T20 Policy Brief

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Task Force 02

SUSTAINABLE CLIMATE ACTION AND INCLUSIVE JUST ENERGY TRANSITIONS

Accelerating the Transition to Net Zero: Insights and Recommendations from G20 Regulations

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Abstract

Regulations are necessary to accelerate the transition to net zero, convert voluntary commitments into rules for the economy, and level the playing field for companies. To address this critical need, we conducted a mapping of national-level climate regulations across the G20, covering four regulatory domains – (1) climate-related claims and financial product standards, (2) disclosure of climate-related risks, (3) decarbonization-focused procurement regulations and (4) transition plan requirements.

Our findings reveal widespread adoption of regulations, with the majority (16) of G20 members, developed and developing nations, having implemented regulations in at least one tracked domain. While progress is evident, comprehensive regulation remains elusive, as no G20 member has yet regulated in all four of the covered domains. We recommend G20 countries make full use of regulatory tools available to drive corporate and governmental climate action, transparency, and accountability, by implementing regulations around disclosure, transition plans, claims, and procurement.

Our research also highlights that the advocated shift from voluntary standards to their incorporation into mandatory national regulations is underway, particularly for reporting – through disclosure of climate risks and transition plans. We recommend G20 regulators incorporate best practices from voluntary standards into regulations, promoting consistency across the private and public sectors and expediting the regulatory design and implementation process.

The G20 is uniquely placed to scale up and champion best practices in net zero regulation and promote global alignment on the necessary regulatory instruments to meet net zero by 2050. The global community can build from the existing regulations, as well

as the growing momentum around them, to advance the regulatory framework that can support the transition to net zero.

Keywords: Climate regulation, Net zero transition, Voluntary standards, G20 governance

Diagnosis of the Issue

In 2022, the United Nations Secretary-General called for regulation around net zero to "level the playing field and transform the groundswell of voluntary commitments into ground rules for the economy overall" (High-level expert group on the net zero emissions commitments of non-state entities 2022, 33). Additional regulations and policies are crucial to closing the emissions gap (United Nations Environment Programme (UNEP) 2022, XIX, XXI, XXVI). Understanding existing regulatory efforts supporting the transition to net zero and building up from them is vital.

In 2023, Oxford Net Zero mapped regulatory activity across G20 members, focusing on four regulatory domains – (1) climate-related claims and financial product standards, (2) disclosure of climate-related risks, (3) decarbonization-focused procurement regulations and (4) transition plan requirements (Dias et al. 2023). Box 1 shows the definition we use for each of the domains. We make use of the data coming from this mapping and incorporate the March 2024 approval of disclosure requirements in the USA (U.S. Securities and Exchange Commission - SEC 2024) to draw recommendations for this policy brief.

Box 1- Definition of the mapped regulatory domains, based on the 2022 Pivot Point Report (UN Climate Change High-Level Champions 2022, 28)

Disclosure: Companies and financial institutions report on the risk of both climate impacts and decarbonization in a regulated and routine fashion.

Transition plans: Regulators require firms to outline their pathways to net zero to create additional transparency and to advance national climate objectives.

Claims and financial product standards: Advertising products, services, or corporate performance as "net zero" or similar is subject to specific criteria, including compliance with financial product standards.

Procurement: Governments condition procurement to firms and products that meet well-defined net zero standards.

G20 members are vital in driving the climate transition, as they account for 85% of the world's economy (World Bank 2023), 64% of the population (World Bank 2022), and over 80% of historical emissions (Viisainen 2023). While climate regulatory frameworks exist among G20 members, regulation is inconsistent across them. Our recommendations and the selected regulatory domains drive further climate action from firms, greater transparency, and accountability, as well as standardization of best practices.

