



## THE ROLE OF GREEN CONTRACTS IN CROSS-BORDER CONTRACTUAL RELATIONS

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### ABSTRACT

*In international business connections, green contracts are increasingly becoming the main tools of sustainable growth. The addition of environmental clauses in cross-border treaties is becoming more and more relevant in light of globalization and growing environmental responsibilities. The nature of green contracts, their legal control, implementation issues, and the potential for harmonization in international practice are examined in this paper. The paper points out the necessity to develop consistent criteria and ways to the application of green provisions in private international law by means of comparative research, study of international treaties, and case studies.*

### INTRODUCTION

Modern issues connected to climate change and environmental deterioration call for a shift in the legal perspective in the area of international commerce. Green contracts - agreements with clauses meant for environmental conservation and sustainable resource use - are among the powerful instruments for legal influence. In cross-border partnerships, where parties from various nations try to balance business interests with adherence to environmental norms, green contracts become especially relevant. Their execution is made more difficult, nonetheless, by the lack of consistent rules governing such clauses and variations in national legislation.

A green contract is essentially an agreement that incorporates environmental goals into the structure of a transaction among parties. Green contracts are designed to promote sustainability, especially in industries like manufacturing and shipping, where the impact on the environment would be expected to be significant. Essentially, green contracts try to balance business goals and environmental stewardship - enabling ecologically sound activity without compromising economic viability.

One of the most popular frameworks in this area is the Green Contract Mechanism (GCM). The GCM gives a step-by-step approach to mainstreaming environmental practice across a supply chain - from raw material acquisition to distribution of the final product. The GCM enables the establishment of clear, quantifiable environmental objectives that link to overall sustainability objectives. Apart from assisting organizations in complying with environmental regulations, such agreements tend to enhance their corporate social



responsibility (CSR) initiatives - an area that is increasingly coming under the microscope of contemporary investors and consumers (Teymourifar & Trindade, 2023).

Green contracts play an important role in managing and facilitating cross-border contractual relationships. More and more people see these agreements as important tools for overcoming the difficulties inherent in international trade. Green clauses in multilateral cross-border contracts are based on risk management, cooperation with suppliers, and compliance with environmental standards in different jurisdictions.

Managing opportunism and trust between parties is an important element of green contracts in cross-border relationships. Detailed contractual agreements in long-term international partnerships can help suppliers avoid opportunistic behavior (Wang et al., 2020). This is especially true in cases where suppliers have invested significant resources in the creation of specific assets. It seems that strengthening trust and reducing risks associated with cross-border transactions are linked to more detailed contract execution (Dekker et al., 2018). Moreover, studies show that aligning the interests of partners through clear green contracts can enhance supplier cooperation and their commitment to sustainable development goals, thereby strengthening partnership dynamics (Zhao et al., 2018).

## METHODOLOGY

Including doctrinal and comparative legal study, the research is founded on: Examination of national laws governing environmental responsibilities and international treaties.

Study of the practice of inserting environmental clauses in contracts in the areas of building, energy, and foreign supply.

Scientific literature, arbitration processes, and corporate standards.

Both primary sources (international acts, regulations, national laws) and secondary sources - monographs, articles, and analytical reports of international organizations - were used.

## DISCUSSION

Green contracts are a promising mechanism for embedding and advancing sustainable business practices. They are more than legal instruments; they are rather frameworks for collaboration, innovation, and common responsibility. As increasing numbers of businesses adopt environmental principles, the importance and complexity of such agreements will only be increasing - serving a vital role in tackling the global environmental issues that confront us all.

Empirical data indicates that the inclusion of environmental expectations in contracts has a strong likelihood of corporate adherence. Such contracts promote transparency and accountability, establishing a shared standard for various metrics, including emissions, waste, and use of resources. The specificity enables the tracking of performance and the identification of areas in which improvement can be achieved (Ma et al., 2019; Demir et al., 2022).

There is also a relational aspect of the green contract. Researchers such as McGuire and Germain have noted that such agreements constitute more than legal agreements; they constitute the expectations of firms and consumers regarding pro-environmental conduct.



Green contracts can then be conceived as moral obligations to agreed values of environmental stewardship (McGuire & Germain, 2015).

In addition to setting out specific rules, green contracts can serve as a driver of innovation. As businesses are pushed toward sustainability objectives, they tend to invest in new, cleaner technologies and processes. This is particularly worth it in high-impact industries such as manufacturing and agriculture, where such innovations can serve to counterbalance damage to the environment while simultaneously enhancing efficiency and yield (Li & Wang, 2024).

Nevertheless, the application of green contracts in reality is not always straightforward. The numerous legal systems and regulatory requirements across the globe could render the process tedious. This necessitates the creation of adaptable contract templates that will suit various jurisdictions. Trust is also a vital component of any partnership. Without trust, collaborative initiatives could be derailed, eventually resulting in the failure to realize environmental objectives (Teymourifar & Trindade, 2023).

Green contracts, in particular in the procurement sector, are contracts that promote sustainable environmental behavior in the procurement and supply of goods and services. Green contracting has gained popularity globally due to the rising concern about the environment, as well as policy regulations aiming at reducing the impacts of climate change. It is evident that green procurement practice as a policy plays a critical role in attaining sustainable development and can also translate to economic performance in various industries.

Governments also play a crucial role in facilitating green procurement through enabling policies and funding mechanisms. For instance, Elasto et al. note that where governments provide financial incentives, it significantly helps businesses to absorb the initial investment involved in transforming to sustainable practices, which enables better alignment with environmental goals (Elasto et al., 2023). This connection between government backing and greater sustainability is reiterated by Shah et al., who confirm that green procurement has a positive impact on environmental, financial, and social performance metrics in organizations, particularly in the construction sector (Shah et al., 2021).

