The Chancery Lane Project

Toolkit

# Climate risk and technology

Updated: 17 September 2025

***This toolkit helps practitioners identify and structure climate risks. It is not a compliance checklist but a framework to guide professional judgment, with a deliberate focus on physical and transition risks to highlight their growing relevance in everyday legal practice.***

## Understanding climate risk in the technology sector

Technology companies face increasing scrutiny for their climate impact. The sector's rising demand for energy makes it a key contributor to global emissions. This energy powers data centres, cloud infrastructure and artificial intelligence (AI) training models. At the same time, tech clients and regulators now demand clear climate transition plans, emissions disclosures and responsible sourcing of hardware and power.

**Physical risks** such as water scarcity or extreme heat are no longer hypothetical. Data centres in regions like the US Southwest or parts of India have faced operational disruption due to water shortages.

**Transition risks** already alter costs for carbon-intensive inputs. These include steel, cement and power used to build and operate infrastructure. Regulatory changes and carbon pricing drive these risks.

A software company relying on a third-party data provider could, for example, face serious service outages if that third-party has not adequately climate-proofed its operations. In another scenario, a cloud services firm might face reputational or even legal consequences if it overstates the carbon neutrality of its digital services in investor or client communications.

*Developed with the support of AI under the author's framework and editorial direction, this toolkit has been peer-reviewed by senior practitioners in the field to ensure its practical relevance and professional integrity.*

These risks are identifiable, quantifiable and reasonably foreseeable. They must be factored into advice, due diligence and drafting.

## Impacts and legal consequences

Climate risks are increasingly giving rise to legal consequences in the technology sector. At the operational level, data centres and digital infrastructure face growing exposure to downtime caused by water shortages or instability in energy supply. As outages and disruptions become more frequent in certain regions, companies will need to build greater resilience and redundancy into their operations. Customers, in turn, are likely to demand clear assurances that service continuity has been properly climate-proofed.

These pressures quickly translate into contractual challenges. Service-level agreements (SLAs) drafted on the assumption of uninterrupted power or cooling may prove unrealistic. Suppliers may seek to limit responsibility for failures caused by climate-related events, while customers will push back, insisting on stronger performance guarantees and obligations to mitigate foreseeable disruption.

Reputational and litigation risks also loom large. Both suppliers and customers are exposed to claims of greenwashing if they misrepresent the environmental performance of digital products or infrastructure — whether by overstating climate credentials or by relying on misleading representations in their own disclosures.

The regulatory environment is tightening as well. New disclosure regimes, such as International Sustainability Standards Board (ISSB)-aligned standards, will require technology companies to provide detailed climate-related data and undertake robust scenario modelling. Compliance will place new demands on legal and governance teams.

Financial consequences are equally significant. Rising insurance premiums, exposure to carbon pricing, and the higher cost of carbon-intensive inputs will squeeze profit margins and could raise the cost of services passed on to

customers. Alongside this, directors who fail to assess or act on foreseeable climate risks risk personal liability, particularly where service continuity or investor disclosures are concerned.

Finally, climate risk extends across the value chain. Hardware suppliers and infrastructure partners with high emissions or weak climate resilience can create downstream reputational, regulatory, and operational risks for Software as a Service (SaaS) companies and their customers. In short, climate risk in the technology sector is systemic: it flows from operations, contracts, governance and supply chains, and it demands proactive management on all fronts.

## Practical tools for risk management

1. **Pre-contractual phase**

    a. **Due diligence:** Include climate-related resilience and emissions due diligence of suppliers and as part of mergers and acquisitions (**M&A**) assessments.

    b. **Forecasting:** Ensure both supplier and customer clients have modelled climate-related disruption scenarios, including energy volatility and water access.

    c. **Internal alignment:** Work with sustainability, risk and procurement teams to ensure legal strategy reflects climate-related goals and capabilities [see our guide: Factor climate considerations into board decisions].

2. **Contracting phase**

    a. **SLA realism:** Review service level agreements to ensure they are grounded in a realistic assessment of climate-related operational risks. Suppliers may seek carve-outs for certain disruption events; customers may counter with requirements for demonstrable resilience, redundancy and early warning systems.

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b. **Force majeure clauses:** Update force majeure clauses to include climate-related events such as heatwaves, droughts or grid blackouts, while balancing customer expectations around accountability and continuity.

c. **Resilience and mitigation obligations:** Suppliers should commit to climate-proofed operational practices (e.g., backup power and cooling, sourcing renewable energy). Customers may require audit rights or independent assurance of those systems.

d. **Carbon and energy clauses:** Build emissions limits, energy use intensity targets, or use of renewables into hosting, processing or infrastructure agreements into contracts.

e. **Reporting and transparency:** Include climate-related metrics in reporting obligations. Require disclosure of embedded emissions, cooling methods or energy sources. Customers may request alignment with TCFD, ISSB or other sustainability standards.

f. **Insurance provisions:** Confirm all counterparties hold appropriate insurance cover for climate-related business interruption. Customers may seek confirmation that such risks are not included.

See our guide: Integrate climate obligations into contracts for practical advice on imposing legally binding and enforceable obligations to help meet emissions-reduction targets.

3. **Ongoing Management**

a. **Board advice:** Regularly brief boards on evolving climate liability risks (for example, under directors' duties, greenwashing regulation and transition planning).

b. **Education and polling:** Support tech clients in building climate awareness into customer and user terms (for example, through usage reporting or carbon footprint tracking tools).

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c. **Governance clauses:** Incorporate decarbonisation into joint venture (**JV**), procurement or platform governance frameworks, including emissions targets, external review and escalation mechanisms.

d. **External expertise:** Encourage clients to commission climate physical risk assessments, carbon audits and transition modelling. Reflect findings in contracts.

**Contracts are not just about liability allocation - they are a tool for setting standards of behaviour.** Lawyers in the technology sector should view climate aligned contracting as both a risk management tool and a catalyst for emissions reduction. True resilience lies in decarbonisation.

## Climate due diligence

As a first step, why not view our guide: Request climate information in due diligence questionnaires, which outlines practical steps for assessing the climate performance of other organisations and how they will impact your transition plan.

***Use this toolkit flexibly: select the tools and drafting approaches most relevant to your transaction, adapt them to your client's context, and let us know how you're using it.***

***For now, we're only asking for your name and email through this feedback form so we can follow up with you later about your experience.***

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