Voluntary initiatives aimed at **disclosing** climate risks have garnered significant participation from companies, prompting the introduction of mandatory regulations worldwide (UN Climate Change High-Level Champions 2022, 26). Disclosure of climate risks enhances transparency and supports the alignment of financial systems towards a low-carbon economy (United Nations Environment Programme (UNEP) 2022, Elliott et al. 2023). Mandatory **transition plans** build upon the progress achieved through disclosure by requiring further information on how companies manage transition risks and meet climate targets, supporting the market's long-term financial stability and climate goals (Network for Greening the Financial System - NGFS 2023, Transition Plan Taskforce (TPT) 2022). In a scenario of the proliferation of climate-related **claims** and greenwashing (Kreibich, Brandemann and Jüde 2022, 5 - 6, Nemes, et al. 2022), regulatory responses to greenwashing include defining criteria and principles for marketing products and services, and creating taxonomies and standards for product labelling (Kreibich, Brandemann and Jüde 2022, Australia, Climate Active 2019, United Kingdom, Financial Conduct Authority (FCA) 2019). Finally, **procurement**, constituting 17% of the global GDP (World Bank 2023), is an inherent aspect of public finance and a fundamental component of the global economy. By considering emissions profiles or supporting greater climate transparency and action from companies in bidding processes, such as by mandating that suppliers be committed to net zero by 2050, public procurement can influence the economy's trajectory towards lower emissions (UN Climate Change High-Level Champions 2022, 51, Elliott, et al. 2023).

Recommendations

Recommendation 1: make full use of the regulatory tools available to G20 governments to drive corporate and governmental action, transparency, and accountability.

Contextual information

The majority (16) of G20 members have implemented at least one of the regulatory domains mapped. They are Brazil, Canada, China, the European Union (EU), France, Germany, India, Italy, Japan, Mexico, Russia, South Africa, South Korea, Turkey, the United Kingdom (UK), and the United States of America (USA). Figure 1 below shows this result. The four remaining countries, for which we did not identify regulations on the covered domains, all have instruments under development. Table 1 summarizes the regulatory status of each G20 member and domain. All in all, governments are developing net zero regulations that could support their decarbonization pathways.

