliver large amounts of reliable low carbon power (including both “round the clock” renewables with battery storage and gas power with carbon capture) makes it an ideal place to build data centers at hyper-scale.





## LEGAL REFORM AND GLOBAL POLICY

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Flexible legal systems and centralized planning allow GCC countries to move fast and deploy capital in pursuit of strategic objectives. Another important factor is the strong engagement by public bodies with the private sector, enabling project development and reducing bottlenecks. New legislation and incentive programs have also emerged in the past few years, including (i) the UAE's Climate Change Reduction Law which mandates emissions monitoring, (ii) corporate tax regimes, which could facilitate tax credits as potential incentives, (iii) the establishment of government support and subsidy mechanisms to assist the energy transition and (iv) the announcement that the UAE is working towards a formal sustainable aviation fuel mandate for airlines. Alongside this, modernization and updating of other laws (whether clarifying insolvency and security regimes, relaxing foreign ownership restrictions, or liberalizing criminal laws) has helped to make the region increasingly attractive to foreign capital and foreign workers. The ecosystem is growing significantly as funds and advisors establish themselves in the GCC and begin to deploy significant capital regionally.

Alongside domestic legal changes, it is often international regulation (including border taxes in Europe or offtake incentives in Japan and Korea) that drive the business case for low carbon projects in the region. The increased use in recent years of tariffs and sanctions as trade tools is having a similar effect—as globalization and integration continues to slow, there is an opportunity for countries who can bridge the gap between East and West.

## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, businesses can expect upward pressure on compliance costs as sustainability measures, including the UAE's Climate Change Reduction Law and SAF mandate, are passed and come into force. In addition, the regional roll-out of renewables projects shows no sign of abating, with the large-scale programs of the UAE and Saudi Arabia spreading to other GCC countries and an increased focus on gridscale battery storage.

**In the medium term (12–18 months)**, the picture becomes one of commercial opportunity, with the region committing to becoming a leader in the AI race. Businesses active in the construction and project development sectors may see significant scope for involvement in building the required infrastructure, with data and software businesses also likely to have heightened exposure to the region once the data centers are operational. We may also see other decarbonization projects become more widespread, driven by investments by NOCs looking to reduce the carbon emissions in their portfolios.

**Over the long term (18 months–5 years)**, the GCC will look to diversify from its current position as a traditional energy power. However, far from abandoning its reputation as an energy leader, the GCC will seek to continue to fulfill the role of a dependable exporter of conventional energy, even while laying the groundwork to play a similar role across many other parts of the future energy system.



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*“Flexible legal systems and centralized planning allow GCC countries to move fast and deploy capital in pursuit of strategic objectives”*



# APAC



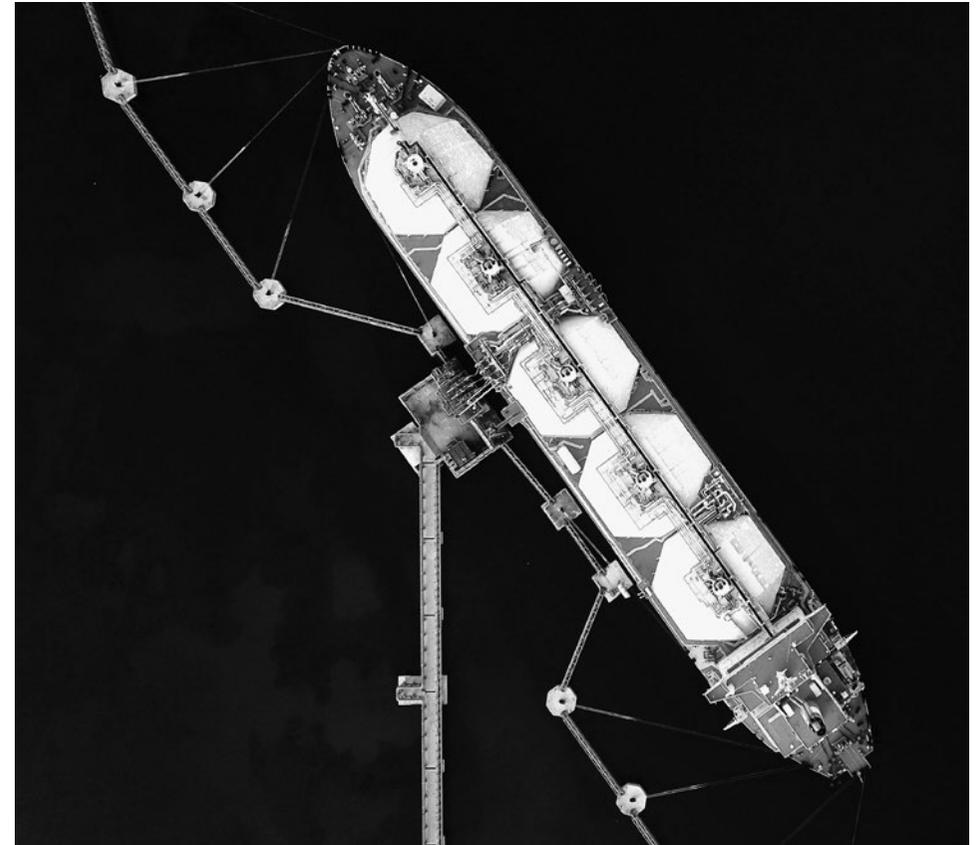
# Japan: a case study in LNG as a transition fuel

Hitomi Komachi and Scott Neilson

Natural gas, including LNG, is widely described as a “transition fuel” because it can reduce CO<sub>2</sub> emissions compared with coal while being reliable, stable and affordable. With 2025 seeing the second-highest amount of LNG capacity reaching final investment decision (**FID**) of any year on record globally, natural gas is a central element of global energy supply. Japan’s evolving energy strategy offers a case study for how major economies are using natural gas to balance the competing demands of energy security and decarbonization.

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*“Japan’s 7th Basic Energy Plan, issued on February 7, 2025, marked a substantial shift away from its 2021 predecessor. Unlike the earlier strategy, which focused on sustainability and decarbonization, there was a renewed focus on energy security—albeit energy security has always been one of the key pillars”*





## THE ENERGY STRATEGIC TRIANGLE: SECURITY, AFFORDABILITY, AND SUSTAINABILITY

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Japan's Basic Energy Plan is the backbone of the country's energy policy. It is updated every few years, and sets out its current and target energy mix, demand, and supply.

Japan's 7th Basic Energy Plan, issued on February 7, 2025, marked a substantial shift away from its 2021 predecessor. Unlike the earlier strategy, which focused on sustainability and decarbonization, there was a renewed focus on energy security—albeit energy security has always been one of the key pillars.

The shift is due to several factors, including the Russia-Ukraine war (although this had a relatively muted impact on Japan compared to Europe given the tendency of Japanese utilities to secure long-term LNG purchase agreements), and significant cases of undersupply. These include a series of occurrences of severe weather conditions coinciding with power plant maintenance shutdowns which resulted in near-blackout incidents in Tokyo in March 2022.

Without policy intervention, undersupply would become more acute over the medium term as energy demand increases. Despite increased energy efficiency, the population decline driving a decrease in power demand and the Fukushima disaster, overall demand for electricity in Japan is forecast to grow significantly due to rising industrial demand. The Organization for Cross-regional Coordination of Transmission Operators (**OCCTO**) forecasts Japan's power consumption to be 5.8% higher in 2034 (around 850TWh) than in 2024, with semi-conductor factories and data centers increasing energy demand by 7.15GW by 2034. Maximum demand attributable to new and expanded data centers and semiconductor plants is projected to be 13 times this year's level by 2034.

A Basic Energy Plan focused on security of supply and affordability, and deprioritizing decarbonization, is the result of these shifts.

