
Sustainability Horizon Scanner

Key updates for UK businesses when it comes to what's on the horizon for sustainability related regulation

June 2025



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Letter from the Editors

Welcome to the inaugural edition of Freeths sustainability horizon scanner. This is our new six-monthly update, focusing on what you need to know about what's coming down the track when it comes to sustainability related regulation. The horizon scanner doesn't summarise law, but signposts what's next. For summaries of waste legislation, please see our [Waste reform report](#).

We also have a featured opinion section with this edition's opinion reflecting on the controversial nature recovery provisions under the Planning and Infrastructure Bill. Finally, our featured article examines the UK government's most recent efforts to tackle the markets for voluntary carbon and nature credits.

Before we dive in, it would be remiss of us not to acknowledge what is perhaps the elephant in the room – the recent shift we've seen when it comes to businesses talking about ESG and sustainability. In contrast to the big rush for corporate sustainability commitments a few years ago, it seems like we're now in a different climate with roll backs on diversity and inclusion policies in the United States, oil majors moving away from renewable energy targets and so on and so forth.

While it is true that regulatory approaches to sustainability can change quickly with political tides, we can't avoid the climate change and biodiversity loss that is already very much underway no matter the political current we find ourselves in. The sustainable position for a business of the present and of the future is to stick to reduction, adaption and true transition pathways. Yes, from a regulatory and reputational perspective, yes for competitive advantage but also because it is increasingly becoming the physical reality we live in. In our view, taking that approach and integrating sustainability into the core of business practices, is responsible business planning and sensible risk management.

With that in mind, we trust that you will enjoy this June 2025 edition of the horizon scanner and find it useful. If you have any questions, feedback or would like information on how we can help, please get in touch with the editors below.

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Featured Opinion: Nature recovery – do we need a new approach?

“The Planning and Infrastructure Bill currently moving through Parliament features some of the most significant changes to nature conservation law in England since the laws originally came into force. It moves towards a strategic approach to nature recovery, introducing a Natural England-led system for addressing development impacts on certain ‘environmental features’ (i.e. European Sites or Ramsar Sites, SSSIs and protected species).

For specific developments, a developer can ‘opt in’ (or be compelled by Natural England) to pay a ‘nature restoration levy’ to fund the delivery of ‘environmental delivery plans’ (“EDPs”). EDPs are intended to set out the conservation measures needed to address the impact of a specified development on one or more of those environmental features.

These reforms would introduce what is essentially a two-tier approach to environmental protection. This will consist of the existing nature law standards which will continue to apply to developments not covered by these new EDPs and a more relaxed approach to environmental protection for those developments which will in due course be covered by EDPs. Whilst some developers may look on these reforms as an easier and more straight-forward approach than the current position, there will be many people in the environmental sector who will be concerned that this two-tier approach will weaken existing environmental standards and oversimplify matters which are far from simple.

It is worth noting that strategic nature restoration schemes are currently already being successfully delivered across the country in accordance with existing legislation. Rewriting longstanding nature conservation laws to achieve what can already be achieved is akin to using a legislative sledgehammer to crack a nut. Furthermore, the uncertainty and delays caused by these changes may create additional costs.”



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ESG reporting

Update on UK Sustainability Reporting Standards (“UK SRS”)

Recap

TCFD aligned reporting will be augmented and replaced by the UK SRS which derives from the IFRS standards. The UK intends to formally endorse the IFRS standards through the introduction of UK SRS. These standards will form part of a wider Sustainability Disclosure Reporting framework led by HM Treasury. In December 2024, the Financial Reporting Council formally recommended the endorsement of the IFRS Standards for use in the UK, with only minor amendments.

Impacted entities

To be confirmed but likely entities which are already subject to TCFD and listed companies. For listed companies, the FCA will lead on disclosure requirements.

On the horizon

The UK government was intending to consult on the exposure drafts of UK SRS in Q1 2025, so we expect this has been delayed until Q2 2025. In the meantime, investor demand for companies to voluntarily apply the IFRS standards is increasing. On 25 September 2024, the IFRS [published guidance](#) to help companies communicate progress as they begin to apply the standards in advance of jurisdictional regulation.

‘Stop-the-clock’ directive postpones implementation of EU sustainability regulation

Recap

On 17 April 2025, the ‘[Stop-the-clock](#)’ directive (“**Directive**”) entered into force, delaying implementation timelines under the Corporate Sustainability Due Diligence Directive (“**CS3D**”) and the Corporate Sustainability Directive (“**CSRD**”). The Directive forms part of the European Commission’s [Omnibus I package](#) which seeks to reduce sustainability reporting burdens and enhance competitiveness through targeted amendments to existing sustainability related regulation.