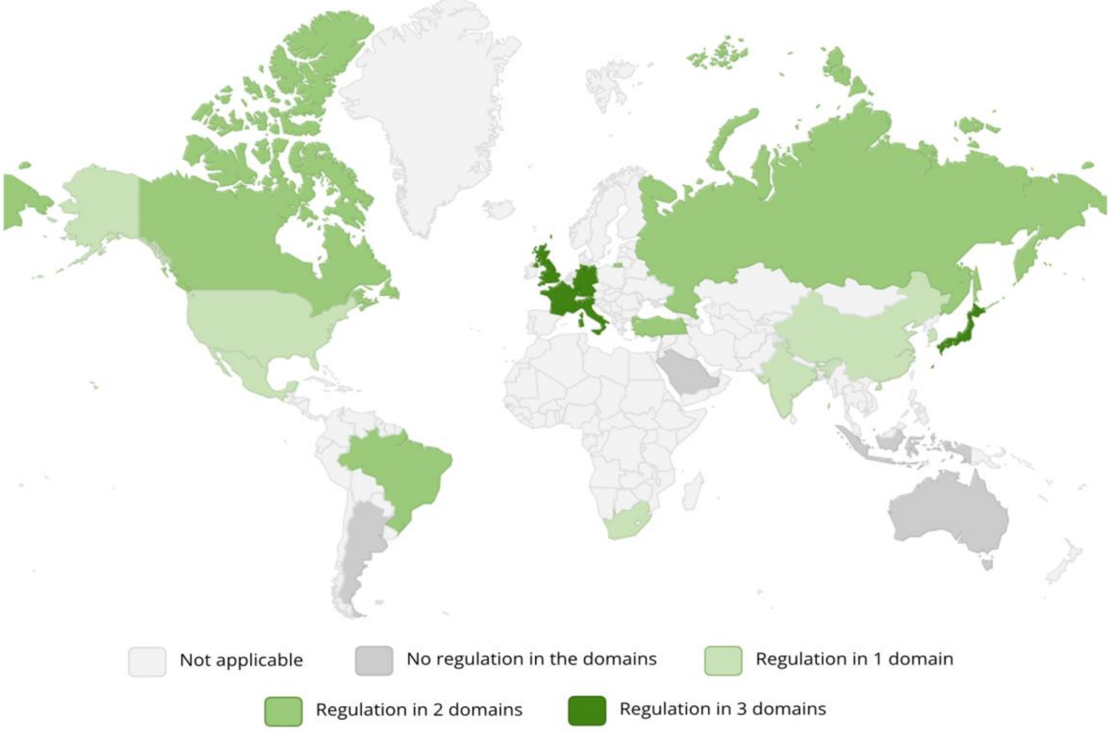

FIGURE 1 – The majority of G20 members have created regulations in at least one of the covered domains

Moreover, this regulatory activity is happening in both developed and developing nations. While the countries with regulations covering the most domains are developed nations (European countries and Japan), there are examples of developing nations with dynamic regulatory activity (e.g., Brazil with regulation in two domains), as well as developed nations with slower uptake of regulations (e.g., the USA has regulated only one domain). Whilst we mapped the presence of regulatory activity rather than the quality of the instruments mapped, both groups of countries have exemplary examples of regulations and are actively engaged in implementing net zero regulations, emphasizing the global nature of this endeavor.

TABLE 1 – Regulatory status of G20 members

COUNTRY	REGULATORY STATUS Key: [✓] Regulation in place, [—] In progress, [X] No regulation			
	Claims and financial product standards	Disclosure	Procurement	Transition Plans
Argentina	—	X	X	X
Australia	—	—	X	—
Brazil	—	✓	X	✓
Canada	X	✓	✓	—
China	✓	—	—	X
European Union	✓	✓	X	✓
France	✓	✓	X	✓
Germany	✓	✓	✓	—
India	✓	—*	X	—
Indonesia	X	—	X	—
Italy	✓	✓	✓	—
Japan	X	✓	✓	✓
Mexico	X	✓	X	X
Russia	✓	—	X	✓
Saudi Arabia	—	—	X	X
South Africa	✓	—	X	—
South Korea	—	—	✓	—
Turkey	✓	X	X	✓
United Kingdom	—	✓	✓	✓
United States of America	✓	—	—	X

*We acknowledge India's draft publication of a Draft Disclosure framework on Climate-related Financial Risks in February 2024, however, this is still in draft mode, therefore remains "in progress".

As of 2024, a minimum of 77 net zero regulations will be in effect worldwide. The mapped regulatory activity amongst G20 members has evolved quickly, nearly quadrupling in size over just four years. Table 2 provides a visual representation of this evolution starting from 2015. The regulatory landscape is expected to continue developing. Firstly, because no G20 member has yet fully regulated in all four mapped domains, and secondly, due to instruments that are still in the development stage and are expected to be approved in the coming years.

TABLE 2 – Regulatory activity is growing year by year (total number of regulations in each year)

		Year									
		2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Regulatory domain	Claims and financial product standards	0	0	0	0	4	9	12	19	22	22
	Disclosure	0	3	5	5	5	5	10	24	27	29
	Procurement	1	2	2	2	3	4	7	8	10	10
	Transition Plans	0	2	2	2	2	2	8	13	15	16
	Total	1	7	9	9	14	20	37	64	74	77

Recommendation

We recommend G20 governments advance on the policies covered in the mapping – (1) climate-related claims and financial product standards, (2) disclosure of climate-related risks, (3) decarbonization-focused procurement and (4) transition plan requirements. The dynamism of regulation over the past decade, and in the past four years in particular, underscores that countries are working towards regulation. But there is still untapped potential, as no G20 member has regulated all the domains. These regulations, if well designed and implemented, help to align the “ground rules” for the economy with the global net zero goal (Hale 2022, 3).