## LNG AS PLAN B IF SUSTAINABLE SOLUTIONS DO NOT MATERIALIZE

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Another departure in Japan's 7th Basic Energy Plan from its predecessor is that it introduces the concept of "Plan B" in case its Paris Agreement Nationally Determined Contributions (**NDCs**) are not achieved. Plan B is heavily reliant on LNG. In 2010, Japan imported around 70.56 million tonnes of LNG and after the Fukushima disaster, this became around 83.18 million tonnes per annum. In 2022, Japan imported around 66 million tonnes of LNG, which is significantly down as it is. According to the strategy, in a 2040 "Plan A" scenario, LNG import volume is projected to be around 54 million to 60 million tonnes—representing a further gradual reduction in LNG supply. In a 2040 "Plan B" scenario where sustainable energy solutions do not materialize, however, more than 74 million tonnes of LNG would be imported.

In addition, the strategy also recognizes increased risks in the global LNG supply chain, and maintains the target of Japanese companies purchasing for use or trading 100 million tonnes of LNG annually. It also encourages the optimization of procurement strategies (including joint procurement), shared use of tank facilities in Asia and other regions, and enhanced trading capabilities (more on this below).

In effect, in Japan's current energy strategy there is less emphasis on the must-go-cleaner tone of the previous strategy, and more on alternative scenarios where obstacles to achieving sustainability goals are not overcome.

## THE USD550bn JAPAN-U.S. INVESTMENT FRAMEWORK

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Bilateralism (especially bilateral cooperation with the U.S.) also features centrally in Japan's strategy.

In July 2025, as part of tariff discussions with the U.S., Japan agreed to invest USD550bn in the U.S. in certain strategic sectors, including energy and critical minerals. The energy sector has been identified as mutually beneficial, and the first transaction could take place this year.

Projects that could potentially be developed under the investment framework include LNG and nuclear power, with LNG projects designed for export to Japan and nuclear power designed for the U.S. involving Japanese technology, equipment and/or services. Cooperation with a U.S. administration with a high energy sector focus would help Japan secure its domestic energy needs over the medium and long term.

Indeed, Japanese energy companies recently announced their intention to "triple" the volume of LNG imports from the U.S. by 2030, as a result of decreases in production at some sites in Asia Pacific. This seems highly ambitious in that at that volume there may be a supply glut, although the direction is clear. Prior to this, in June 2025, JERA had announced its intention to offtake up to 5.5 million tonnes per annum from the U.S., having signed Sale and Purchase Agreements with NextDecade Corporation and Commonwealth LNG, as well as Heads of Agreements with Sempra Infrastructure and Cheniere Marketing LLC for the future supply of LNG from the U.S..



## MORE LNG OFFTAKERS IN ASEAN

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Japan is currently the second-largest LNG importer globally after China.

Several ASEAN countries are expected to become larger LNG buyers as they shift from coal to gas, which is easier and more cost-effective to deploy than other baseload alternatives. Further, this transition is driven in part by the need to improve urban air quality in economies such as Indonesia and Vietnam, as moving from coal or heavy fuel oil to gas substantially reduces local pollutants. In Indonesia's case, it will also shift from being a gas exporter to being a gas importer.

A larger cohort of ASEAN buyers could leverage the Japan-U.S. LNG deals to support the suite of LNG projects in the U.S. taking FID. The trend points to a changing buyer landscape and opportunities for joint offtake or portfolio arrangements.

Given the scale of capital expenditures required for LNG projects, stronger ASEAN demand broadens the pool of offtakers, though some may be less creditworthy than Japanese LNG buyers. ASEAN utilities and aggregators may, going forward, play a key role in taking capital-intensive greenfield LNG projects to FID, even with Japan remaining one of the largest LNG importers globally.

## LNG OR RENEWABLES?

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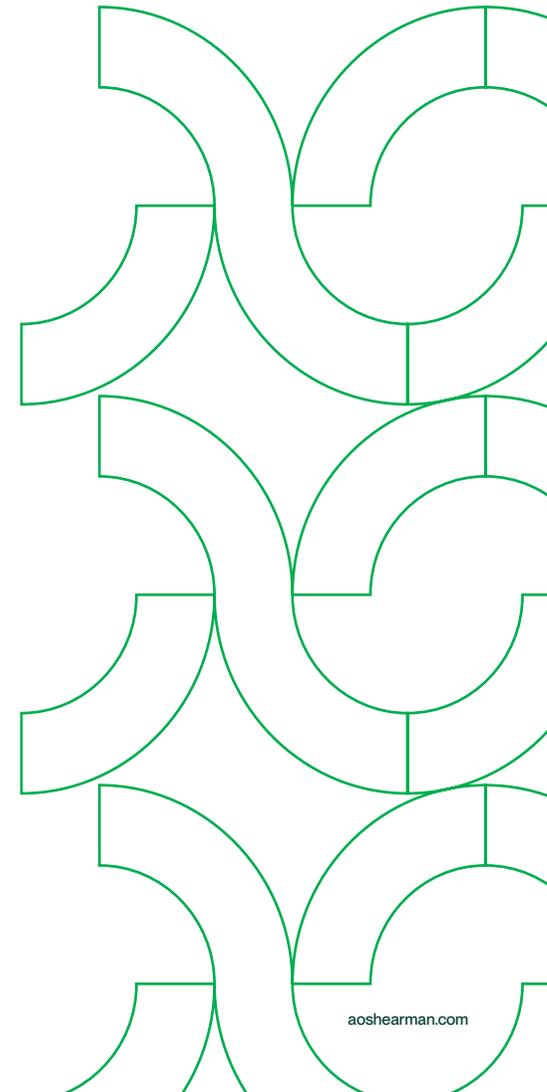
Japan's need for large-scale LNG supply over the medium and long term will in large part be determined by whether its renewables roll-out is a success. Wind and nuclear provide good examples.

2024 saw a record increase in Japanese offshore wind capacity, leaving it with 253.4MW of offshore wind capacity in 2025. By way of context, however, this is smaller than one 300MW unit at a gas-fired power plant. Offshore wind is still far from the targets of 10GW by 2030 and 30–45GW by 2040. Macroeconomic conditions have also made it challenging for renewables projects in Japan over the past few years, with factors including rising supply chain inflation and increasing interest

rates leading to the cancellation of three offshore wind projects in 2025, resulting in a loss of 1.7GW of projected capacity and of four years of development. Japan's 7th Basic Energy Plan recognizes the challenge in the offshore wind sector and in the wider energy sector, addressing matters such as supply chain issues (including on associated critical minerals). However, there are areas the Basic Energy Plan does not address—such as issues with the government subsidy design and bidding regimes—which need to be substantially adapted to mitigate the significant supply chain costs and risks facing investors and to achieve as much certainty on costs as possible.

One other open question on renewables is nuclear power. After the Fukushima nuclear accident in 2011, Japan shut down its fleet of nuclear reactors. It is now in the process of restarting existing nuclear power plants and constructing new ones, with announcements indicating that 19 existing plants will be restarted and three new plants will be built. The greenfield construction of a new nuclear power plant takes a minimum of 15 to 20 years, and large-scale public anti-nuclear sentiment still exists after Fukushima. The actions of the Japanese government (including on government subsidies, as discussed above, as well as on public communications and regulatory actions to ensure the safety of nuclear plants) will determine the level of dependence Japan will have on LNG and natural gas for its baseload electricity supply.

Finally, methane abatement is the most effective near-term decarbonization lever for oil and gas, outpacing CCUS, low-carbon hydrogen and electrification, with priorities including operational efficiency, leak detection and repair, pneumatic replacements, continuous monitoring, capturing vented gases, and reduced or zero flaring. The World Bank warns that inefficient or unlit flares can significantly worsen methane emissions. Robust operational management, measurement, reporting and verification are essential to preserve gas's lifecycle climate advantage. As one of the biggest LNG importers in the world, a consideration for Japan will be how it seeks to manage and implement methane abatement on extraction and production sites, which are not necessarily located in Japan, while securing a stable supply chain.





## LNG TRADING

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In the meantime, geopolitical risk impacting LNG supply chains has led to substantial increases in LNG trading opportunities. Major Japanese companies active in the LNG industry have established LNG trading desks in Singapore, which aligns with Singapore's stated goal of becoming an LNG hub, both in the physical and virtual sense.

