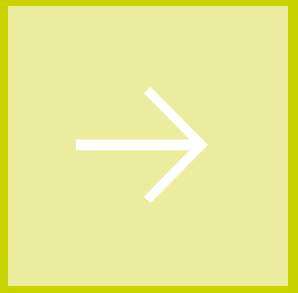
EVERSHEDS SUTHERLAND

Reflections and insights

Global sustainability and ESG themes: 2025 in review



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Introduction

As we look back on 2025, it's evident that this year has been marked by continuous change within the sustainability landscape. Headlines have often focussed on regulatory recalibration and pullback, but notwithstanding the stated attempts at simplification, businesses - especially those operating across multiple countries and regions - continued to face significant complexity.

The fast-changing priorities and regulatory delays tied to economic competitiveness and shifting policy ambitions have resulted in a fragmented and uncertain compliance environment.

New regulations emerged and evolved in 2025. Environmental legislation is continuing to progress, supply chain and product traceability remain key areas of focus, global regulation on the circular economy is growing, and worker protection and human rights continue to be of importance. The integration of AI as a key strategic tool for advancing sustainability and shaping compliance has also been increasingly evident.

Reporting frameworks and disclosure requirements have maintained their significance, and while there is variation in approaches across different regions, global alignment on ISSB reporting standards is accelerating. Businesses responding to consumer demand for sustainable products and services face an increasing risk of greenwashing litigation.

This evolving dynamic and the themes we have seen across 2025 are explored further in this publication and we are sure that 2026 will be just as interesting.

Diane Gilhooley
Global Co-Head of Sustainability & ESG

R. Todd Silliman
Global Co-Head of Sustainability & ESG



Regulatory challenges

2025 has brought a clear shift in sustainability regulation.

Jurisdictions are prioritizing economic competitiveness, reshaping sustainability agendas to align with economic growth. Sustainability now carries a more strategic, economically driven focus.

The EU and US are leading efforts to simplify sustainability regulation. In Europe, policymakers introduced Omnibus Packages to streamline legislative requirements. The proposed Sustainability Omnibus I package, initially proposed in February 2025 and approved by the European Parliament in December, aims to consolidate the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), and the EU Taxonomy. Its goal is to narrow scope and remove certain due diligence obligations, signaling a shift towards competitiveness and a recalibration of the EU's approach to sustainability regulation.

Echoing this trend, the Trump administration has intensified efforts to reduce compliance burdens. Banking regulators have withdrawn joint climate risk principles, and the Environmental Protection Agency has proposed narrowing the GHG reporting program. However, the picture is mixed. California's climate disclosure laws (SB-253 and SB-261) will require GHG and climate risk reporting from 2026. These state-level requirements will serve as national benchmarks, creating a complex compliance landscape for multinationals.

Beyond Europe and the United States, China has emerged as a pivotal player in shaping global sustainability governance. Its pledge to cut emissions and expanded ESG reporting requirements in 2026 underscore a more assertive stance in the sustainability space. Global businesses must prepare for this evolving, fragmented regulatory landscape.