Recommendation 2: Incorporate best practices coming from voluntary standards into mandatory regulations

Contextual information

Voluntary standards and initiatives aiming to enhance the integrity of climate action by setting rigorous benchmarks have been fundamental in creating and promoting best practices for net zero action (Hale 2022, 13-15). The data indicates that the advocated shift from voluntary standards to their incorporation into mandatory national regulations (Hale 2022, UN Climate Change High-Level Champions 2022, High-level expert group on the net zero emissions commitments of non-state entities 2022) is underway, particularly for reporting – through disclosure of climate risks and transition plans.

Over 160 mapped instruments make use of standards to support their text. Individual standards have been referenced (cited, used as a basis, encouraged, or required) over 390 times, with the Task Force on Climate-Related Financial Disclosures (TCFD) being the most frequently cited. 84 standards were identified in total. Figure 3 illustrates the most referenced standards.

Notably, 24 out of the 77 mapped regulations either mandate compliance with a standard or align themselves to one – 8 in the claims and financial product standards domain, 10 in the disclosure domain, 1 in the procurement domain, and 5 in the transition plan domain. TCFD remains at the forefront, followed by ISO standards, EU standards, the International Capital Market Association (ICMA) Green Bond Principles (GBP) and the Climate Bonds Standard.

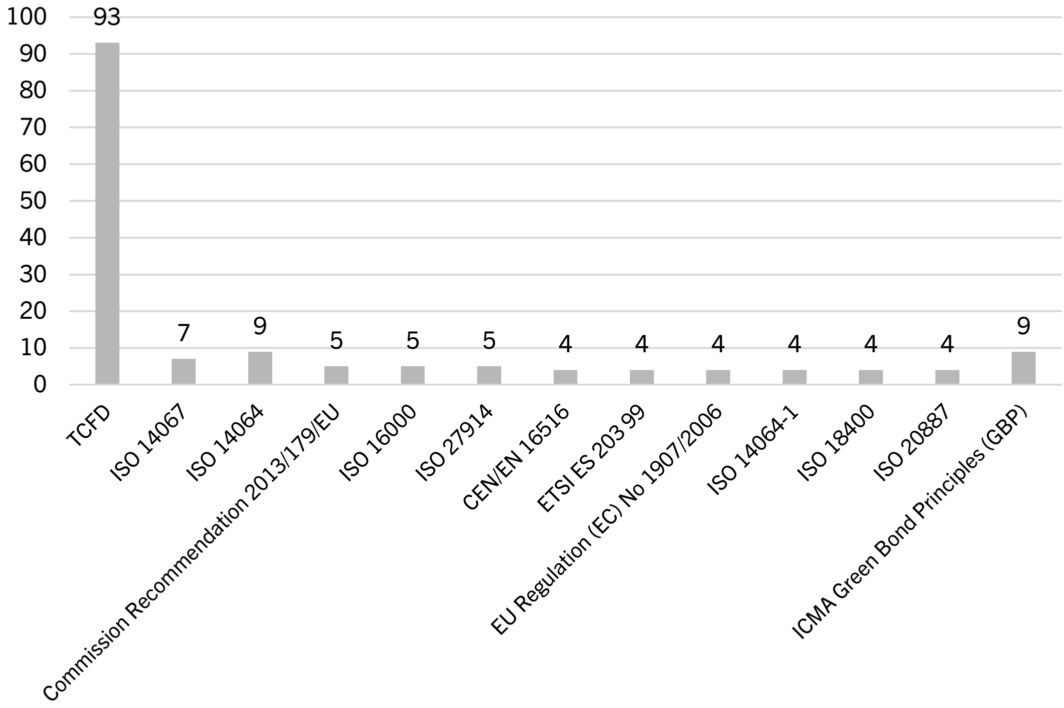

FIGURE 3 – Most used standards by the mapped instruments

Recommendation

We recommend the incorporation of best practices coming from voluntary standards into mandatory regulations. Regulatory instruments play a key role in formalizing best practices on net zero (Hale 2022, 9, 14, 15). As platforms for the integration of common, tested net zero standards, regulation around disclosure, transition plans, claims, and procurement that incorporate standards can drive consistency across the private and public sectors, levelling the playing field for corporate actors, rewarding climate leaders, and positively impacting the economy. Incorporating standards is also a clear win for regulators since they speed up the process of regulation and implementation by borrowing from well-developed best-practices.

