

Carbon Markets and Natural Capital

A regulatory roadmap

Click on a label for more information

As governments and businesses are under increasing pressure to commit to net zero targets and with many companies under scrutiny from consumers and stakeholders to reduce their carbon emissions, the regulatory focus on carbon markets and natural capital is increasing both in the EU and the UK.

Regulation is progressing rapidly with increasing requirements on businesses to comply with mandatory regulations and to engage with voluntary requirements to gain competitive advantage and be on the front foot of evolving requirements.

Our roadmap helps you break down and prioritise these regulations to ensure you are compliant and prepared for future requirements.

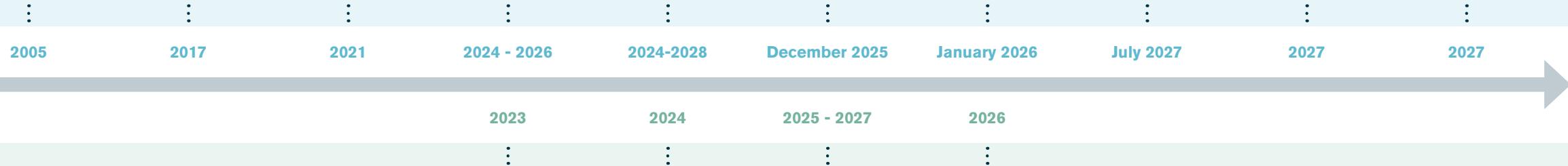




Timeline

Please click on a topic in the timeline below or choose a section from the menu along the bottom to find out more

Mandatory



Voluntary

- Natural Capital
- Carbon Markets



Natural Capital: UK

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Biodiversity net gain (BNG)

Overview

Developers in England must deliver a BNG of 10%, meaning a development will result in additional or better quality natural habitat than there was before development took place.

Timing

BNG has been mandatory for major developments from 12 February 2024 and since 2 April 2024 for minor developments. The government has recently consulted on introducing BNG requirements for nationally significant infrastructure projects (NSIPs) from May 2026.

Scope

Generally speaking, in order to commence development all developers in England are required to provide at least 10% BNG as compared to the pre-development baseline. Where possible this should be delivered onsite, but otherwise offsite solutions are also available.

Key takeaway

If you are a developer of land (including NSIPs), you will be required to evidence an increase in BNG. Failure to do so may result in local planning authorities withholding planning permissions or enforcing penalties.





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Nutrient neutrality

Overview

Nutrient neutrality is the principle applied in England and Wales that new projects, particularly housing, must not increase the levels of nitrogen or phosphorus entering into watercourses. Under the Habitats Regulations, local authorities must carry out a Habitats Regulations Assessment and can only permit development where the development will not adversely affect the site, unless there are imperative reasons of overriding public interest for the development.

Timing

The requirement to conduct a Habitat Assessment Regulation and ensure nutrient neutrality is considered has applied since November 2017.

Scope

Nutrient neutrality applies to new developments within specific river catchments that drain into Special Areas of Conservation (SACs) and Special Protection Areas (SPAs). SACs protect threatened natural habitats and species of fauna and flora, while SPAs safeguard vulnerable wild birds.

Key takeaway

If you plan to develop land captured by nutrient neutrality obligations it is important to understand whether the site may be adversely affected, and if so, to consider ways to mitigate these impacts, otherwise developments may be impeded.



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Taskforce for Nature-related Financial Disclosures (TNFD)

Overview

The TNFD is a government supported initiative that helps organisations understand and report how their business depends upon and impacts nature. The TNFD has published disclosure recommendations covering a range of topics from governance, strategy, risk and impact management, and metrics and targets which bring nature into everyday decisions and aim to shift business towards nature-positive outcomes aligned with the Global Biodiversity Framework. The TNFD is voluntary for now, but industry commentary has suggested it may become mandatory in the near future.

Timing

As the TNFD is voluntary there is no set timeframe to report, however businesses will usually align reporting with the preparation of their annual financial accounts.

Scope

TNFD is a voluntary framework, designed for all organisations to participate in, should they wish to do so.