Impacted entities

From a UK perspective, for CS3D, the timelines for reporting for (i) non-EU companies with an annual net turnover generated in the EU over EUR 900 million and (ii) non-EU companies with an annual net turnover generated in the EU over EUR 450 million remain the same with obligations applying from 26 July 2028 and 26 July 2029 respectively. For CSRD, the position for non-EU parent companies of large EU companies also remains unchanged, with reporting obligations starting from 1 January 2028.

On the horizon

The Directive gives the EU more time to agree the rest of the changes proposed under the Omnibus package, which includes reducing the ‘trickle-down effect’ by limiting the information that companies within scope may request from their SME and small midcap business partners. Given the final scope of the Omnibus package remains uncertain, we recommend that UK companies continue preparations in line with the highest applicable reporting and diligence standards which will also stand them in good stead for UK SRS.

Environment

Government consults on improving the implementation of Biodiversity Net Gain (“BNG”) for minor, medium and brownfield development

Recap

On 28 May 2025, the UK government published a [consultation](#) on potential changes to BNG regulations, small sites metric and guidance to improve implementation of BNG for minor, medium and brownfield developments.

Minor developments of up to nine homes could benefit from streamlined planning and eased BNG requirements, with faster decisions being taken by expert planning officers as opposed to planning committees. The consultation also proposes a new ‘medium site’ category (sites between 10 and 49 homes) which will face simpler rules and fewer costs, including a proposed exemption from the Building Safety Levy and simplified BNG rules.

Impacted entities

In addition to small and medium developments, the consultation also proposes changes to BNG requirements for all developments with Open Mosaic Habitats.

On the horizon

The consultation closes on 24 July 2025. Pending legislative changes, BNG requirements remain in place and developers should continue to follow existing guidance and legislation when delivering BNG.

Government consults on BNG for nationally significant infrastructure projects (“NSIPs”)

Recap

On 28 May 2025, the UK government published a [consultation](#) on BNG for NSIPs. The consultation proposes to introduce BNG for NSIPs in May 2026, an extension of six months on previous timescales.

The consultation proposes a ‘core’ approach to BNG to maintain consistency across sectors and reduce complexity where possible. Government is therefore seeking views on proposed model text for a core biodiversity gain statement as well as evidence from stakeholders on the cost impact of BNG on NSIPs and views on how to ensure that BNG is implemented effectively for NSIPs.

Impacted entities

New NSIPs.

On the horizon

The consultation closes on 24 July 2025. The government currently intends for the BNG requirement to apply to NSIP applications that are made after the go-live date in May 2026.

Environment

UK deforestation regulation due for a revisit

Recap

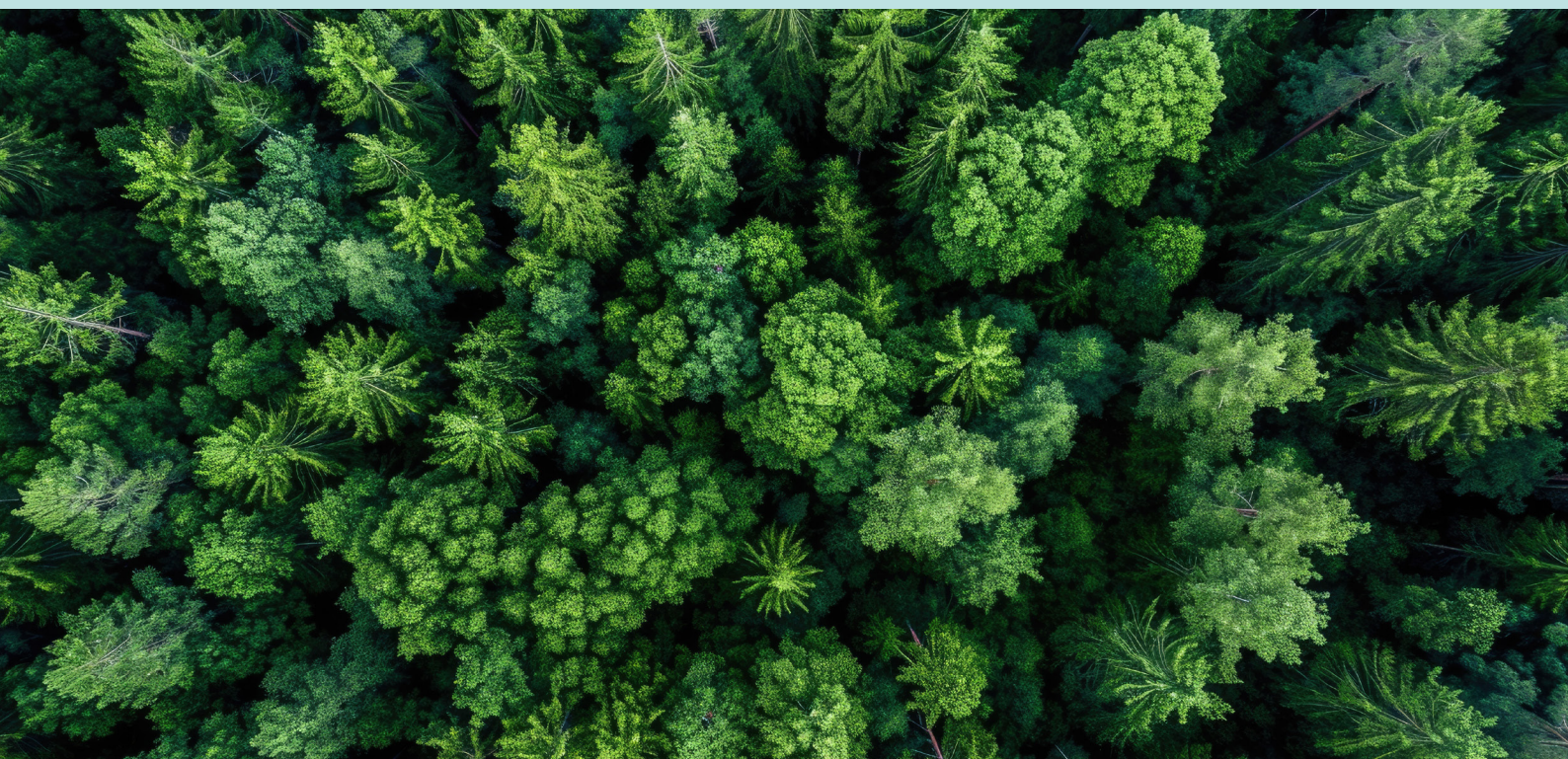
Defra is developing a Forest Risk Commodity (“UKFRC”) regime to tackle illegal deforestation in UK supply chains. The Environment Act 2021 sets out the enabling legislation which introduces three core requirements on regulated businesses: (i) prohibition on using illegally produced forest risk commodities, including both raw and derived products, (ii) establishment of a due diligence system for each regulated commodity and (iii) annual due diligence reporting. Secondary legislation is however required to operationalise these requirements and is yet to be finalised.