Scenario of Outcomes

Adopting high-ambition national-level climate regulations, including by incorporating best practices coming from voluntary standards, will allow the G20 to demonstrate strong leadership in leveling the playing field for actors working towards net zero by 2050.

The most important anticipated outcome of the implementation of our recommendations is the advancement of alignment of the economy with the net zero goal. As climate action moves further into this new territory of regulated ground rules, multiple policies and regulations will be needed to realize the systemic changes needed for a Paris-aligned future. By implementing our recommendations and regulating towards reliable climate pledges (claims and financial product standards), mandatory risk identification (disclosure) and planning towards decarbonization (transition plans), as well as directing their finances towards decarbonization (procurement), the G20 advances the establishment of regulatory frameworks harmonized with net zero. Furthermore, by incorporating rigorous voluntary standards into regulation, G20 members can consolidate and scale up best practices. The G20 also has a strategic opportunity to build on strong momentum for net zero regulation from existing private- and public sector-led initiatives, such as the ones described in Box 2.

Box 2 – Examples of private and public sector initiatives around climate regulation

Claims: The Green Claims Directive of the EU, adopted in January 2024, seeks to make product labelling more accurate and trustworthy by banning the use of terms like “climate neutral” without requisite proof (Kurme 2024). This best practice could provide a case study to extend claims regulation across the G20 membership.

Disclosure: Besides the multiple existing regulations around disclosure, in the voluntary space, the CDP, for instance, is responding to consistently rising demands for corporate participation in public disclosure, with disclosure rising (24% just in the last year) (CDP 2024).

Procurement: Several civil society campaigns have focused on aligning public procurement guidance with climate goals, such as the Sustainable Procurement Platform managed by ICLEI, which provides up-to-date news, case studies, and guidance on sustainable procurement across jurisdictions. The Net Zero Governments Initiative is a government-led example, and members’ published roadmaps can inspire the action of others.

Transition Plans: Rising attention on the quality of transition plans has been pushed by business membership networks such as the Glasgow Financial Alliance for Net Zero, which published guidance on the Expectations for Real-Economy Transition Plans, building on other private sector-focused guidance from businesses (GFANZ - Glasgow Financial Alliance for Net Zero 2022).

It should be acknowledged that the jurisdiction we mapped scratches the surface of the regulatory transformation that is needed for the world to reach net zero, sectoral policies being key examples (Elliott, et al. 2023, 3 - 5). A comprehensive regulatory environment, where every company and government are expected to transition under clear standards, reduces uncertainty and incentivizes front-runners. This is the direction that our recommendations point towards.

Jurisdictions must also align different scopes (regulatory domains, actors, and sectors) of the economy to the net zero goal to avoid perverse consequences. For instance, companies have declaredto 'greenhush' on sustainability actions and goals for fear of being accused of greenwashing as well as of reputational, litigation and financial risks (Thakur, Singla and Singla 2023).

Finally, net zero regulation efforts undertaken by the G20 community can stimulate action beyond member countries. Based on the power of a small group of influencers and its credibility and trust, G20 can encourage replication in other nations and a systematic effort to shape the regulatory environment where net zero regulations are recognized as desirable and socially responsible. In the case of adopting standards, it can create a unified and coordinated approach that gives space for international cooperation and knowledge sharing allowing the development of a more impactful integrated net zero strategy.

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