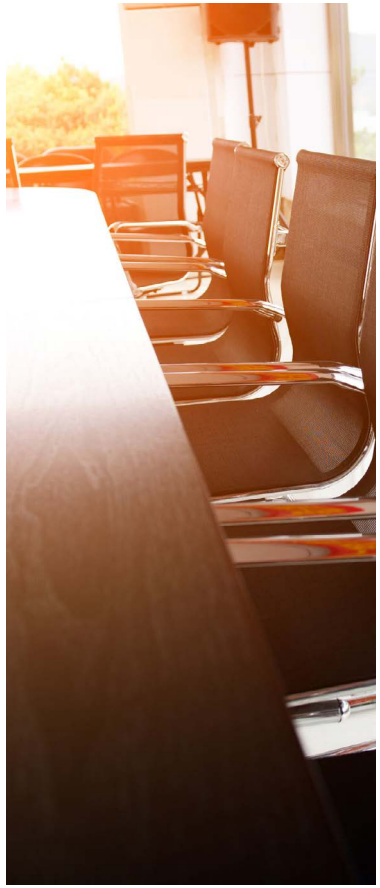
Phil Spyropoulos
Partner, UK

> *"Despite continuous efforts to harmonize standards, notably through the ISSB's assimilation of other initiatives and workstreams, there continues to be a fragmented approach to sustainability regulation. We are simultaneously seeing efforts to reduce the burden on businesses, while also seeing more ambitious regulation that moves past mere transparent to active intervention. While many regions now have a more mature sustainability ecosystem and workforce than five years ago, there remain significant challenges for businesses that straddle conflicting requirements."*



María Hernández
Partner, Spain

> *"We anticipate further EU simplification packages as policymakers strive to balance sustainability ambitions with geopolitical uncertainty and economic priorities. Maintaining clear visibility on regulatory developments and remaining operationally agile will be essential for managing these shifts effectively."*



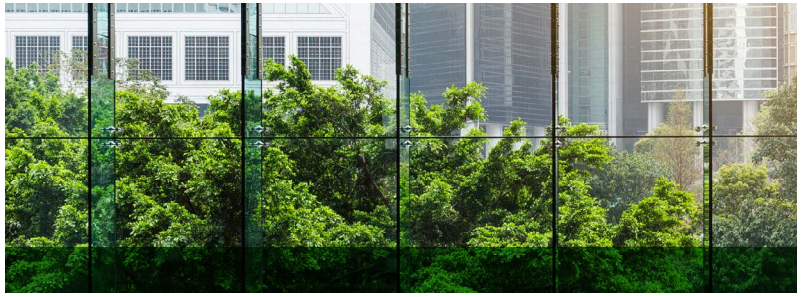
Supply chain due diligence

Supply chain due diligence has been one of the defining sustainability issues of 2025, but not for the reasons businesses hoped. Businesses faced uncertainty and growing friction between jurisdictions, with implementation delays complicating compliance efforts.

The EU's simplification agenda is central to this challenge. The CSDDD, once hailed as a landmark for mandatory due diligence reporting, remains under re-negotiation. The amendments proposed under the Omnibus I package have created major uncertainty for compliance planning for internationally operating businesses. Adding to this, the October 2025 proposal to revise the EU Deforestation Regulation (EUDR), which was formally approved in December, reflects further simplification, potentially weakening supply chain due diligence requirements.

Complexity deepened with the EU–US Joint Statement on trade. The Statement raised concerns about regulations like EUDR and the Forced Labour Regulation impacting global trade. The EU responded by pledging to reduce administrative burdens while retaining core sustainability requirements.

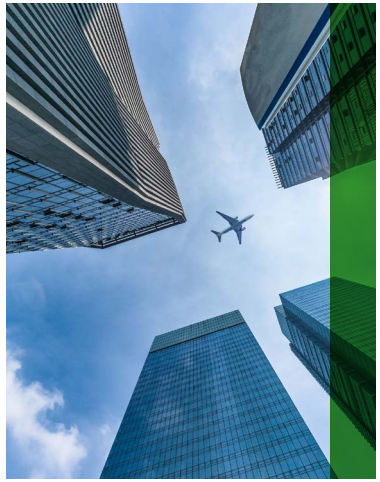
In the UK, the Government outlined plans to strengthen responsible business conduct. Proposals include mandatory human rights due diligence, import bans on goods linked to forced labor, and reforms to the Modern Slavery Act. However, legislative progress may stall until the EU finalizes the position with the CSDDD.