The increasing development and liquidity of LNG trading is leading to the growth of the Asian LNG market, further embedding Japanese businesses and Asian businesses more broadly in global LNG supply chains.

## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, the first projects under the Japan-U.S. investment framework may be announced. While the framework is not specific to the energy sector, the political focus on energy security means it is likely that at least some of the framework's funds will be devoted to energy projects (including on LNG) in the U.S., the products of which may be exported to Japan (and potentially other ASEAN countries). We may therefore see Japan sourcing an increased share of its energy (including LNG) from the U.S.. Further, given the elevated levels of LNG trading over 2025, businesses should continue to expect heightened trading and portfolio optimization activity over the short term.

In addition, Reactor No 6 at the Kashiwazaki-Karima nuclear power plant was approved for restart on January 21, although on the next day, operation was suspended again after an alarm sounded during the removal of control rods used to suppress nuclear fission. Kashiwazaki-Karima is the biggest nuclear power plant in the world, having seven units with capacity to produce 8.2GW in total. Operations there are mostly still suspended—the safe restart of the plant could contribute significantly to Japan's energy supply.

**In the medium term (12–18 months)**, stakeholders should expect to see further incremental progress on the 19 nuclear reactors approved for restart, combined with development work on new-build plants. Kansai Electric, which has restarted seven nuclear reactors since Fukushima, announced in 2025 the start of preliminary surveys for constructing a new nuclear reactor in Mihama, Fukui Prefecture. Detailed surveys to examine the impact of earthquakes are expected to start in April 2027. This should give businesses a clearer idea of the direction of travel in Japan of renewables as a proportion of domestic energy supply compared to LNG.

**Over the long term (18 months–5 years)**, ASEAN nations may emerge as LNG buyers. These economies could supply some of the significant capex needed to bring more LNG projects into operation. Further, businesses should expect AI-related demand to continue to shape the energy sector, driving increases in demand for domestic energy. In Japan, a mandatory emissions trading scheme is scheduled to be established in this timeframe, the details of which are still under development. This may become a driver to move away from the use of fossil fuels, including for AI-related demand. However, to meet the scale of Japan's energy needs, it is likely that LNG will continue to form part of Japan's energy mix—by how much will depend on policy choices, industry reaction, and the geopolitical environment.



# China's command economy and climate growth: centralization, decarbonization, and global implications

Melody Wang, Paul Jing, Rebecca Xu and Yufang Wu

Amid a fragmenting global energy landscape shaped by geopolitical tension and heightened energy security needs, China has pursued a distinctive path: a state-led economic model built on centralized resource allocation, standardized procurement, and top-down implementation. This has enabled rapid advances in renewables, electric vehicles, and battery technologies, with China quickly becoming a world leader in all three areas.

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*“China’s unified rules facilitate the seamless connection of wind and solar farms to the grid”*





## POLICY ARCHITECTURE AND IMPLEMENTATION

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Two structural features underpin China's decarbonization drive.

1. **Centralized mandate:** China's decarbonization efforts are driven by a hierarchical legal and regulatory framework. Announced by President Xi Jinping in 2020, China has set "Dual Carbon" goals—peaking carbon emissions by 2030 and achieving carbon neutrality by 2060. Its "1+N" policy architecture operationalizes these goals. The "1" refers to the central guiding document outlining the strategic vision and core principles, while the "N" comprises sector-specific and regional policies that support implementation. These policies are embedded into national Five-Year Plans and cascade through all levels of government and industry, transforming macro climate goals into coordinated and enforceable actions at the micro level.
2. **Standardized procurement:** In parallel, the nation's centralized procurement system for clean energy equipment (e.g., solar panels, wind turbines, and battery cells) streamlines what would otherwise risk being a fragmented procurement picture. By aggregating demand from across regions and industries into large-scale, unified tenders, this approach has kept costs down, ensured consistent quality standards, and reduced the inefficiencies associated with scattered, small-batch purchases by diverse market operators.

Together, these pillars have served as key touchpoints in China's energy policies (including China's Energy Law, detailed below), and are expected to continue shaping implementation in and beyond 2026.

## A NEW REALITY FOR 2026

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Complementing standardized procurement, China's unified grid rules eliminate a major barrier to clean energy adoption: unlike the patchwork of regional grid regulations in some western countries, which often hinders renewables integration, China's unified rules facilitate the seamless connection of wind and solar farms to the grid, allowing for the efficient distribution of green electricity. This ensures clean power can be transmitted and absorbed nationwide without either technical or regulatory friction.

## 2025 DEVELOPMENTS AND CHINA'S ROLE AT COP 30

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Effective from January 1, 2025, China's first-ever Energy Law exemplifies China's distinctive policy architecture. The law prioritizes emissions reduction alongside energy security. The 2025 Energy Law is a structural turn, consolidating market order and integration, and signalling a continued emphasis on optimizing systems—in particular, grid readiness, storage, and digitalization—to support high renewables penetration. Key pillars of the legislation include the establishment of a unified energy market system and the regulation of market order. The legislation is also designed to strengthen grid infrastructure in order to support a renewables-dominated power system, with specific policies promoting the coordinated development of generation and grid assets, intelligent grid upgrades, and the construction of smart microgrids.

In this context, China is reaffirming its role as a pivotal force in global climate governance at COP 30. As the world's largest investor in renewable energy, China is advocating for the accelerated deployment of clean power and smart grid infrastructure. It continues to uphold the principle of "common but differentiated responsibilities", calling for a transparent climate finance roadmap and robust technology transfer frameworks. Earlier bilateral engagements on methane and other non-CO<sub>2</sub> greenhouse gases underscore China's pragmatic, system-level approach to decarbonization—prioritizing reliability, affordability, and industrial competitiveness through solutions such as energy storage, flexible generation, and digitalized grids. These priorities align closely with China's domestic energy legislation and long-term industrial strategy, positioning COP 30 as a platform to connect domestic execution credibility with global ambition on scale, finance, and systems integration.





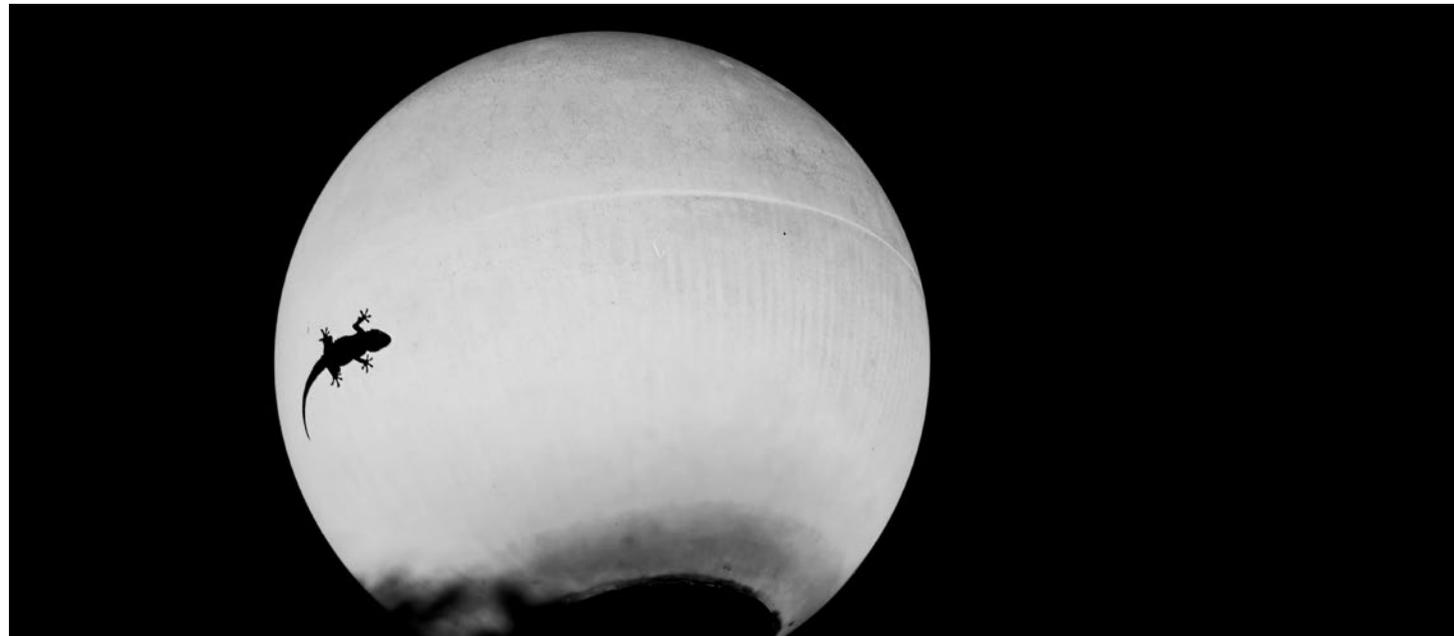
## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, the focus for global businesses is to understand China’s new Energy Law and associated measures. Businesses should closely track the rollout of implementing policies (e.g., tax incentives for clean tech, subsidies for smart grid upgrades, and details of standardized procurement programs) and assess their relevance to core operations—this will be highly relevant to businesses built around equipment supply or technology solutions. Engaging local legal or industry advisory firms can help businesses to navigate these requirements.