Impacted entities

The [proposal](#) from the previous government targeted businesses with a global annual turnover of more than £50 million with a focus on cattle products (excluding dairy), cocoa, palm oil and soybeans.

On the horizon

Secondary legislation in respect of the UKFRC was expected in 2024 but was delayed due to the General Election. The EU’s Deforestation Regulation, which has much broader application, was similarly delayed but will apply from the end of 2025. The new government has stated its commitments to Environment Act targets, and with the EU’s incoming and deviating deforestation regime, will be under renewed pressure to progress on UKFRC.



Packaging and waste

Extended producer responsibility for packaging: New packaging regulation guidance for “small producers”

Recap

UK organisations that supply or import packaging should comply with extended producer responsibility for packaging. On 2 May 2025, Defra published [new guidance](#) for small producers in respect of requirements to record, report and pay under the Extended Producer Responsibility for packaging regulations (“pEPR”). The regulations introduce obligations for businesses selling, importing, and handling packaged goods and is designed to improve efficiency by placing responsibility on businesses for the environmental impact of their packaging. For more details on pEPR obligations, please see our [Waste Reforms report](#).

Impacted entities

A ‘producer’ is generally a business or other organisation that supplies packaging. A ‘small producer’ is an organisation that either has (i) an annual turnover of more than £1 million and up to £2 million and supplies more than 25 tonnes of packaging in the UK or (ii) has an annual turnover of more than £1 million and supplies more than 25 tonnes and no more than 50 tonnes of packaging in the UK. Businesses over these thresholds are ‘large producers’ and will face different requirements.

On the horizon

For small producers, the deadline for submitting packaging data that is being collected for 2025 (from 1 January to 31 December) is 1 April 2026. Large producers, on the other hand, need to report on a six-monthly basis with an upcoming deadline of 1 October 2025.



Packaging and waste

Extended producer responsibility for packaging: Updated guidance on how large producers must assess their packaging waste

Recap

On 28 April 2025, Defra released updated [guidance](#) on Recyclability Assessment Methodology ("RAM") for large packaging producers. From 1 January 2025, liable producers who supply household packaging must assess the recyclability of that packaging and report the results of the assessment to the environmental regulator. Additional obligations apply to organisations classed as "large producers" for the purposes of pEPR.

Impacted entities

Only "large producers" (including online marketplaces), must report their recyclability assessment data. Organisations are classed as "large producers" for the purposes of pEPR if both of the following apply: (i) the organisation has an annual turnover of £2 million or more; and (ii) the organisation is responsible for supplying or importing more than 50 tonnes of packaging in the UK.

The RAM enables these large producers to categorise the packaging materials and components of packaging they place on the UK market into eight main materials groups, including paper, steel, aluminium, and plastics. It then enables them to assess each packaging format based on its material composition, the availability of sorting and reprocessing infrastructure in the UK, and how it can be used in the recycling process.

