

The private sector finds itself in a complicated climate-conundrum

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We have seen many climate commitments in recent years. Numerous companies and financial institutions have pledged their commitment to combat climate change. This pledge is only a first step. The implementation phase is next.

This is proving to be a major struggle for many organisations. There are fundamental strategic questions. For example, how does the ambition to grow relate to the ambition to become more sustainable? And for financial institutions: to what extent is continued engagement with the fossil fuel industry the way to go?

There also exist significant legal uncertainties. The regulatory burden is increasing and organisations will soon have to know and report more about the climate impact of their operations. For many, the question remains what exactly is expected under the new legislation. What is more, there are practical complications, such as organising one's own data and obtaining qualitative climate data from third parties. Thus, a serious ambition to reduce carbon emissions is bound to be accompanied by brain teasers in terms of strategy, compliance, and implementation. Organisations are currently going through a learning process.

More accountability

At the same time, the accountability landscape in the Netherlands and abroad is hardening. Regulators are scrutinising even more closely whether organisations are putting their words into practice. For instance, the Dutch Consumer and Market Authority (ACM) recently reprimanded Vattenfall and Greenchoice over misleading sustainability claims. In the US, the SEC set up a Climate and ESG Task Force last year. A proposal to significantly expand climate disclosure requirements is currently pending.

In addition to regulators, NGOs and claims foundations are also watching. For instance, Milieudefensie (Friends of the Earth Netherlands) is assessing climate plans as a potential prelude to further proceedings. Fossilvrij NL ("Fossil free Netherlands") has started proceedings against Dutch airline company KLM for its 'Fly Responsibly' campaign, accusing the company of greenwashing. In short: sustainability statements are under a magnifying glass and the pressure to not make mistakes is increasing.

Currently, organisations stand in a restaurant kitchen with no clear recipe and without the proper ingredients, while guests complain that the menu is inaccurate or the food tastes bad. This combination triggers a flight instinct. For instance, it was recently reported that some US banks are considering disregarding climate commitments for fear of liability claims: 'What if we get it wrong, make a mistake or someone lies? Then the bank can be sued, that is an unacceptable risk,' the banks told the Financial Times.

Greenhushing

Fear of liability also leads to less ambitious, but more achievable climate targets and to 'greenhushing', where organisations do not disclose targets for fear of being held accountable.

This reaction does not help the fight against climate change. Moreover, liability risks are not necessarily averted. Transparency on climate strategy is becoming the norm and the next few years will show who has got to work and who has not. The frontrunners set the tone: if A can and is able to do it, why not B, too? If the accountability trend continues, not being ambitious enough also exposes companies to liability risks.

The dilemma between more or less climate ambition is widely felt at the top of the private sector. It encourages a "safety by numbers" approach: not wanting to lag, but also not wanting to stick one's

head above the parapet. The result is a sub-optimal level playing field, which is incompatible with the important role the private sector has to play in the transition to a sustainable economy.

There appears to be insufficient awareness of this accountability squeeze and its potentially undesirable consequences. This is concerning. If we want to push the transition, we should encourage climate ambition as much as possible. This speaks in favor of easing one side of the squeeze: the risk of - in retrospect - a bit too much ambition. The focus should shift from individual accountability to collective responsibility. After all, the fight against climate change is a shared mission.

What is needed to achieve this? More clarity on what is expected from companies when it comes to climate change. This is an urgent task for the government and regulatory bodies. In addition, a 'safe' learning environment is important. Especially at this stage (where much is still unclear), well-meaning organisations that are in transition should be given the opportunity to learn. The sustainability challenges many organisations are facing are diverse and cannot be underestimated. However undesirable, a learning process takes some time and mistakes will be made.

What speeds up the process is knowledge sharing and cooperation. Not everyone needs to reinvent the wheel. More exchange between private parties (inside and outside their own sector) and close interaction with the public sector are essential. Climate best practices should be similar to aviation safety, and the government can be more proactive in facilitating this.

Finally, a call to critical restaurant guests: be a catalyst rather than a denigrator. Focus on success stories as well. Companies benefit more from an extended hand than an accusing finger. Ultimately, climate action is the goal, not climate liability.

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