



COMMENTARY

The Economic Impact of Climate Lawsuits on Fossil Fuel Firms

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Climate lawsuits targeting fossil fuel companies have been increasingly common across the globe. Plaintiffs aim to hold these firms accountable for their role in climate change and establish a legal framework that compels firms to align their practices with emerging climate responsibilities and as they observe the consequences of such lawsuits. Such lawsuits often encompass allegations of fraud, public nuisance, negligence, failure to warn, and human rights violations, while also focusing on the firms' use of misinformation and propaganda. The growing calls for fossil fuel companies to pay reparations for climate damage have sparked debate in scientific, legal, and political circles alike. In recent years, this debate has intensified as climate impacts grow more severe, and evidence of corporate wrongdoing becomes more widely documented. Based on the increasing frequency and severity of climate-related lawsuits, legal action imposes significant financial and reputational pressure on major fossil fuel firms, leading to measurable declines in firm value and heightened long-term economic risk. As these lawsuits accumulate, the resulting economic consequences may incentivize firms to adopt cleaner operational strategies and increase their transparency. This process also reflects the market failure described by Coase's theorem, which explains that externalities persist when transaction



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costs prevent affected parties from negotiating directly with polluters, making legal intervention necessary to internalize climate-related costs (Coase, 1960). Climate litigation has the potential not only to penalize past negligence but also to function as an effective mechanism for accelerating meaningful climate action (Grasso & Heede, 2023).

Fossil fuel companies bear significant responsibility for climate damage due to their emissions, disinformation, and delay tactics. When considering who should be held responsible for human-caused climate change, or who should hold the burden, these companies are the most obvious candidates. The burden should not fall on those affected; rather, it should fall on those who have contributed the most to climate disruption while simultaneously profiting from it (Grasso & Heede, 2023). It is contended that fossil fuel firms should pay reparations proportional to their contribution to climate damage. Beyond a moral issue, it is an economic obligation. There is a clear theoretical and ethical foundation for the increase in litigation seeking compensation for climate-related harm. By framing damages as measurable economic costs associated with identifiable corporate actors, researchers strengthen the case for legal and financial accountability, suggesting that reparations are not only justified but also implementable.

Large-scale U.S. lawsuits grounded in public nuisance and consumer protection have significantly influenced Canadian legal strategies. Canadian courts are following suit, and Canadian firms are beginning to face risks under securities regulation and consumer protection law (Wu, 2023). Lawsuits have targeted Canadian bodies of government (federal and provincial), with accusations that their support for fossil fuel development violates the Canadian Charter of Rights and Freedoms (Cameron & Waymon, 2024). This shift demonstrates an expanding willingness within Canadian legal institutions to critique corporate and governmental contributions to climate change.

Table 1 shows seven litigation cases against fossil fuel companies. The Dutch court in *Milieudefensie v. Shell* required Shell to cut emissions by 45% by 2030, while *Lliuya v. RWE* in Germany accepted the idea of proportional liability for climate harms. The “Carbon Majors” Inquiry found major fossil-fuel companies morally and potentially legally responsible for human-rights-related climate harms. In the U.S., cases like *Kivalina* and *City of Oakland* were dismissed, but *Massachusetts v. ExxonMobil* is moving forward on misleading climate-risk disclosure. In Canada, *Mathur v. Ontario* showed courts are willing to hear youth climate-rights claims on their merits.

Table 1: Seven Litigation Court Cases Against Fossil Fuel Companies

Case	Jurisdiction / Body	Year	Defendant(s)	Key Finding on Responsibility	Damages Awarded?	Source
Milieudefensie et al. v. Royal Dutch Shell ¹	Hague District Court (Netherlands)	2021	Royal Dutch Shell plc	Court found Shell owed a duty of care and must cut global emissions 45% by 2030.	No (injunction only)	Hague District Court, 2021
Lliuya v. RWE AG ¹	Higher Regional Court of Hamm (Germany)	2017–ongoing	RWE AG	Court accepted possibility of proportional liability for climate harms based on RWE's share of global emissions.	Not yet (case ongoing)	Oberlandesgericht Hamm, 2017
“Carbon Majors” Inquiry ²	Commission on Human Rights of the Philippines	2019	47 fossil fuel & cement companies	Found companies morally responsible and potentially legally liable for climate-related human-rights harms.	No (non-judicial)	CHR Philippines, 2019
Kivalina v. ExxonMobil Corp. ¹	U.S. 9th Circuit Court of Appeals	2012	ExxonMobil et al.	Claim for relocation costs dismissed (displacement by Clean Air Act).	No	Kivalina v. ExxonMobil, 696 F.3d 849 (9th Cir. 2012)
City of Oakland v. BP et al. ¹	U.S. District Court, N.D. Cal.	2018	BP, Chevron, ExxonMobil, others	Public-nuisance claim dismissed on federal pre-emption grounds.	No	City of Oakland v. BP, 325 F. Supp. 3d 1017 (2018)
Massachusetts v. ExxonMobil ¹	Massachusetts Superior Court	2019–ongoing	ExxonMobil	Allowed to proceed on misleading climate-risk disclosure under consumer and securities law.	Not yet	Mass. v. ExxonMobil, No. 1984CV03333
Mathur v. Ontario (Canadian case) ¹	Ontario Superior Court of Justice	2020–2023	Government of Ontario	Youth plaintiffs argued weakened climate policy violated Charter rights; case heard on merits, signalling judicial openness to climate responsibility.	No	Mathur v. Ontario, 2023 ONSC

Note. Case summaries and procedural information were adapted from Climate Case Chart (n.d.) (Sabin Center for Climate Change Law, Columbia Law School). ² Case information was adapted from ESCR-Net (2023) case law database.

Climate litigation is becoming a systemic market signal that communicates future potential risks and incentivizes fossil fuel firms to invest in abatement technologies such as carbon capture and storage (CCS). These lawsuits introduce ongoing financial uncertainty, and in turn, raise insurance costs, increase legal expenditures, and complicate long-term investment planning (Sato et al., 2024). For example, oil sands operations in Alberta are major emitters in Canada, producing an estimated 80–85 Mt CO₂e per year (Israel et al., 2020; McGaughy et al., 2025), and CCS costs range from USD 40–100 per tonne for full capture, transport, and storage (Yasemi et al., 2023; Zhao et al., 2024). Hence, fossil fuel firms will adopt CCS when the expected litigation penalties, regulatory compliance costs, or carbon pricing per tonne exceed their marginal abatement cost. Thus, once expected penalties rise above USD 40–100/tCO₂e, or above USD 200–500/tCO₂e if firms estimate only a 20% probability of losing a case, they face strong financial pressure to adopt CCS instead of continuing to emit. Climate litigation and carbon taxes have become an economic trigger for technology adoption. In this way, litigation not only penalizes harmful practices but also helps redefine the economic boundaries within which fossil fuel firms must operate. While costly for fossil fuel companies in the short term, this trend may serve the broader public interest by encouraging more responsible corporate behavior and accelerating the transition to a low-carbon economy, thus aiding the fight against climate change.

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