**In the medium term (12–18 months)**, as the policy landscape matures, businesses should deepen local collaboration and leverage the Energy Law’s focus on innovation and market integration. Tech-focused multinationals can pursue joint R&D initiatives with Chinese academia or enterprises in priority areas such as smart grid integration, large-scale energy storage, and digital energy management systems—though they should be aware of western political and regulatory sensitivities about competition and information sharing with Chinese entities when doing so. Manufacturers can tap into China’s procurement system by certifying products to national standards, positioning themselves as qualified suppliers for state-backed renewable projects. Energy-intensive firms should proactively adopt China’s low-carbon requirements, such as renewable energy consumption guarantees, by investing in on-site solar or wind facilities or purchasing green electricity via the unified grid, enhancing local brand credibility.

**Over the long term (18 months–5 years)**, global firms should position to align with China’s vision for a “clean, low-carbon, safe, and efficient” energy system while exploring spillover opportunities for growth. There will be opportunities for infrastructure and tech businesses to participate at scale in projects throughout the value chain, whether by investing in cross-regional wind and solar farms aligned with unified grid rules or by supplying high-tech components for the new power system. There is also potential for global businesses active in the projects space to collaborate with Chinese firms on overseas green energy projects, combining global expertise with China’s technological and execution strengths.





# Singapore Green Plan 2030: reflection on the last five years and predictions for the next five

Shuhui Kwok, Prakash Raja Segaran and Jessica Lee

The Singaporean government released the Green Plan 2030 (**Green Plan**) in 2021. As is the case for many Singapore initiatives, the Green Plan has been designed as a multi-agency, coordinated effort spearheaded by five ministries (the Ministry of Education, the Ministry of National Development, the Ministry of Sustainability and the Environment, the Ministry of Trade and Industry, and the Ministry of Transport) to ensure a “whole of government” approach to dealing with climate change.

The Green Plan focuses on five key areas:

- (i) Expanding urban greenery to curb heat.
- (ii) Using cleaner energy sources across all sectors.
- (iii) Requiring businesses to reduce emissions and decarbonize.
- (iv) Strengthening food and environmental security.
- (v) Increasing recycling to become a zero-waste nation.

We set out below reflections on the key achievements over the past five years, and look forward to the next five.





## APPROACH TO IMPLEMENTING CHANGE

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Sitting behind every area of the Green Plan is the need to drive social change: the need for individuals and businesses to adapt the way they operate and do business.

The Singapore government's approach to implementing social changes involves several levers used simultaneously: incentives such as tax deductions to encourage the adoption of the desired conduct; assistance such as grants to help reduce the costs of moving to new systems and ways of working; the development of a pool of workers and experts so that the right people are in place to enable the transition, equipped with the skills needed to operate in new environments; and mandatory legislation and regulation where other approaches either have not worked or would not work (at least, not in isolation), or where there would otherwise be a market failure.

By and large, strict legislation in this space is typically a last resort, with softer-touch approaches preferred. Stakeholders (often including government-linked companies) that are in a better position in terms of financial and organizational capacity will usually be encouraged to adopt the changes themselves. Using practical lessons derived from the experiences of first movers, any draft regulations will then be adapted. This iterative process, consisting of dialogue between industry and regulators/legislators, ensures that there is a balance between achieving policy goals and not overburdening private industry with unnecessary costs and requirements.

At the moment, there is little in the way of formal legislation and regulation to address climate change, and much of the existing regulatory framework is at the soft regulation stage.

Despite these challenges, Singapore has established a broad suite of incentives and grants under the Green Plan—spanning recycling, energy efficiency, and green shipping. Examples include the 3R Fund (supporting waste reduction and recycling initiatives), the Energy Efficiency Fund (helping businesses improve energy performance), and the Maritime Singapore Green Initiative (reducing the environmental impact of shipping).

We set out below our reflections on what has been achieved in practice and the key areas where government attention is likely to focus going forward.

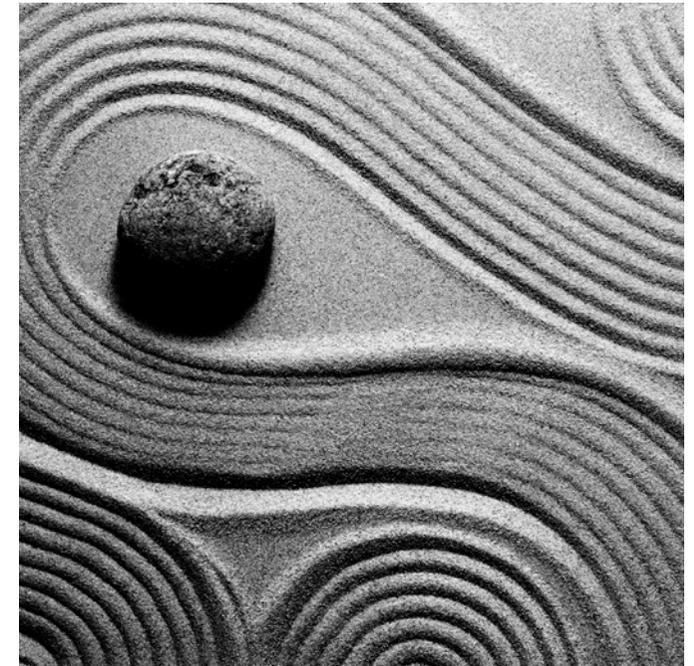
## PAST FIVE YEARS

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Singapore has issued substantial quantities of debt to finance the building of new infrastructure required by the Green Plan. The government passed the Significant Infrastructure Government Loan Act (**SINGA**) and has collectively issued SGD20.5bn Green Singapore Government Savings (Infrastructure) Bonds—aimed at financing major, long-term green infrastructure projects. The Green Plan contemplates issuance of up to SGD35bn of public sector green bonds by 2030.

Projects commenced or completed during this period include:

- Sembcorp Tengeh Floating Solar Farm (2021): Singapore's first inland floating solar farm, capable of powering the nation's five water treatment plants and enabling a 100% green waterworks system. With a peak capacity of 60 megawatt-peak, it avoids approximately 32,000 tonnes of CO<sub>2</sub> emissions annually.
- Jurong Island Energy Storage System (2023): A 285 megawatt-hour energy storage system, the largest in Southeast Asia, commissioned in just six months.
- Expansion of Singapore's electric rail network: The Jurong Region Line and Cross Island Line are together expected to avoid an estimated 100,000–120,000 tonnes of CO<sub>2</sub>-equivalent emissions each year.