Key takeaway

Participating with the TNFD helps businesses to understand how their business impacts the natural environment, as well as to meet rising investor and regulator expectations, and to align with global standards, and also provides better access to capital investment.

In addition to this, the TNFD is expected to become mandatory, and so early adopters will be better placed to comply with new legal requirements.



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Overview

The EUDR bans the placing or exporting of certain commodities on the EU market unless they are deforestation-free, legally produced and supported by robust due diligence. Commodities captured by EUDR include cattle, cocoa, coffee, oil palm, rubber, soya and wood, plus many derived products. Companies must trace supply chains, assess and mitigate risks, and file a due-diligence statement proving the goods do not come from land subject to deforestation or forest degradation after 31 December 2020 and comply with local environmental and social laws.

Timing

Obligations apply from 30 December 2025, although the European Commission is expecting a delay to this date.

Scope

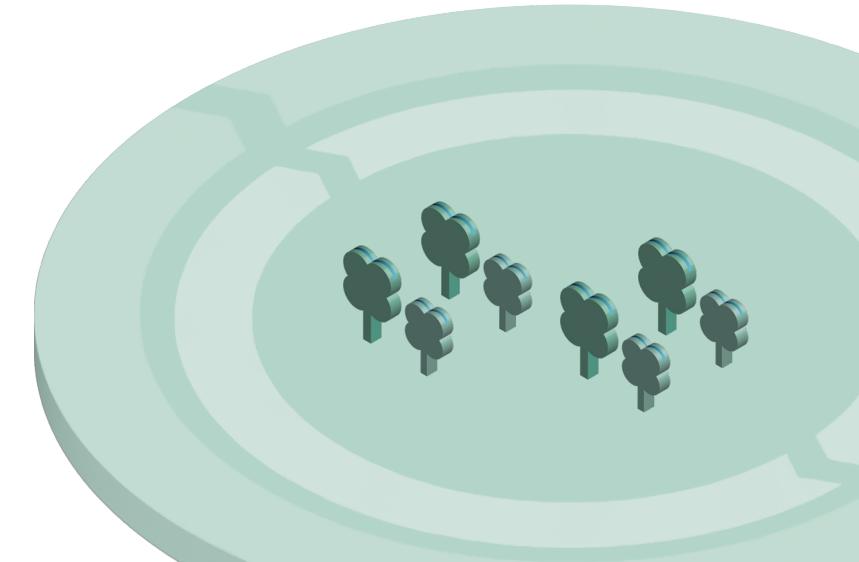
Companies that place or trade relevant commodities (cattle, cocoa, coffee, oil palm, rubber, soya, and wood, as well as many derived products on the EU market) will be captured.

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Carbon Markets and Natural Capital: A regulatory roadmap

Key takeaway

With this regulation set to take effect in December 2025 (unless delayed), it is important for businesses to be aware of the upcoming implementation date and begin taking action to ensure compliance. Failure to comply may result in financial penalties of up to 4% of annual turnover, restricted access to the EU market, as well as reputational damage.





Natural Capital: EU

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Corporate Sustainability Reporting Directive (CSRD)

Overview

The CSRD requires in-scope companies to disclose information on a broad range of sustainability matters relevant to their business, in line with EU sustainability reporting standards (ESRS). Companies must report on how sustainability issues affects their performance, position, and development, as well as reporting on their own impact on the environment and people.