Dominique Strieder
Partner, Germany

> *Supply chain due diligence will remain defined by fragmentation across jurisdictions and sectors. While this creates complexity, it also offers businesses more flexibility to make informed decisions on how to ensure compliance. The opportunity in relation to supply chain compliance for 2026 will be to transform regulatory obligations from a perceived burden into a strategic facilitator, leveraging due diligence not only to mitigate risk but to strengthen resilience, build trust, and unlock competitive advantage.*





Craig Rogers
Partner, UK

> *The ESG debate has become increasingly complex and politicized since 20 January 2025. US headquartered multi-nationals have significantly downplayed their ESG strategies and initiatives (and have had to respond to the cancellation of subsidies and funding). Ongoing regional conflicts have increased focus on energy security and impacted net-zero commitments. Despite this, the international community recognizes that supply-chain transparency and oversight plays a key role in energy transition, climate adaptation, social justice and sustainable development.*

Reporting requirements

Global alignment on sustainability reporting continues to accelerate.

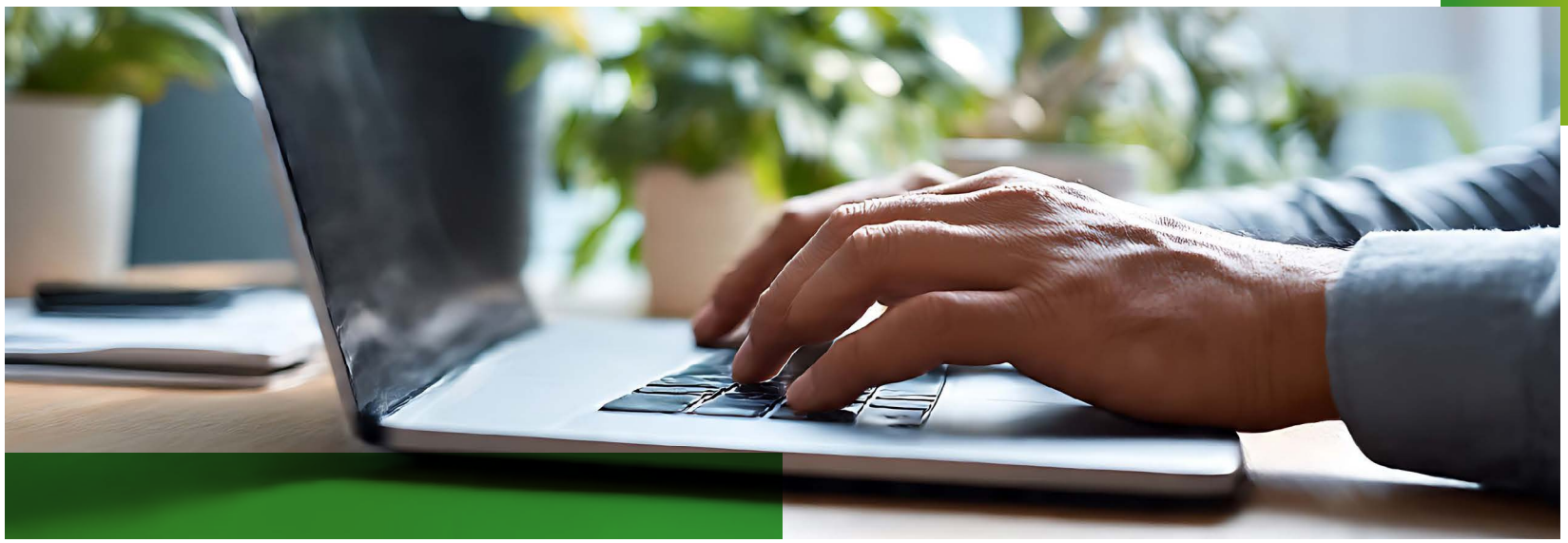
Almost 40 jurisdictions, including Qatar, the UK, Singapore, and Hong Kong, have adopted or plan to adopt ISSB standards. This alignment could ease compliance for international businesses entering new markets, reducing barriers to entry. However, uneven adoption and regional differences mean flexibility remains essential for multinationals aiming to maintain alignment across their global operations.

The US is taking a different path. With the SEC stepping back from defending its climate disclosure rule, and ESG requirements removed from the Spring 2025 Unified Agenda, federal momentum on ESG disclosures has slowed. Yet, state-level mandates, such as California's disclosure laws, continue to set compliance benchmarks, creating a dual challenge for global businesses: preparing for ISSB-driven harmonization while managing a fragmented US landscape.