## NEXT FIVE YEARS

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Key targets to be achieved by 2030 include:

- deploying at least two gigawatt-peak of solar energy capacity;
- ceasing new diesel car and taxi registrations from 2025; requiring all new car and taxi registrations to be cleaner energy models from 2030; and installing 60,000 electric vehicle (EV) charging points by 2030, in step with EV adoption;
- ensuring that at least 80% of buildings by gross floor area are “green”, that 80% of new developments by gross floor area meet Super Low Energy standards, and that best in class green buildings achieve an 80% improvement in energy efficiency; and
- reducing domestic aviation emissions from airport operations by 20% from 2019 levels (404 ktCO<sub>2</sub>).

Recognizing Singapore’s limited natural resources, a key area for future development is low-carbon hydrogen as a decarbonization pathway, given its potential applications in aviation and maritime shipping—both critical to Singapore’s role as a transport hub.

To that end, the government intends to invest in R&D to address key technological bottlenecks and to pursue international collaborations to establish supply chains for low-carbon hydrogen.

These initiatives not only set out the government’s approach, but also create opportunities for private industry to partner with the public sector in implementing the changes required for the climate transition.

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*“By and large, strict legislation in this space is typically a last resort, with softer-touch approaches preferred ... Singapore has established a broad suite of incentives and grants under the Green Plan—spanning recycling, energy efficiency, and green shipping”*

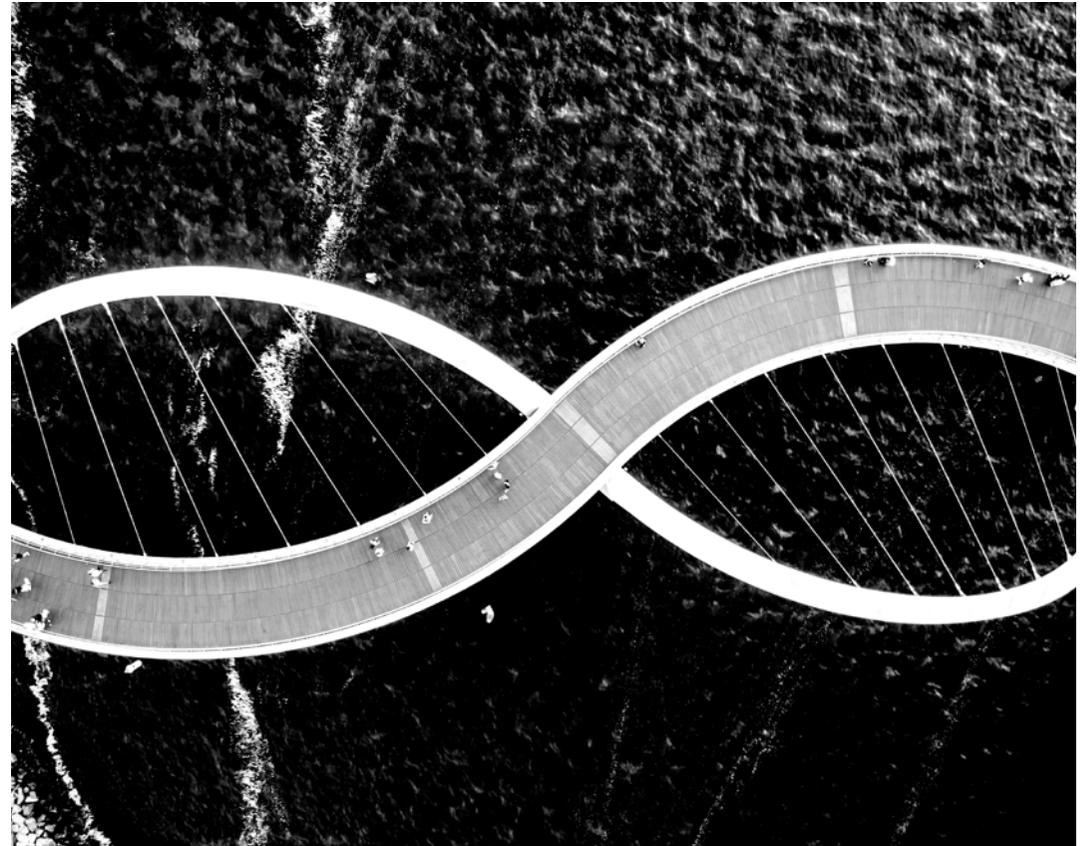




# Australia's uptake of ISSB: ESG standard setting in a multipolar world

Goran Galic, Fraser Cull and Jasmine Gal

The global approach to sustainability reporting is in flux. There is no single, settled approach: some jurisdictions are pressing ahead with mandatory regimes while others are stepping back under political and market pressure. Malaysia is among the countries advancing adoption of International Sustainability Standards Board (**ISSB**) standards. By contrast, the European Union, whose Corporate Sustainability Reporting Directive (**CSRD**) has been criticized for its scope and extraterritorial reach, has moved to simplify its rules through an Omnibus reform package. Yet, even as regulatory approaches diverge, sustainability information is increasingly central to economic analysis and investment decisions. Australia has opted for a calibrated path.





## AUSTRALIA'S ADOPTION OF IFRS

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At COP 26 in 2021, the IFRS Foundation Trustees announced the creation of the ISSB in response to investor demand for decision-useful, comparable information at scale. The ISSB's remit is to develop a global baseline of investor-focused sustainability disclosure standards for capital markets. In June 2023, the ISSB issued its first two IFRS Sustainability Disclosure Standards, namely IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2, Climate-related Disclosures. IFRS S1 sets overarching disclosure requirements to help companies communicate the sustainability-related risks and opportunities they face over the short, medium, and long term. IFRS S2 sets specific climate-related disclosure requirements over the same horizons.

In September 2024, Australia adopted local equivalents—AASB S1 and AASB S2, issued by the Australian Accounting Standards Board. Crucially, only AASB S2 (the climate-related standard based on IFRS S2) is mandatory at this stage. Reporting will be phased. Against that backdrop, businesses should (i) ensure their risk registers and ESG priorities reflect current and emerging climate issues, (ii) undertake scenario analysis to test resilience under different climate pathways, and (iii) perform a gap analysis to assess alignment between existing disclosures and the new standards. By contrast, broader sustainability-related reporting under AASB S1 (based on IFRS S1) remains voluntary for now, reflecting the Government's "climate first, but not only" sequencing.

## COULD THE AASB FACE A SIMILAR BACKLASH TO THE CSRD?

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The CSRD has been a focal point of the EU's recent sustainability simplification initiative. In February 2025, the European Commission proposed substantial revisions to the CSRD, and a final text has now been agreed that, in brief, narrows the scope of covered entities, reduces reportable datapoints, and introduces a cap on third-party reporting obligations.

These changes follow significant pressure to streamline the EU's sustainability rulebook, driven internally, such as through the Draghi Report on the Future of European Competitiveness, and externally by jurisdictions, including the U.S., concerned about the CSRD's extraterritorial effects.

No comparable simplification is currently being considered for the AASB standards. There are several reasons. First, AASB S2 focuses on climate, a far narrower remit than the pre-reform CSRD, which required reporting against hundreds of datapoints spanning environmental, social and governance topics. Second, AASB requirements apply to Australian entities only and do not raise the extraterritorial concerns that have fueled resistance to the CSRD. Third, the EU's impetus for simplification stems from the cumulative burden of multiple, sometimes overlapping, sustainability laws across the bloc; the EU has been a regulatory frontrunner, and the resulting compliance intensity is therefore most acute there.

Australian authorities could eventually face calls to simplify or recalibrate the AASB framework, but no such momentum has emerged to date.



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*“If pro-ESG momentum persists, Australia may be among the jurisdictions that expand their regimes even as early movers elsewhere consolidate or step back”*



## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short term (6–12 months)**, more companies in Australia will be caught by the AASB, given that requirements are set to be phased in over financial years commencing on or after January 1, 2025 through to July 1, 2027, with larger listed and other public interest entities entering first, followed by medium and then smaller in-scope entities.