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Timing

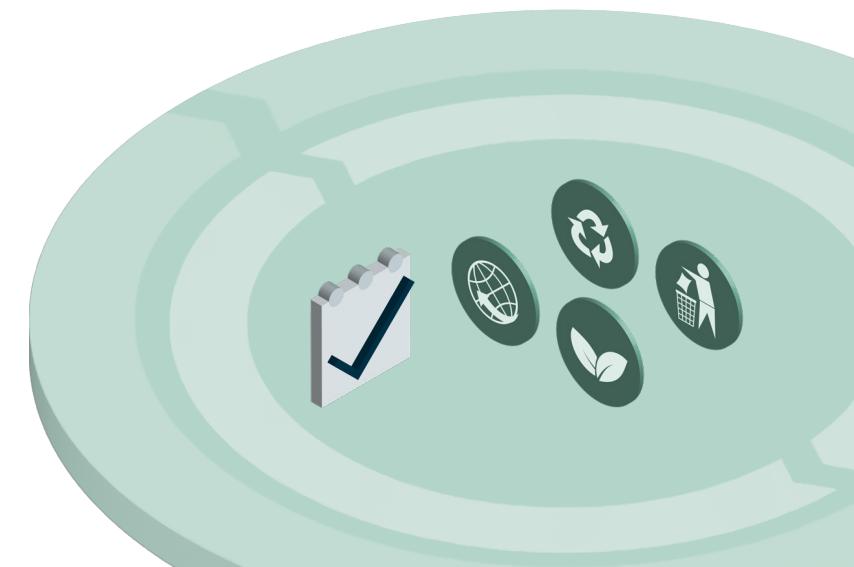
The requirements are being introduced on a staggered basis, according to the type and size of the company. The first wave of reporting commenced for financial years starting from 1 January 2024, and the last date for implementation will be for financial years starting from 1 January 2028.

Scope

The CSRD's scope is wide in nature and broadly speaking captures small, medium and large public and private EU companies and share issuers, as well as non-EU companies which have activity within the EU.

Key takeaway

As the requirements are taking effect on a staggered basis, it's important for businesses to be aware of when and if they are in scope to be affected. Failure to comply may result in financial penalties as well as reputational damage.





Natural Capital: EU

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Overview

The CS3D requires large EU companies as well as certain non-EU companies operating in the EU to identify, prevent, mitigate and remedy adverse human rights and environmental impacts across their own operations, subsidiaries and value chains.

The CS3D embeds risk-based due diligence into corporate policies and risk management. It mandates an annually (unless changed as part of Omnibus package) updated due diligence policy and code of conduct, stakeholder engagement and complaints procedures, preventive and corrective actions, ongoing monitoring, annual public reporting, and adoption and implementation of a climate transition plan aligned with 2050 climate-neutrality.

Timing

Applies in phases, as set out below. However, the first in scope companies will be required to comply from July 2028.

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Corporate Sustainability Due Diligence Directive (CS3D)

Scope

The CS3D applies in phases, based on certain thresholds which are set out below. Parent companies are included if the group meets these thresholds on a consolidated basis.

From July 2028:

- EU companies with over 3000 employees and a €900m worldwide turnover;
- Non-EU companies with €900m net turnover in the EU;

From July 2029:

- All remaining companies in scope of the directive (including EU companies with over 1000 employees and worldwide turnover higher than €450m);
- Non-EU companies with a turnover of €450m in the EU.

Key takeaway

Non-compliance is likely to result in reputational damage, as well as large financial penalties of up to 5% of the company's net turnover.



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Roadmap towards Nature Credits

Overview

This is not a binding regulation yet but it shows that the European Commission will work on establishing an EU nature credits market, i.e. a voluntary framework for private investment in biodiversity conservation and restoration projects.

Nature credits would correspond to units of verified and measurable improvements in nature made by private entities, e.g. farmers, foresters, and other stewards – that might be sold to the other entities. Selling of nature credits would generate additional income to these entities and, eventually, would result in channelling private finance into conservation and restoration projects.

Timing

The European Commission will be working on the nature credits market between 2025 - 2027.

Scope

Any businesses undertaking nature-positive action beyond individual legal obligations and the mandatory mitigation hierarchy.

Key takeaway

The roadmap shows that the European Commission aims to establish a regulatory framework around the nature credits market. This will require entities involved in nature conservation or restoration projects to adapt to new rules but will also provide more transparency into the whole market. The integrity of the nature credits market would mitigate the risk of greenwashing for those who would rely on them.



Carbon Markets: UK

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UK Emissions Trading Scheme (UK ETS)

Overview

The UK ETS is a cap-and-trade scheme that limits total greenhouse gas emissions from certain sectors and tightens the cap over time. In scope companies will receive a greenhouse gas emissions allowance. Some portion of this allowance will be free, whilst the remainder may be bought at auction or on the secondary market. Companies can then trade such allowances as needed, and must surrender allowances each year to cover their emissions.