Cynthia Krus
Partner, US

> *"ISSB alignment offers efficiency and consistency, but divergence in the US and uneven global adoption introduce operational complexity and compliance risk. Businesses should assess their current reporting frameworks across key markets and invest in adaptable systems that can flex to regional variations. Success will depend on anticipating fragmented timelines and embedding resilience into reporting processes to avoid costly failures."*



Worker protection

Employment policy and developments continue to be a critical pillar of sustainability, with transparency and fairness driving legislative momentum.

The EU's Pay Transparency, Platform Workers, and Gender Balance Directives aim to embed fairness for workers into governance frameworks. The Gender Balance Directive came into force at the end of 2024 and many Member States, including Spain, have consequently been implementing its requirements. The Pay Transparency and Platform Workers Directives both have local implementation deadlines in 2026, and measures by Member States to transpose the obligations are already being seen. The extent of the new requirements will require significant planning for in-scope businesses.

In the UK, 2025 has been a year of groundwork for future change. Throughout the year, several consultations linked to the Employment Rights Act have been published, most recently covering trade union access to workplaces, unpaid bereavement leave, and enhanced dismissal protection for pregnant women and new mothers. The Act will deliver a major enhancement of workplace protections. Looking ahead, the proposed Equality (Race and Disability) Bill will introduce mandatory ethnicity and disability pay gap reporting for large employers. With these changes on the horizon, businesses should use this time to start embedding pay equality, diversity, and governance measures into their operations.

Asia is also advancing similar initiatives. In Hong Kong, listed companies must ensure gender representation on nomination committees and disclose workforce gender ratios. Singapore began reviewing its Employment Act in August 2025 to modernize protections and streamline compliance. Its Workplace Fairness (Dispute Resolution) Bill also adds a structured process for resolving discrimination claims. India has also seen a significant overhaul of labor laws, with many reforms focused on streamlining compliance and enhancing worker protections.

These developments show evolving employment legislation increasingly demanding higher levels of worker protection, transparency and governance-linked obligations, highlighting the importance of employers regularly monitoring developments, mapping obligations and auditing practices to ensure compliance.



Diane Gilhooley
Global Co-Head of Sustainability & ESG, Global Head of Employment, Labor & Pensions

> *"Businesses face rising expectations from regulators, investors and employees to embed fairness and transparency into operations. Failure to act adequately risks reputational harm and operational disruption. Companies should review current and upcoming requirements across jurisdictions, map obligations by operating location, and invest in robust data collection systems, internal audit processes, and technology solutions to ensure enhanced transparency obligations can be met. Building these capabilities now will position organizations to meet compliance deadlines and demonstrate leadership on workplace equity."*



Jacobo Martínez Pérez de Espinosa
Partner, Spain

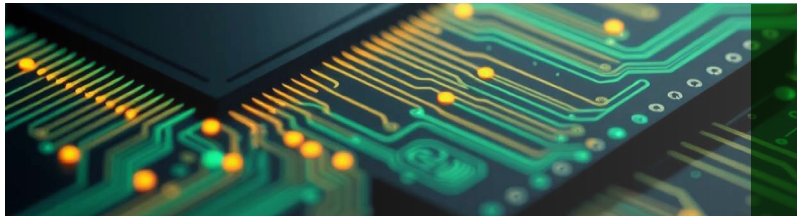
> *"Expect the accelerated transposition of some significant EU directives from 2026, with some Member States already moving ahead. Fragmented timelines across jurisdictions pose a particular challenge, with non-compliance risking fines, reputational damage, and investor scrutiny. Early compliance is an opportunity to lead on workplace equity and attract top talent in an increasingly competitive market."*

Integration of AI and sustainability

Artificial Intelligence is emerging as a key strategic tool for advancing sustainability, and businesses should prepare for its growing role in shaping compliance, operations, and competitive advantage. Major areas of application include assisting with reporting regimes and supporting the energy transition process.