**In the medium term (12–18 months)**, businesses can expect more stringent enforcement of AASB reporting rules. The Australian Securities and Investments Commission (**ASIC**), which oversees compliance and implementation, has recognized a grace period for reporting of Scope 3 emissions as entities build capability and has signaled a proportionate, pragmatic approach in the near term. As that period ends, in-scope entities should expect deeper scrutiny of their disclosures. To date, ASIC has focused on market integrity in ESG. It has conducted surveillance of climate and sustainability disclosures, issued guidance to help entities avoid greenwashing, and taken enforcement action against misleading or deceptive sustainability claims. For example, in FY2024–25, ASIC's interventions led to a combined AUD34.7m in penalties across three greenwashing cases, and to 15 companies and four superannuation trustees modifying or removing statements about their sustainability claims and credentials.

**Over the long term (18 months–5 years)**, the trajectory could diverge. Australia may encounter elements of the anti-ESG sentiment seen in parts of the U.S.. Alternatively, authorities could strengthen the framework by making AASB S1 mandatory. Notably, the Australian Accounting Standards Board initially planned to issue AASB S1 with a limited scope of disclosure to only climate-related financial disclosures, replacing all references to “sustainability” with “climate”. However, following pressure from the Australian finance sector and global investors, AASB S1 was released on a voluntary basis, aligning as closely as possible with IFRS S1. No timetable has been set for making AASB S1 reporting mandatory, but the option remains open. If pro-ESG momentum persists, Australia may be among the jurisdictions that expand their regimes even as early movers elsewhere consolidate or step back.





# Global



# Multilateral finance and climate action: was COP 30 a breakthrough?

Rachel O'Reilly, Scott Neilson, Fleur Clegg and Daniel Edwards

Multilateral financing goes to the essence of the Paris Agreement Article 9 commitment: that developed countries must provide assistance to developing countries for climate mitigation and adaptation. That commitment is now channeled through the New Collective Quantified Goal (**NCQG**) agreed at COP 29. Multilateral climate funds and multilateral development banks (**MDBs**) sit at the heart of delivery, and their role has been expressly underscored in recent COP decisions. Yet, while multilateral finance is indisputably necessary, it is not, on its current footing, sufficient.

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*“Any single COP is unlikely to deliver decisive innovation across all fronts. The path to scale is more likely to be incremental and cumulative, driven by ongoing system redesign rather than one-off pledges”*





## WHY IS MULTILATERAL FINANCE IMPORTANT?

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Recent analysis by A&O Shearman and the Climate Policy Initiative indicates a mixed message: while there is progress, there are also persisting gaps. Global climate finance reached a record USD1.9 trillion in 2023 (expected to surpass USD2tn in 2024), and if growth continues at its recent pace, the world could meet the lower bound of required annual investment between 2029 and 2032. However, the financing gap is widest in developing countries, and overall private flows have outpaced public investment—private climate finance contributions exceeded USD1tn for the first time in 2023. Elevated sovereign debt and constrained public balance sheets limit fiscal space for climate investment, with Official Development Assistance projected to fall. In theory, private capital could fill more of the gap, but in practice, only multilateral mechanisms can coordinate concessional capital at scale and deploy the risk-sharing tools needed to crowd in private investment.

This is particularly the case for adaptation financing for building resilience against existing impacts—for example, flood-resilient roads and defenses, early warning systems, and climate-resilient infrastructure. Unlike mitigation finance, where projects can present an obvious route to financial return, resiliency projects often struggle for basic commercial returns. Without government support to create revenue streams that enable resiliency projects to be commercially financed, adaptation finance is likely to remain the province of state and multilateral development bank funding and climate-focused philanthropy.

It is worth considering MDB climate financing to date. A recent joint MDB report shows that last year, MDBs' climate finance totaled over USD136bn, with USD85.1bn going to low- and middle-income economies (the World Bank Group remaining the single-biggest provider, supplying over 40%). Climate finance by MDBs in these countries has more than doubled over the past five years, with a 14% increase last year. Of this sum, 69%, or USD58.8bn, went to climate change mitigation, and 31%, or USD26.3bn, went to climate change adaptation. The amount of mobilized private finance for climate investments in these countries stood at USD33bn.

While the gap is widest in emerging markets and developing economies, in absolute terms advanced economies require the most investment—an additional USD2.9tn annually from 2024 to 2030 compared to 2023 levels. In 2024, MDBs' climate finance for high-income countries totaled USD51.5bn, of which USD46.5bn (90%) supported climate change mitigation and USD5bn (10%) supported adaptation. The European Investment Bank was the single biggest provider (43%). The mobilized private finance for climate investments in these economies stood at USD101bn. This was three times the amount in low- and middle-income economies, indicating that MDB finance is able to crowd in private finance but, unsurprisingly, more effectively in developed markets.

## EVALUATING COP 30

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Against this backdrop, did COP 30 mark a step change? Not evidently, but neither was it expected to. There was a headline-grabbing call to triple adaptation finance by 2035 compared to 2025 levels. And it emphasized the urgent need for public, grant-based and highly concessional resources—recognition that many developing countries lack the fiscal space for market-rate sustainable investment. However, a genuine breakthrough would have required decisive improvements in the enabling conditions for collective action to mobilize capital at scale, lower its cost for emerging markets and developing economies, and direct it reliably to high-impact projects. Any single COP is unlikely to deliver decisive innovation across all fronts. The path to scale is more likely to be incremental and cumulative, driven by ongoing system redesign rather than one-off pledges. In that spirit, the COP 30 presidency welcomed efforts to reform the international financial architecture, called for continued reform, and noted the need to reduce existing constraints, challenges, systemic inequities and barriers to accessing climate finance.





## WHAT TO EXPECT OVER THE SHORT, MEDIUM, AND LONG TERM

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**In the short and medium term (6–18 months),** continued adaptation of multilateral financing architecture and operating models is expected.

The 2023 Global Stocktake identified reform as a priority. The architecture is complex, with funds flowing through multilateral channels both within and beyond the UNFCCC and Paris Agreement financial mechanisms, as well as through bilateral, regional and national platforms. Within the UNFCCC mechanisms, replenishment of the Green Climate Fund remains essential. Similarly key are pledges to operationalize funding arrangements for the UNFCCC's Adaptation Fund, Least Developed Countries Fund and Special Climate Change Fund.

**Over the long term (18 months–5 years),** MDB reforms will be central in responding to COP 29's invitation to financial institutions to recalibrate risk appetites for climate finance: expanding balance sheets, rotating toward catalytic instruments, and crowding in external capital.

Capital adequacy reforms in particular could ease constraints and permit greater risk-tolerant, mobilizing activity. This has been a core part of The MDB Evolution Agenda: a global reform initiative driven by the G20 to make MDBs “Better, Bigger, and More Effective” at meeting global challenges, such as climate change, around the key pillars of operational reform, financial capacity, and impact and availability. Other ways to expand MDB firepower include raising new forms of capital from wider sources through the issuance of hybrid capital instruments and more efficient use of existing capital, e.g., appropriately reflecting the value of preferred creditor status and callable capital in capital adequacy frameworks, freeing up

capital through large-scale risk transfers to the private sector. The introduction of “enhanced callable capital” (capital that can be called earlier and thus potentially bear more risk) could unlock even more lending capacity, although it requires considerable effort between MDB stakeholders to agree, with each MDB having its own mandate, client countries and governance structure and with geopolitical relationships under strain.

There are many examples of the above concepts being implemented, and rating agencies have given a view that MDBs already have significant headroom for greater lending as a result. Examples of action to date include:

- The Asian Development Bank's Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP), which uses first-loss guarantees of its sovereign loan portfolios by public, private and philanthropic financing partners to free up regulatory capital and expand its climate lending capacity.
- The World Bank Group has advanced a portfolio guarantee platform and hybrid capital and expanded climate-resilient debt clauses to cover more perils and charges, and committed to an even balance in adaptation/mitigation public-sector climate finance. In particular, it has launched an inaugural securitization of International Finance Corporation (IFC) loans, a step toward an “originate-to-distribute” model for emerging markets, and last September IFC was involved in the first closing under Singapore's Financing Asia's Transition Partnership for the Green Investments Partnership, a blended finance partnership supporting Asia's green and transition financing needs.