On the horizon

The RAM will be used to determine whether packaging is considered green, amber, or red, which will ultimately impact the fees charged to producers for managing their packaging waste. Packaging with a green status will attract lower fees than amber or red status packaging, incentivizing the use of more recyclable materials. The RAM methodology will therefore enable large packaging producers to assess the recyclability of their household packaging and produce a red/amber/green output which will inform the level of fee modulation payable for that material from year 2 of pEPR.

Mandatory digital waste tracking delayed until 2026

Recap

On 6 February 2025, Defra [confirmed](#) that the introduction of mandatory digital waste tracking will be delayed from April 2025 until April 2026 (targeted). Digital waste tracking seeks to record information on waste from the point it is produced to the point it is disposed of. The initiative forms part of the UK government's broader commitment to smarter regulation and sustainable growth, aligning with strategies like the 25 Year Environment Plan and the Clean Growth Strategy.

Impacted entities

The expectation is that mandatory digital waste tracking will affect every waste producer, processor, carrier and broker with the movement of waste digitally tracked through a central Defra system.

On the horizon

Whilst digital tracking is a UK-wide initiative, waste policy is a devolved matter and it is promising that the devolved administrations have agreed thus far to introduce UK-wide waste tracking services with a single system. However, impacted entities will need to factor in data management practices, comprehensive training and operational costs ahead of implementation.

Packaging and waste

UK Deposit Management Organisation (“UK DMO”) appointed as operator of new Deposit Return Scheme (“DRS”)

Recap

In May 2025, the UK DMO was [appointed](#) as operator of the DRS. The DRS will introduce a refundable deposit on single-use drinks containers (not glass), with the aim to reduce litter and increase recycling rates of drink containers made from polyethylene terephthalate, plastic, steel and aluminium.

Impacted entities

Businesses which place single-use drink containers made of the applicable materials onto the market. Please contact [Kirstin Roberts](#) and [Asimenia Karydaki](#) if you’d like to receive our detailed flowchart for businesses to assess whether they are impacted.

On the horizon

The aim is to introduce the DRS in England, Scotland and Northern Ireland in October 2027, although the scheme has been subject to a number of delays. Notably Wales will operate a separate scheme and is currently assessing the practicalities of a re-use focused DRS rather than a recycling focused DRS.

New landfill tax consultation

Recap

On 28 April 2025, HM Treasury [published](#) a consultation on reforming the Landfill Tax in England and Northern Ireland. The consultation covers six areas including: (i) transitioning to a single rate of Landfill Tax by 2030, (ii) removing the Qualifying Fines Regime from April 2027, (iii) removing the exemption for filling quarries from 2027, (iv) removing the exemption for stabilisers used in dredged material from April 2027, (v) removing the water discounting scheme from April 2027 and (vi) increasing the rate applied to disposals at unauthorised waste sites. The consultation closes on 21 July 2025.

Impacted entities

Companies and local authorities operating landfills or sending waste to landfill.

On the horizon

The proposed reforms to the Landfill Tax represent a sizeable shift in waste policy, which combined with the number of other waste reforms underway, could lead to significantly increased costs for impacted entities. In the wake of increased costs, businesses should be mindful of how their waste is managed particularly if it is collected by a third-party waste management business as many expect that the increasing costs of managing waste will lead unscrupulous waste collectors to illegally dump it.

The waste duty of care owed by all organisations who produce waste means they cannot avoid liability for their waste being illegally dumped unless they can prove that they undertook due diligence to find out where their waste was being sent.

Greenwashing

CMA gains fining powers for up to 10% of global turnover

Recap

On 6 April 2025, the Competition and Markets Authority's ("CMA") new fining [powers came into force](#) in accordance with the Digital Markets, Competition and Consumers Act 2024. Notably under this new consumer regime, if a company breaches consumer protection law (which can include greenwashing), the CMA can issue a fine of up to 10% of global turnover.

Impacted entities

Any business in the UK with consumer facing communications.

On the horizon

We expect the CMA will not hesitate to use its new fining powers when it comes to greenwashing in due course, in line with continuing greenwashing scrutiny from the Advertising Standards Authority with examples of recent rulings including [compostable coffee capsules](#) and [laundry pods](#).



Supply chains

EU adopts forced labour ban on all products

Recap

On 12 December 2024, the EU adopted the [Forced Labour Regulation](#) ("FLR"). The FLR has broad application and prohibits the placing and making available in the EU, or the export from the EU, of any product made using forced labour. All products, including their components are captured regardless of sector or origin. The FLR will apply from 14 December 2027.

Impacted entities

Direct impacts on UK companies which place or make available products in the EU. UK companies with EU business customers who place their products may also be asked to show they are compliant with the FLR.

On the horizon

The EU Commission is required to make guidance available for practical implementation, due diligence, risk indicators and best practices for ending different types of forced labour by 14 June 2026. In the meantime, impacted entities should review their supply chain and procurement policies and engage early with documented due diligence.