Timing

The UK ETS has been in place from 1 January 2021.

Scope

The UK ETS currently applies to energy intensive industries such as the power generation sector and the aviation industry.

Key takeaway

Non-compliance is likely to result in reputational damage, as well as financial penalties.





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EU Emissions Trading System (EU ETS)

Overview

The EU ETS operates in very much the same way as the UK ETS cap-and-trade scheme, which seeks to reduce greenhouse gas emissions. As per UK ETS, in scope companies will receive a greenhouse gas emissions allowance. Some portion of this allowance will be free, whilst the remainder may be bought at auction or on the secondary market. Companies can then trade such allowances as needed, and must surrender allowances each year to cover their emissions. The scheme currently applies to energy-intensive industries such as the power generation sector and aviation industry. The EU ETS applies specifically to all countries in the European Economic Area. The same mechanism has recently been introduced to the building and transportation sector with no free of charge allowances (so-called EU ETS II).

Timing

The EU ETS has been in place since 2005.

EU ETS II is planned from 2027 (with an option to postpone it by a year).

Scope

The EU ETS currently applies to energy intensive industries such as the power generation sector, and the maritime and aviation industries.

EU ETS II will put obligations on fuel providers.

Key takeaway

The EU ETS II will become fully operational in 2027 (with an option to postpone it by a year), and will cover the building and transportation sector, putting obligations on fuel providers.

Non-compliance is likely to result in reputational damage, as well as financial penalties.



Carbon Markets: EU

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EU Carbon Border Adjustment Mechanism

Overview

EU CBAM aims to reduce carbon emissions by placing a carbon price on specific carbon intensive items such as goods made from cement, electricity, fertilisers, iron and steel, aluminium or chemicals produced outside of the EU. EU importers of the goods covered by CBAM are required to buy carbon certificates corresponding to the carbon price that would have been paid had the goods been produced in the EU and therefore subject to EU carbon pricing.

Timing

EU CBAM has been in place transitionally since October 2023 but from January 2026 importers will be required to apply for an "authorised CBAM declarant" status, submit a CBAM declaration and surrender CBAM certificates.

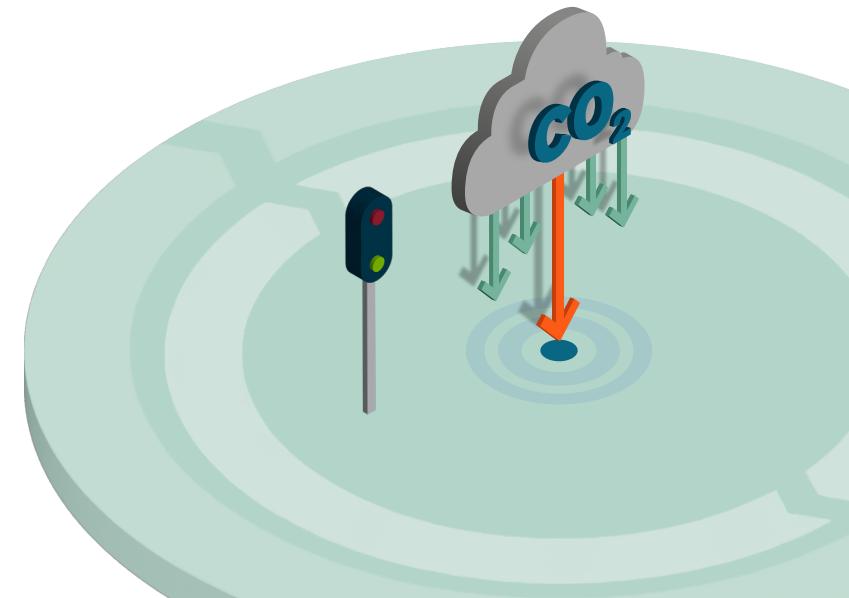
Scope

CBAM applies to EU importers of cement, electricity, fertilisers, iron, steel, aluminium and hydrogen from outside of the EU. Importers must import at least 50 tonnes of such products annually to be captured. Note that changes to the applicability of CBAM are currently being considered by European legislators.