- The Inter-American Development Bank Group has introduced flagship regional initiatives (e.g., Amazonia Forever and ONE Caribbean) along with risk mitigation instruments such as debt-for-nature swaps and currency-hedging programs, expanding access and affordability and enabling countries to release fiscal resources. Its innovative Biodiversity and Climate-Linked Mechanism for Ambition rewards borrowers with a 5% rebate on financing cost when pre-defined climate and nature KPIs are met.
- The African Development Bank's Climate Action Window targets low-income and fragile states in Africa with grant resources and co-financing. The Bank also backs regional alliances such as the Alliance for Green Infrastructure in Africa, and has adopted climate-resilient debt clauses.

Beyond that, the toolset must continue to evolve to deliver risk mitigation at the right price and in forms responsive to constrained fiscal realities. MDBs will need to take more risk at concessional rates, expand guarantees and insurance, and further operationalize first-loss tranches, mezzanine structures, portfolio guarantees, and co-lending frameworks, particularly to catalyze first movers in hard-to-abate sectors. Last June, MDB heads collectively reaffirmed commitments to local currency lending and foreign-exchange solutions, tackling two critical barriers for private investors.



Additional instruments can complement this toolkit. For example, re-channeling IMF Special Drawing Rights through MDBs could allocate concessional resources to green projects. Debt-for-climate swaps can reallocate a portion of sovereign debt service to climate investments. Sovereign sustainability-linked instruments, as pioneered by Chile and Uruguay, can lower borrowing costs when climate KPIs are met. Facilities such as the Tropical Forests Forever Fund, managed by the World Bank and paying countries to preserve forests, suggest creative models that could be adapted to crowd in blended finance for broader climate action.

Standardization will also be pivotal. Country platform approaches, standardized blended finance instruments, scaled guarantees, and replicable documentation can cut transaction costs and lower the cost of capital where it is highest. Above all, predictable project pipelines, aggregation platforms, and simplified access will determine whether capital flows to where it is most needed.

Finally, access frictions must be addressed. Reducing high transaction costs, burdensome conditionality, limitations on direct access, and heavy application and reporting requirements have become recurrent themes in COP deliberations. Several funds could accelerate approvals by simplifying fiduciary and environmental-social safeguards—without compromising integrity—and speeding disbursements for shovel-ready mitigation projects in renewables, grids, and industrial efficiency. Recent mutual reliance agreements among MDBs, designed to streamline the preparation and implementation of co-financed projects, point to practical improvements that can scale.

Multilateral finance remains the backbone of a credible global climate action because only it can blend concessionality, standards, and risk mitigation at scale. Whether COP 30 was a breakthrough will be judged less by communiqués than by execution in the next six to 18 months, including the outcome of the high-level ministerial roundtable and the two-year work program flagged in the final COP 30 text. The decisive verdict will come over the next five to ten years, measured in lower financing costs, higher investment volumes and tangible resilience and emissions outcomes where they are most needed.



# Get in touch

For more information on any of the topics in this Sustainability Outlook, please speak to the editorial team below, any of the report authors, or your usual A&O Shearman contact.

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**Matthew Townsend**  
*Partner, Global Co-Head,  
Environmental and  
Climate Law Group*

Tel +44 20 3088 3174  
matthew.townsend@aoshearman.com

**Danae Wheeler**  
*Senior Associate*

Tel +44 20 3088 3505  
danae.wheeler@aoshearman.com

**Gauthier Jacqmin**  
*Associate*

Tel +44 20 3088 3153  
gauthier.jacqmin@aoshearman.com

**Philippe Allen**  
*Trainee*

Tel +44 20 3088 6443  
philippe.allen@aoshearman.com

With thanks to the authors for their contributions.