AI's implications on the workplace is an area particularly in focus. The EU AI Act sets a global benchmark with a risk-based approach, classifying AI in employment as "high risk" when used for certain activities including, recruitment, candidate evaluation, and performance management. Most provisions apply from August 2026, but AI literacy obligations began in February 2025. These obligations require in-scope businesses to ensure staff are provided training to achieve a sufficient level of AI literacy. Businesses using AI solutions in the EU should update governance frameworks and ensure workers have adequate AI literacy.

In the US, the July 2025 AI Action Plan reinforced a worker-first agenda under the Trump Administration. California has gone further, requiring employers to review automated decision systems for bias and maintain records. In Asia, Hong Kong's September 2025 Policy Address positions AI as a driver of workforce transformation. This is supported by guidelines from the Privacy Commissioner, helping businesses create internal AI policies. As these frameworks evolve, the convergence of AI and sustainability in the workplace is set to deepen. Businesses must adopt flexible strategies to manage compliance, promote fairness, and integrate responsible AI practices into operations.





Nils Mueller
Partner, Germany

> *"AI is rapidly becoming a central part of how organizations approach sustainability. As we see more advanced AI systems, including autonomous agents, the benefits for efficiency and responsible business are clear. However, the risks of deploying AI without robust governance are growing. With frameworks like the EU AI Act and US state-level mandates, it is essential for businesses to combine innovation with strong governance, ensuring human oversight, transparency, and ethical use. The leaders will be those who embrace AI's potential while putting the right safeguards in place, so technology supports sustainability rather than undermining it."*



Hannah Wilkins
Partner, UK

> *"Given AI's autonomous capabilities, careful oversight will be required to limit legal risks such as discrimination, data privacy breaches, and more, particularly as we expect to see a dramatic increase in the use of agentic AI in 2026. All businesses will need to understand and comply with new and emerging global AI laws, including the EU AI Act, including getting to grip with how workers and their representatives need to be engaged before AI can be implemented in some circumstances. Failure to comply with obligations under the EU AI Act could lead to significant fines and serious legal and reputational consequences. Robust governance, employee training programs, and usage policies setting clear guardrails for use will be absolutely critical. In 2026, AI governance won't be optional – it will be essential, but the potential benefits of utilizing AI to drive sustainability practices and achieve ethical and environmentally conscious objectives is clear."*

Climate change litigation and green claims

Climate-related litigation in 2025 shows greenwashing remains a fundamental risk area for businesses.

A key moment came in July when the International Court of Justice issued an advisory opinion, confirming states have binding obligations under international law to address climate change. This may open the door for more cases involving governments and businesses.

On a jurisdictional level, a number of developments have taken place. In the UK, from September 2025, the Economic Crime and Corporate Transparency Act applies to sustainability claims. Any dishonest statements could constitute fraud, creating a legal basis to treat misleading green claims as a criminal offense. In the EU, the June withdrawal of the Green Claims Directive caught many by surprise. However, continuity is maintained through the Empowering Consumers for the Green Transition Directive, which takes effect in September 2026. This framework aims to protect consumers from misleading environmental claims and signals rising legal risks for businesses making sustainability statements. Robust governance policies and accurate disclosures will be critical to avoid litigation and safeguard reputation.

In the US, while we saw a shift away from federal, and a potential pause in state regulation and enforcement, risk of private party greenwashing litigation increased. The SEC withdrew support for its own climate disclosure rule and California's climate risk disclosure law has been enjoined, but suits by individuals and NGOs proliferated, targeting gaps between sustainability claims and actual practices. This fragmented regulatory landscape poses significant compliance challenges for businesses operating across jurisdictions.