Home Office issues revised transparency in supply chains guidance

Recap

On 24 March 2025, the Home Office issued its updated [Transparency in Supply Chain guidance](#) ("Guidance") in respect of compliance with section 54 of the Modern Slavery Act 2015 ("MSA"). The amendments incorporate learnings from the past 10 years since the MSA was introduced.

While the Guidance doesn't mandate the content of MSA statements, it details six reporting topics including organisational structure, policies, due diligence, assessing and managing risk, monitoring and evaluation and training. For each of these topics, the updated Guidance introduces Level 1 (basic) and Level 2 (enhanced) recommendations and includes more practical case studies.

Impacted entities

Businesses that operate in the UK and have a total turnover above £36 million are required to produce an annual modern slavery statement.

On the horizon

The revised Guidance is the first wholesale update since 2017 and while the Guidance is not mandatory, impacted entities should revisit their MSA reporting and be mindful of their obligations in an increasingly extra territorial compliance landscape. We are also seeing a general UK policy shift to incentivising shorter, more locally focussed supply chains whilst at the same time, paying close attention to forced labour in the global supply chains of key UK industries – for example recent [Great British Energy announcements](#) with respect to clean energy infrastructure.

Employment

Employment Rights Bill moving through the House of Lords

Recap

The [Employment Rights Bill](#), introduced to Parliament on 10 October 2024, is currently at House of Lords committee stage. With 28 policy measures, the Bill includes significant reforms to UK employment law. Proposals include but are not limited to flexible working as the default for all roles, paternity and parental leave entitlements as 'day one' rights, bereavement leave for all, protections from dismissal for pregnant employees and returning mothers, employer liability for third party harassment and a heightened duty on employers to prevent sexual harassment.

Impacted entities

Given the nature of the proposals, all employers will need to invest time adapting to the new regulations albeit to varying degrees.

On the horizon

The government expects that most reforms in the Bill will take effect no earlier than 2026. Further detail on many policies in the Bill will be enacted through regulations and in some cases, codes of practice, after Royal Assent of the Bill. Employers will need to pay close attention to ongoing and upcoming consultations in respect of the proposals and once the Bill is live, prepare to review their employee management and recruitment practices.



Energy

Transformation of grid connection landscape underway

Recap

On 15 April 2025, Ofgem [approved](#) the suite of documents that comprise the grid connection reform package known as TM04+. Significant delays in connecting to the electricity grid primarily for electricity generation projects but increasingly on the demand side have been a blocker for many projects. The crux of the change is moving from a system of ‘first come, first served’ when applying for a grid connection to a system of ‘first ready and needed, first connected’. We have covered the detail of these reforms extensively, for more information on Ofgem’s approval decision please see our article [here](#).

Impacted entities

Projects in the existing grid connection queue and new projects going forward which will include most electricity generation projects with a focus on renewable energy projects and battery energy storage. Large transmission connection demand (such as industrial and commercial businesses) will also be directly impacted, with indirect impacts on smaller / distribution connected demand.

On the horizon

The re-ordering of the existing grid connection queue in line with reforms is expected to take place in July 2025 with projects finding out whether they are successful or not from Autumn 2025. Businesses looking to procure clean energy for their operations or directly decarbonise their electricity consumption should therefore take note that there will be a revised connection landscape from early 2026 onwards with more stringent technology and locational restrictions.

Moving into Phase 4 of the Energy Savings Opportunity Scheme (“ESOS”)

Recap

The ESOS is a mandatory energy assessment and energy saving scheme that applies to large UK undertakings and their corporate groups. These assessments are audits of the energy used in impacted entities’ buildings, industrial processes, and transport. The scheme operates in four-yearly phases and is currently in Phase 3 (Compliance Year 2023).

Impacted entities

ESOS currently applies to companies with (i) 250 or more employees; or (ii) an annual turnover exceeding £44 million and a balance sheet exceeding £38 million. If a corporate group contains at least one undertaking in the UK which meets the qualification conditions, its entire UK operation must take part in ESOS.

On the horizon

Following a government consultation, [changes to the scheme](#) which are intended to go ahead for Phase 4 include (i) the removal of Display Energy Certificates and Green Deal Assessments as compliance routes, (ii) the inclusion of progress against action plan commitments, and (iii) explanations where action plan commitments have not been met. These changes and accompanying guidance are planned to be in place by early 2027.

Banking & finance

LMA updates sustainability-linked loan principles

Recap

On 26 March 2025, the Loan Market Association (“LMA”) in conjunction with the Asia Pacific Loan Market Association and the Loan Syndications and Trading Association published updated versions of the Green, Social and Sustainability-Linked Loan Principles (“SLLP”) and corresponding guidance.

The [updated SLLP](#) provides clarifications to the five core components of a sustainability-linked loan, which include the selection of KPIs, calibration of Sustainability Performance Targets, loan characteristics, reporting and validations.