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## PARTNERS

---

**Ken Rivlin**  
*Partner, Global Co-Head,  
Environmental and Climate  
Law Group*

Tel +1 212 610 6460  
ken.rivlin@aoshearman.com

**Matthew Townsend**  
*Partner, Global Co-Head,  
Environmental and Climate  
Law Group*

Tel +44 20 3088 3174  
matthew.townsend@aoshearman.com

**Arthur Sauzay**  
*Partner*

Tel +33 (0)1 40 06 50 90  
arthur.sauzay@aoshearman.com

**Axel de Backer**  
*Partner*

Tel +32 3 287 7402  
axel.debacker@aoshearman.com

**Gauthier van Thuyne**  
*Partner*

Tel +32 2 780 2575  
gauthier.vanthyne@aoshearman.com

**Goran Galic**  
*Partner*

Tel +618 6315 5946  
goran.galic@aoshearman.com

**Hitomi Komachi**  
*Partner*

Tel +81 3 4567 3314  
hitomi.komachi@aoshearman.com

**Jessica Lee**  
*Partner*

Tel +65 6671 6045  
jessica.lee@aoshearman.com

**Jochem Spaans**  
*Partner*

Tel +31 20 674 1500  
jochem.spaans@aoshearman.com

**Joe Clinton**  
*Partner*

Tel +971 4 426 7177  
joe.clinton@aoshearman.com

**Katy McNeil**  
*Partner*

Tel +1 312 598 2005  
katy.mcneil@aoshearman.com

**Melody Wang**  
*Partner*

Tel +86 21 2067 6988  
melody.wang@allenoverlyLY.com

---

**Mike Campbell**  
*Partner*

Tel +971 4 426 7185  
mike.campbell@aoshearman.com

**Prakash Raja Segaran**  
*Partner*

Tel +65 6671 6060  
prakash.segaran@aoshearman.com

**Rachel O'Reilly**  
*Partner*

Tel +44 20 3088 2870  
rachel.oreilly@aoshearman.com

**Romarc Lazerges**  
*Partner*

Tel +33 (0)1 40 06 53 44  
romarc.lazerges@aoshearman.com

**Scott Neilson**  
*Partner*

Tel +81 3 4567 3311  
scott.neilson@aoshearman.com

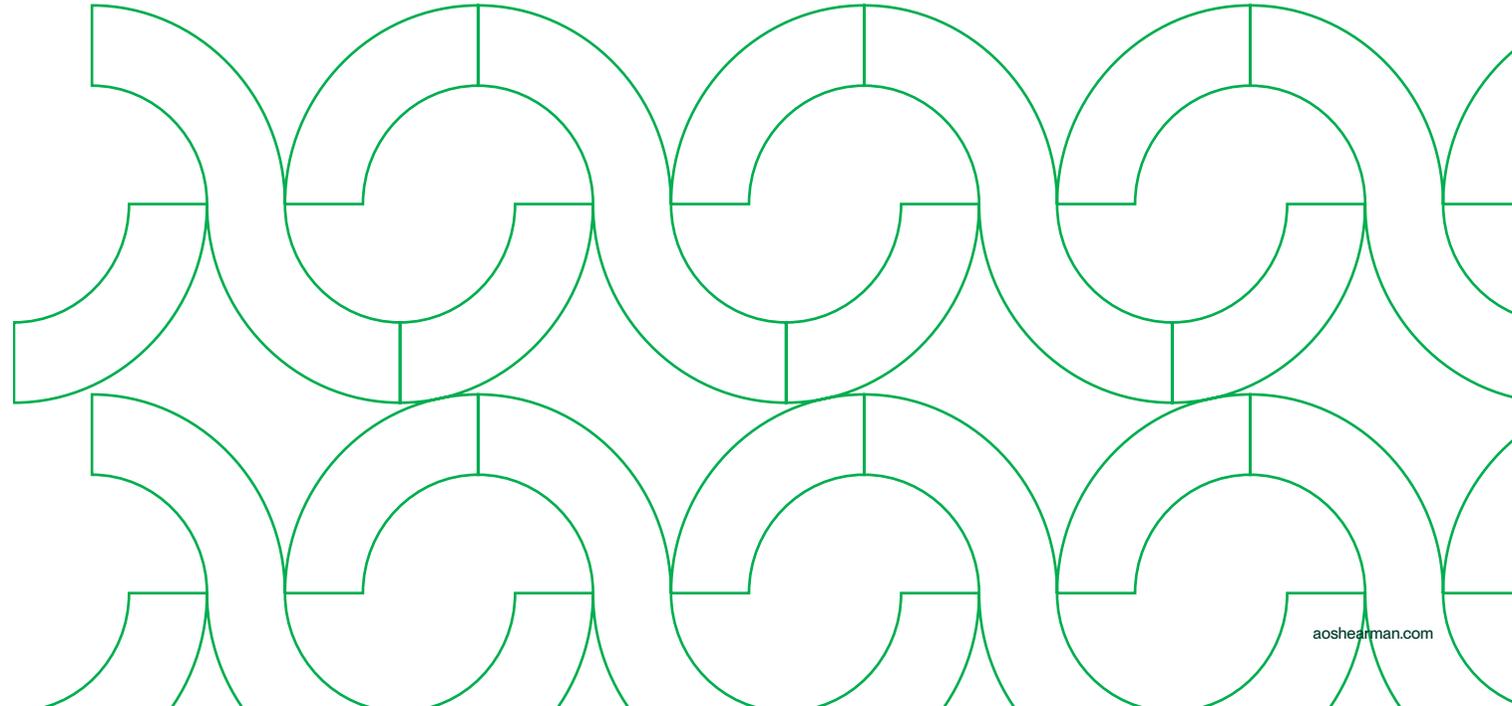
**Shuhui Kwok**  
*Partner*

Tel +65 6671 6065  
shuhui.kwok@aoshearman.com

---

**Udo Olgemöller**  
*Partner*

Tel +49 69 2648 5690  
udo.olgemoeller@aoshearman.com



**SENIOR COUNSELS, COUNSELS, SENIOR ASSOCIATES, ASSOCIATES, LAWYERS AND LEGAL SPECIALISTS**

---



**Danae Wheeler**  
*Senior Associate*

Tel +44 20 3088 3505  
danae.wheeler@aoshearman.com

**Felise Cooper**  
*Senior Counsel*

Tel +1 917 613 3945  
felise.cooper@aoshearman.com

**Fee Goossens**  
*Counsel*

Tel +32 2 780 2601  
fee.goossens@aoshearman.com

**Kara Altman**  
*Counsel*

Tel +1 202 912 1806  
kara.altman@aoshearman.com

**Paul Jing**  
*Counsel*

Tel +86 21 2067 6851  
paul.jing@allenoveryLY.com

**Pauline Choplin**  
*Senior Associate*

Tel +33 1 4006 5063  
pauline.choplin@aoshearman.com



**Adélie Sallou**  
*Associate*

Tel +33 1 4006 5050  
adelie.sallou@aoshearman.com



**Rebecca Xu**  
*Associate*

Tel +86 21 2067 6819  
rebecca.xu@allenoveryLY.com

**Fraser Cull**  
*Lawyer*

Tel +618 6315 6103  
fraser.cull@aoshearman.com



**Jasmine Gal**  
*Lawyer*

Tel +618 6315 5943  
jasmine.gal@aoshearman.com



**Yufang Wu**  
*China Legal Specialist*

Tel +86 21 2067 6835  
yufang.wu@allenoveryLY.com

## TRAINEES AND SOLICITOR APPRENTICES

---



**Philippe Allen**  
*Trainee Solicitor*

Tel +44 20 3088 6443  
philippe.allen@aoshearman.com



**Cara Walmsley**  
*Solicitor Apprentice*

Tel +44 20 3088 6479  
cara.walmsley@aoshearman.com

## KNOWLEDGE PROFESSIONALS

---



**Jason Pham**  
*Knowledge Counsel*

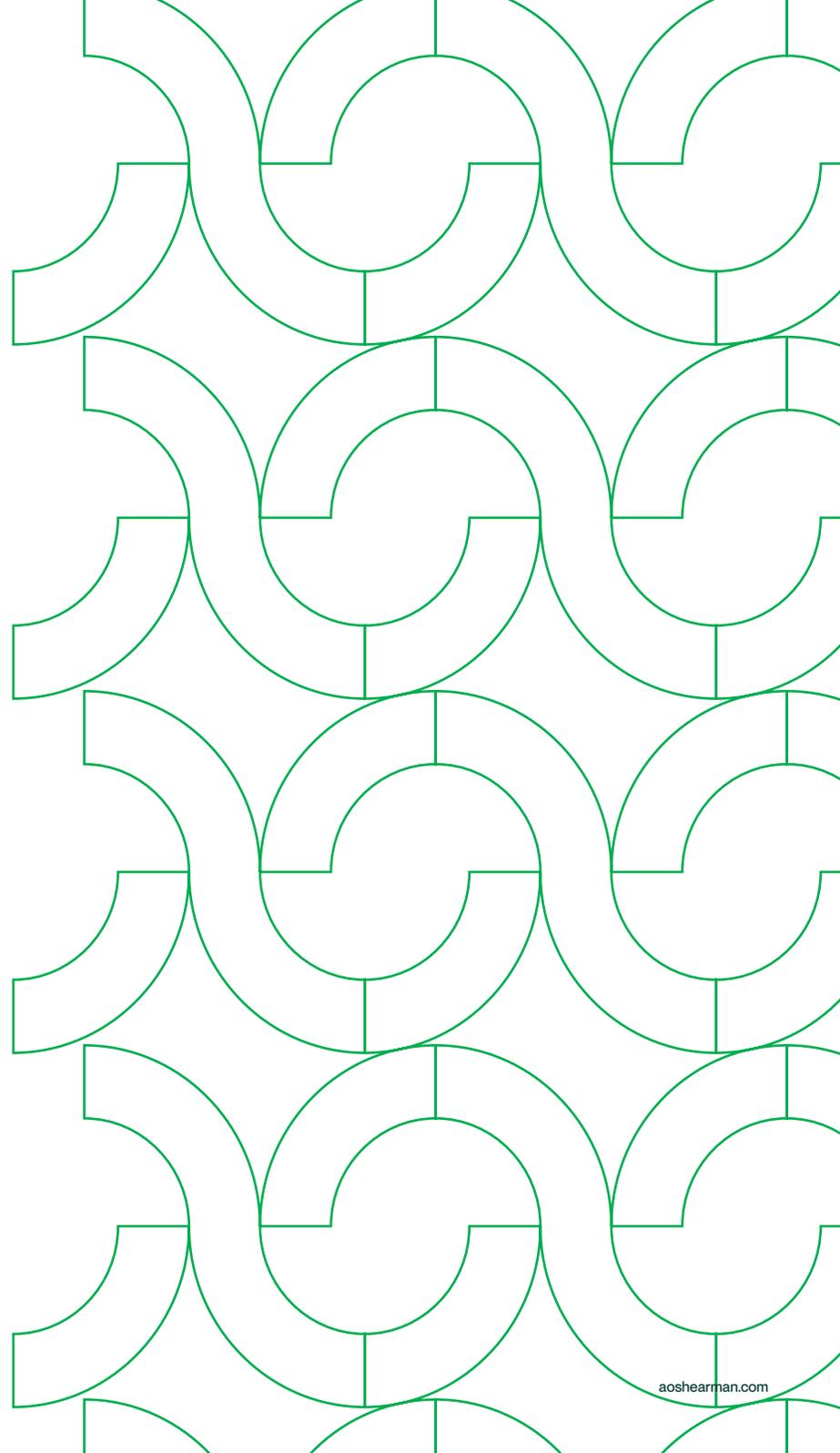
Tel +1 424 512 7149  
jason.pham@aoshearman.com

**Fleur Clegg**  
*Global Head—ENRI Knowledge*

Tel +44 20 3088 4794  
fleur.clegg@aoshearman.com

**Daniel Edwards**  
*Knowledge Specialist*

Tel +44 20 3088 1288  
daniel.edwards@aoshearman.com



## LONDON

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Allen Overy Shearman Sterling LLP  
One Bishops Square  
London  
E1 6AD  
United Kingdom

Tel +44 20 3088 0000  
Fax +44 20 3088 0088

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