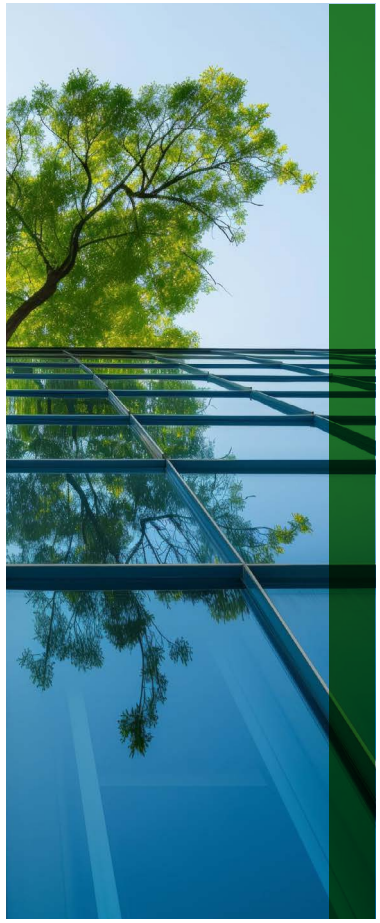
Thera Adam
Partner,
The Netherlands

> *"Consumer protection against greenwashing is here to stay. Across the globe, enforcement may vary among different competent bodies or plaintiffs, but the overall trend is the same: vague claims or unsubstantiated goals or targets are no longer accepted when it comes to sustainability. It is better to embrace that trend, develop an adequate internal governance structure, and provide training for all key personnel, including C-suite, R&D, Supply Chain, Regulatory and corporate communications. Ultimately, it's all about choosing the right narrative."*



Meghana Shah
Partner, US

> *"In the United States, ESG litigation is evolving in a fragmented regulatory landscape. Federal enforcement may be slowing, but state-level actions and consumer lawsuits are creating new pressure points, resulting in uneven but intensified scrutiny. Companies now face a dual risk, being challenged for overstating sustainability commitments or for failing to disclose enough."*



Circular economy

Global regulation on circular economy is accelerating, creating new obligations for waste reduction, resource efficiency, and sustainable design.

In the EU, the Regulation on Packaging and Packaging Waste entered into force this year, setting ambitious targets on reducing packaging waste and introduced strict rules on recycled content, reuse systems, and harmful substances like PFAS. The Waste Framework Directive also entered into force this year, aiming to strengthen Extended Producer Responsibility schemes. Looking ahead, the Circular Economy Act, expected in 2026, will create a single market for secondary raw materials and introduce mandatory circularity standards in public procurement.

Digital Product Passports (DPPs) are emerging as a critical compliance tool for circular economy regulation. They provide traceable details on product composition, repairability, and end-of-life options, enabling transparency across the value chain. In the EU, DPP requirements are embedded in major regulations such as the Batteries and Waste Batteries Regulation, the Ecodesign for Sustainable Products Regulation, and the Regulation on Construction Products. Obligations will begin phasing in from 2026, requiring businesses to start implement systems for tracking this data.

China is also developing its own DPP standards, signaling that digital traceability is becoming a global norm. Businesses operating internationally should prepare to integrate these systems early, ensuring compliance while supporting broader circular economy goals.

In the US, the most notable regulatory development has been in passage and implementation of Extended Producer Responsibility laws in several states. These laws apply to companies that who send single-use packaging into the relevant state and are not direct bans or mandates on packaging design but measures to incentivize packaging reduction and reuse.



Annamária Tóthová
Partner, Slovakia

> *"The circular economy will remain a global priority, with regulations accelerating across major markets. Early alignment with emerging requirements, particularly through early adoption of Digital Product Passport technology, positions SMEs as preferred partners for global brands, unlocking new markets and competitive advantage through transparent, traceable sustainability data. Conversely, failing to implement robust traceability systems risks restricted market access, operational disruption, supply chain exclusion, regulatory penalties and competitive disadvantage as consumers demand greater transparency."*





R. Todd Silliman
Global Co-Head Sustainability & ESG, US

> *"EPR is a notable example of how states have assumed a major role in regulation around Sustainability and ESG. As a new source of revenue and vehicle for encouraging waste reduction, we can expect EPR to spread and evolve as other states learn from the successes and failures of these programs in California, Oregon, and other states that are leading the way."*

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