Impacted entities

The SLLP, together with the range of [sustainable lending resources](#) which the LMA offers, are intended to provide agreed guides and market standard templates for lenders and borrowers seeking to facilitate ESG objectives through their financings.

On the horizon

The LMA has identified a need to address in particular barriers to entry to the sustainable lending market for SMEs and is therefore aiming to publish targeted SME guidance in 2025.

FCA sets out position on sustainability and defence investments

Recap

On 11 March 2025, the FCA [published a statement](#) explaining that its sustainability rules do not prevent investment in or finance for defence companies. In the statement, the FCA clarified that these rules do not require financial institutions and banks to treat defence companies differently because they are in the defence sector. The statement follows an [open letter](#) from MPs urging banks and financial institutions to rethink ESG mechanisms that exclude defence investments and similar statements in the EU in the context of defence spending.

Impacted entities

Financial institutions and banks with ESG investment policies. The FCA is clear in its position that its rules should not be confused with these entities own investment policies for the types of businesses they wish to support.

On the horizon

For impacted entities, there will be increasing pressure to define and justify both internally and externally their own meanings of sustainable and/or ethical investment and lending. For those looking to fund the defence sector, this may mean revisiting ethical screening policies that are typically limited to ‘controversial weapons’.

Tax

UK Carbon Border Adjustment Mechanism (“UK CBAM”) draft primary legislation now available

Recap

The UK CBAM, which follows the introduction of a CBAM in the EU, will place a carbon price on specific goods imported to the UK. It is expected to apply from 1 January 2027. Following a consultation on policy design and administration, on 24 April 2025 HMRC released draft primary legislation for [consultation](#). The consultation closes on 3 July 2025.

Impacted entities

The UK CBAM will directly impact importers of specific goods in the aluminium, cement, fertiliser, hydrogen, and iron and steel sectors with indirect impacts felt by industries which use these goods such as the automotive industry. We recommend businesses check the list of CBAM goods in Schedule 1 of the draft legislation to understand whether they are in scope of the regime.

On the horizon

The UK government intends to publish all draft secondary and tertiary CBAM legislation for technical consultation, which will set out detailed information on, for example, the calculation and evidence required of embodied emissions in CBAM goods. Additionally, the EU’s CBAM will move from a transitional to a definitive regime from 1 January 2026. The UK and the EU have recently [agreed](#) to link emissions trading systems which should mean that mutual CBAM exemptions become available for relevant businesses in both jurisdictions. For more information on navigating the UK CBAM, please see our article [here](#).



Featured Insight: Building integrity – new consultation on voluntary carbon and nature markets

Published on 1 May 2025

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On 17 April 2025, the Department for Energy Security & Net Zero published its highly anticipated consultation on voluntary carbon and nature markets (available [here](#)) (the “**Consultation**”). The consultation follows the publication of government’s six [principles for voluntary carbon and nature market integrity](#) published in November 2024, and aims to respond to calls from business, finance, farming and environmental stakeholders for clarity on the government’s approach to voluntary environmental markets.

This should be of interest to any company on a net-zero or nature positive journey, as well as to the variety of other stakeholders involved in voluntary carbon and nature markets. The Consultation appears to be a genuine attempt by the government to grapple with the myriad complexities within voluntary carbon and nature markets, all of which would benefit from the views of a wide range of stakeholders.