Key takeaway

Additional requirements are due to come into effect from January 2026.

Non-compliance is likely to result in reputational damage, as well as financial penalties.





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EU Carbon Removal Certification Framework

Overview

The EU Carbon Removal Certification Framework establishes a voluntary standardised system to verify, certify, and incentivise credible carbon removal activities in the EU. It ensures that carbon removals are real, additional, measurable, permanent, and verifiable. The framework is setting common criteria and procedures for carbon projects certification, enabling companies and entities to claim emissions reductions that contribute to the EU's climate neutrality goal.

Timing

The European Commission is already working on certification methodologies for specific project types. The framework is expected to begin phased implementation from 2026.

Scope

The framework applies to entities (including businesses, landowners, and project developers) involved in generating verified carbon removals certificates within the EU. It covers both nature-based solutions such as reforestation and carbon farming, and technological carbon capture and storage projects. The framework is designed to integrate with voluntary carbon markets and regulatory schemes.

Key takeaway

Entities that would like to generate carbon removals will need to comply with the EU's certification standards to participate in EU markets and to sell certified carbon removal credits.

Buyers and users of carbon removal credits can rely on EU certification to demonstrate compliance with environmental regulations, corporate net-zero commitments and to mitigate the risk of greenwashing allegations.

Businesses planning to use carbon removal credits in their climate strategies must prepare for due diligence and reporting according to EU-certified standards.



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Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)

Overview

CORSIA is a UN-level market-based initiative aimed at stabilising CO₂ emissions from international aviation at 2019 levels. It requires airlines to monitor, report, and offset any growth in CO₂ emissions above an 85% baseline of 2019 emissions by purchasing carbon credits.

Timing

CORSIA is currently in its first phase (2024 - 2026), which is voluntary.

From 2027, the offsetting requirement will become mandatory.

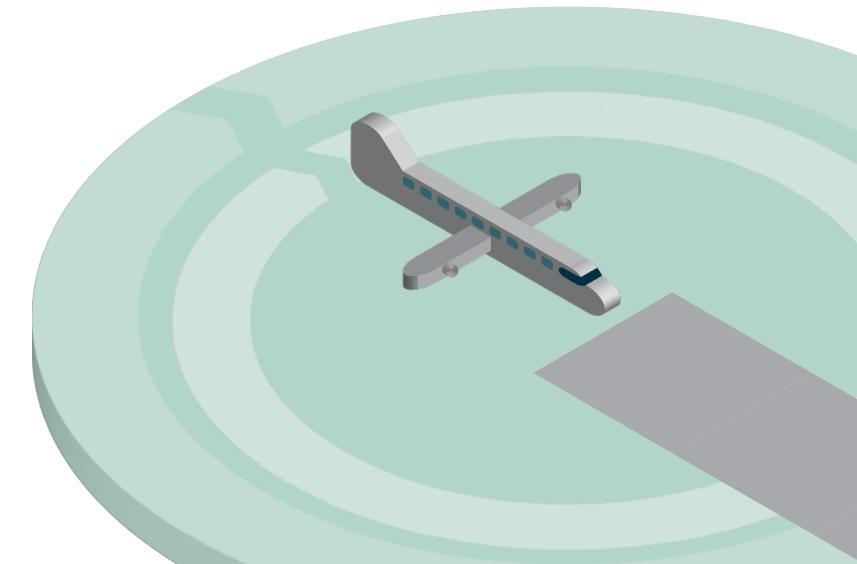
Scope

CORSIA covers CO₂ emissions from international flights between participating countries.

Airlines are obligated to monitor and report their CO₂ emissions from international flights annually, and they must purchase and surrender eligible carbon credits to offset any emissions growth above the 2019 baseline.

Key takeaway

CORSIA will be implemented in all ICAO member states, which means almost every airline will be covered by the scheme. Non-compliance sanctions may vary by country, but typically these include fines and operational restrictions.





Contacts

Discover more about our Carbon Markets and Natural Capital expertise [here](#).

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