Secondly, the success of green procurement depends on collaborative agreements among stakeholders, particularly suppliers and procurers. The literature demonstrates the mixing of formal contracts and relational governance to be highly beneficial. Oruezabala and Rico argue that while flexibility is important, formal specifications cannot be avoided since sustainability demands continue to be complicated (Oruezabala & Rico, 2012). Michelsen and Boer also agree with this observation and stress knowing about environmental issues for the effective implementation of green procurement on local levels (Michelsen & Boer, 2009).

In addition to policy and cooperative institutions, green contracts depend on effective supply chain management and incentive mechanisms. Research by Zhou shows that some forms of contracts, like cost-sharing contracts, can significantly enhance supply chain coordination and environmental performance, particularly when manufacturers are excessively confident in their capabilities (Zhou, 2021). Contractual incentivization of sustainability is also supported by Shao and Liu, who discovered that government subsidies



can encourage manufacturers to invest in greener products, promoting environmental sustainability and economic profit for the entire supply chain (Shao & Liu, 2022).

The implementation of green procurement practices is not realized without any challenges. Challenges such as costs, suppliers' readiness, and the need for expertise in sustainability practices have been cited. Khan et al. note that such challenges can hamper lessening the environmental impact at all stages of the project (Khan et al., 2018). Further, bid evaluation complications in government procurement in the case of green procurement can be troublesome. Zhang and Chen's work illustrates how identifying significant factors and prioritizing environmental factors can enhance bid evaluation in government project scenarios (Zhang & Chen, 2022).

Green contracts demonstrate a proactive approach that seeks to introduce environmental issues into every procurement activity. Such an introduction assists in tackling compliance with regulatory requirements as well as alignment with societal expectations at large on the issue of sustainability. Current research and empirical evidence will increasingly elucidate the dynamics of green procurement, particularly as market and regulatory pressures persist to evolve.

The effectiveness of green contracts depends on the institutional frameworks existing in different countries. To overcome difficulties and information asymmetry in cross-border cooperation, contract terms related to environmental obligations must be carefully developed, taking into account the different legal systems of each party (Dekker et al., 2018). Standardized agreements that include green clauses, allowing for clear understanding and resolution of disputes regarding commitments to environmental standards, can mitigate this issue (Kahiya & Butler, 2021). This method aligns with the need to integrate corporate social responsibility into operational and managerial practices, which is becoming a challenge for international companies (Hou et al., 2023; Flammer et al., 2019).

Furthermore, green agreements can be adapted to meet changing environmental expectations. Suppliers can avoid investments in assets through formal contracts, especially when these investments are necessary to achieve environmental goals (Mwesumo et al., 2018). Such contractual guarantees become vital for developing economies, where unexpected regulatory changes can jeopardize investments aimed at improving environmental efficiency (Tatar, 2022).

Moreover, the implementation of environmentally friendly standards in contractual obligations can lead to a competitive advantage in sustainable supply chains. Companies increasingly understand how important environmental efficiency is for improving the effectiveness of their operations. As a result, the implementation of green contracts is becoming a strategic tool that allows suppliers to achieve higher environmental goals (Gao and Wang, 2019). This alignment improves supply chain sustainability, especially in global trade, and promotes compliance with international environmental standards (Hong & Guo, 2019).

## RESULTS:

The following factors determine the legal validity of green contracts in cross-border transactions:



International private law. Rules on conflict of laws - such as the Rome I Regulation - let people select the relevant law but sometimes ignore environmental criteria.

Public law on an international scale. Though not immediately relevant to private relationships, treaties like the Paris Agreement provide a foundation for the interpretation of treaties by means of systematic integration.

Corporate norms and soft law. Documents like ISO 14001 and ESG ideas support the incorporation of environmental obligations and provide a foundation for creating standard clauses.

Judicial and arbitration experience shows a careful attitude to environmental clauses: they are enforceable only when there are obvious formulations and great relevance for the transaction.

The analysis carried out made it possible to find the following important points:

Especially in industries with significant environmental effects - construction, energy, agriculture - green contracts are actively being used in the practice of international transactions.

Current legislative frameworks lack consistent criteria for the material and execution of environmental clauses.

The absence of precedents and ambiguity in conflict resolution impedes the implementation of green provisions.

Still, the practice of ending and interpreting such contracts is affected by corporate efforts (ESG), soft law, and sustainable development values.

## **CONCLUSION**

Green contracts in cross-border contractual relationships are more than just tools; they are important means for navigating complex global landscapes characterized by various institutional differences and levels of environmental responsibility. These agreements play an important role in the modern global economy because they support sustainable practices across borders, building trust, ensuring compliance, and providing flexibility.

The research highlighted a conflict between legal clarity and environmental objectives. Though lacking a suitable legal framework, green contracts run the risk of becoming declarative. They are a hopeful tool. Main problems:

Legal ambiguity: various interpretations of environmental responsibilities.

The lack of uniform contract templates.

Problems in arbitration protection should there be conflicts.

The following actions are suggested to handle these problems:

Under the auspices of UNCITRAL or UNIDROIT, the development of model green provisions.

Enhancing arbitration techniques to safeguard environmental responsibilities.

National legislation's inclusion of measures on the compulsory character of environmental clauses in particular sectors.

Furthermore, one should consider the possibility of employing digital green contracts built on blockchain technology.

Green contracts are a key first step in including sustainable development in cross-border trade operations. Though legal fragmentation exists, they have great promise if more



harmonization, standard creation, and active backing from arbitral bodies and international organizations follow.

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