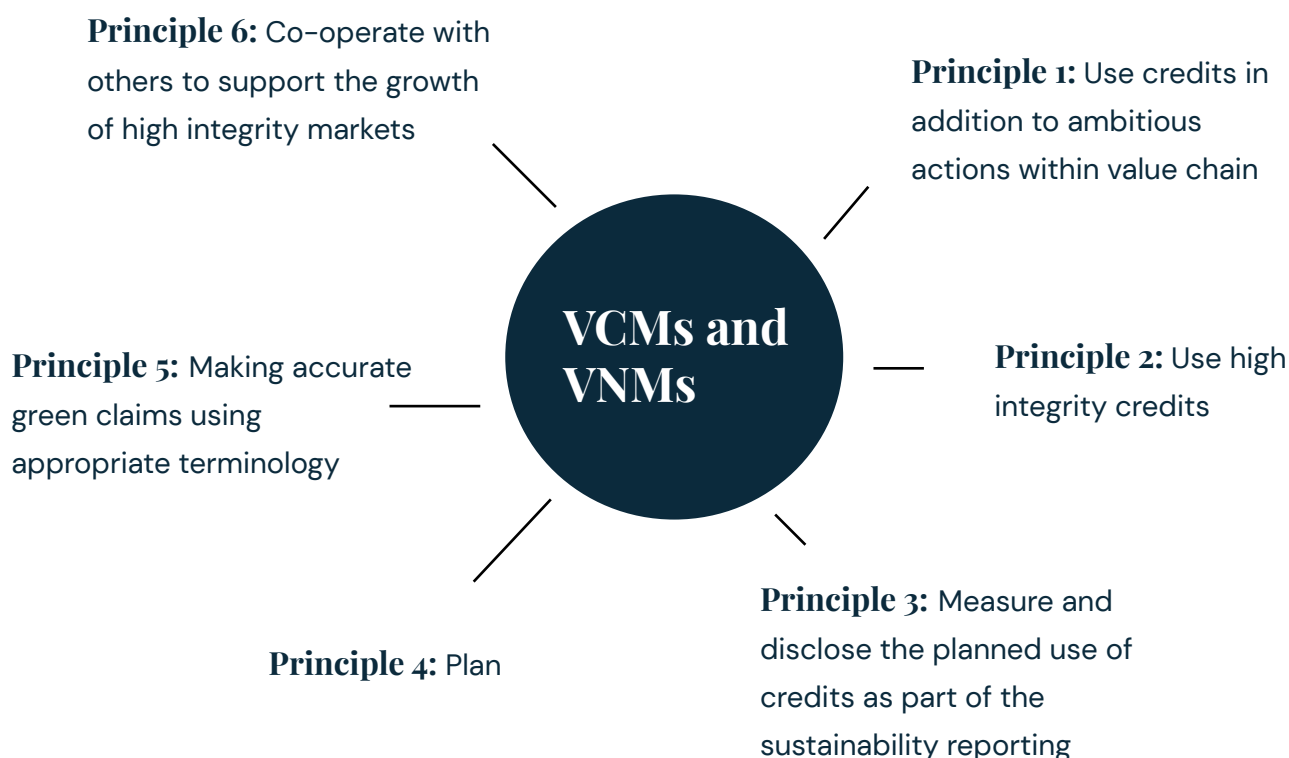
VCMs and VNMs

The consultation covers both voluntary carbon markets (“VCMs”) and voluntary nature markets (“VNMs”), defined as follows:

1. **VCMs** – “generate credits representing a tonne of CO₂ (or other Greenhouse Gas in CO₂ equivalent (e)) reduced (for example through energy efficient technology) or removed (for example by engineered or nature-based greenhouse gas removals) from the atmosphere”; and
2. **VNMs** – “encompass payments for activities that deliver environmental outcomes through nature-based activities, including biodiversity, and ecosystem services, such as nutrient mitigation and nature-based carbon sequestration. Each credit represents a measured increase in biodiversity or ecosystem service.”

The Consultation is wide ranging, covering integrity of credits, reporting of credits and their use in transition planning, governance, links with the international carbon market, and even the legal status of carbon credits.

A summary of each the six principles, and other questions raised in the Consultation, is provided below. The Consultation is open for responses until 10 July 2025.



Principle 1: Use credits in addition to ambitious actions within value chain

To ensure voluntary credits are only used by companies alongside making every reasonable effort to minimise their own impacts on the climate and nature, as well as the impacts in their supply chain, the government is proposing (and inviting views on):

- Recognising the Voluntary Carbon Market Integrity Initiative Claims Code of Practice (the “VCMI Code”) (which sets out guidance on how organisations can credibly use carbon credits as part of their climate commitments) as best practice; and
 - Taking steps to ensure the VCMI Code interacts with and / or is appropriately embedded within government principles and guidance.
- The Consultation also invites views on the approach to:
 - ‘Insetting’, defined as “interventions within an organisation’s value chain that reduce and remove (sequester) Scope 3 greenhouse gas emissions whilst creating positive benefits and improving the resilience of communities, landscapes and ecosystems”;
 - The VCMI’s Beta Scope 3 Claim; and
 - The use of an interim standard for those companies not able / ready to meet the high standards of the VCMI’s Framework.

Principle 2: Use high integrity credits

The Consultation invites views on the adoption of the Integrity Council for Voluntary Carbon Market (“ICVCM”) principles and frameworks. While the VCMI focusses on users/purchasers of carbon credits, the ICVCM focusses on the supply side of carbon credits. The ICVCM has published ‘Core Carbon Principles’ and an ‘Assessment Framework’, which aim to ensure all types of voluntary carbon credits issued globally meet minimum standards for integrity.

The Consultation also invites views on (i) how the VNMs can be used to deliver international nature finance targets, and (ii) on the BSI’s UK Nature Investment Standards. BSI’s overarching ‘Principles Standard’ (BSI Flex 701) is the first standard ready for nature market adoption, but will be followed by successive standards (which are at various stages of development) to set additional requirements applying to UK nature markets.

Principle 3: Measure and disclose the planned use of credits as part of the sustainability reporting

The consultation describes the various reporting frameworks, best practice guidance, and carbon registries, through which users of voluntary credits can disclosure information about their use. It seeks views on incorporating VCMI’s disclosure elements and whether any additional information should be disclosed. It also asks whether similar disclosures should apply for voluntary disclosures of nature markets, and if not, what should be included on nature credit reporting.

Principle 4: Plan

The Consultation reiterates the government's commitment to consult on views on mandating UK-regulated financial institutions and FTSE 100 companies to develop and implement credible transition plans that align with primary objective of the Paris Agreement to limit global warming to 1.5°C above pre-industrial levels (the "**Transition Plan Consultation**"). The Transition Plan Consultation is also expected to set out how nature credits could be used to support climate and nature transition.

Within Principle 4, the government is seeking views on the role that voluntary credits could play in transition plans and transition plan disclosures. It also raises the question of whether additional guidance is needed on how organisations could use credits on their transition to net zero, to support compliance with any transition plan requirements, or to support voluntary transition planning by a wider range of organisations that won't fall within the scope of any mandatory rules that follow the Transition Plan Consultation.

Principle 5: Making accurate green claims using appropriate terminology

The Consultation asks for views on steps that could help bring clarity to claims made on the use of carbon credits, in order for buyers of credits to be able to make claims with confidence. It proposes two options:

- Develop official definitions for key terminology – definitions developed by independent international initiatives could be adopted in regulation and guidelines, and form the basis for regulators to challenge unsubstantiated claims; or
- Commission the development of a UK standard for claims and require those claims to be assured.

Principle 6: Co-operate with others to support the growth of high integrity markets

The Consultation seeks views on what could be done to enhance alignment with international and domestic initiatives in VCNMs, as well as better clarity on the regulatory regimes in the UK and Devolved Administrations. It recognises the current complexity in VCNMs, including the large number of different stakeholders, the diversity of market infrastructure and the need for effective governance. It focusses in particular on:

- Co-ordination of capacity building initiatives
- Support for interoperable market infrastructure

- Clarity and consistency around the legal and tax treatment of carbon and nature credits.

It also sets out, and invites views on, five 'functional requirements' for high integrity UK market governance framework: standards, assurance, accreditation and regulatory oversight, as well as questions on appropriate accounting for carbon credits and whether more needs to be done to ensure the legal status of credits is sufficiently clear.

Cross-cutting enablers

The final section of the Consultation invites views on potential steps which could support increased access to VCNMs and growth of the UK VCNM sector. It discusses potential links with:

- The Land Use Consultation;
- The NIS Programme, which is developing a voluntary “community engagement and benefit sharing” standard which will set out guidance on how local communities can proportionately engage with carbon and nature markets;
- Potential roles for Local Nature Recovery Strategies Responsible Authorities;
- International carbon markets through Article 6 of the Paris Agreement; and
- Staking policy, looking at how to incentivise optimisation of land use to allow sellers of nature credits to sell different type so credits from the same activity

Freeths Comment

The Consultation appears to be a genuine attempt by the government to grapple with the myriad complexities within VCNMs: the number of stakeholders involved, the wide range of initiatives and best practice guidance available domestically and internationally, the need for integrity and good governance, and the subtle differences between the requirements of VCMs and VNMs.

There are a number of reasons why corporates and other organisations might wish to purchase credits from the VCM and VNM and this includes as part of an integral transition plan, which may become mandatory for some companies in due course. It is not clear from the Consultation how the VCM and VNM are expected to link with existing compliance activities such as Biodiversity Net-gain. If the intention is to keep them separate, then this would seem odd since many of the same issues apply to such compliance activities.

The government has already said that it has begun work on the recommendations from the ‘Corry Review’ (the independent review of Defra’s regulatory landscape) for a new industry-funded ‘Nature Market Accelerator’, to bring “coherence to nature markets, booting investment into our natural habitats and driving growth”. Quite what the term ‘Accelerator’ means is at present unclear, and we look forward to further clarification.

In the meantime the UK Nature Markets Dialogue, which brings together a coalition of experts from the finance, business, farming and environment sectors to support nature market development (and for which Penny Simpson, Partner at Freeths LLP who heads up the Environmental Law Team, is a recent addition to the Steering Group) has recently consulted on different approaches to the key parameters for effective nature market governance. Outcomes from the consultation will inform the development of a specific proposal for a nature markets governance model to be presented shortly to Ministers at a Roundtable. It is hoped that the proposed governance model will be considered favourably by Ministers and may be integrated into the “Accelerator” initiative.

For proponents of environmental markets, these are reassuring steps, especially in light of concerns raised following the publication of the Planning and Infrastructure Bill which has been suggested could undermine existing environmental markets with the proposed introduction of a state-run Nature Restoration Fund. Stakeholders need consistency and clarity from government if they are to invest in the future of nature markets.

The complexity and range of issues explored by the Consultation would benefit from the views of a wide range of stakeholders. Only when such views are considered, will we be able to take proper steps to move forward to build thriving markets, benefitting the economy, nature and local communities.

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