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# **VEDANTA AND BEYOND: PIERCING THE VEIL FOR HOLDING PARENT COMPANY LIABLE FOR ENVIRONMENTAL HARM**

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## **ABSTRACT**

This paper explores the liability of parent companies for environmental harm in India done by its subsidiaries making reference to the Vedanta Sterlite case. It highlights major gap in Indian law where the liability shifts solely on the subsidiaries where the parent companies escape the liabilities by making a reliance on the doctrine of Separate Legal Personality leaving people undercompensated. It shows how Indian courts narrowly apply the rule of veil piercing using both doctrinal and comparative analysis. The paper recommends some reforms, such as recognition of parent liability, imposing ESG and due diligence duties to promote environmental justice and deliver fair compensation.

**Keywords:** Parent Company Liability, Environmental Justice, Vedanta Sterlite, Veil Piercing, Corporate Accountability.

## INTRODUCTION

*“Executives can no longer hide behind the corporate veil. They need to be accountable for what their companies do, because entities are responsible for socially irresponsible behaviour.”*

- Simon Mainwaring

A fundamental principle of company law is that a company has a **Separate Legal Personality** which exists independently of its shareholders<sup>1</sup>. Legally, the company is recognized as an artificial and juristic person capable of being sue and sued in its own name. With an expansion of industrialization, there has been **rise in misusing** the legal protection granted to them having significant impact on the society because of its operations. They set up its subsidiaries whose all the assets and properties are controlled by them while evading their accountability towards the society by using the company's corporate personality. Over the years, judicial interventions<sup>2</sup> have stated that the corporate veil can be lifted or pierced to hold members personally accountable for such acts. A **recent development** has been made under this doctrine that **the parent companies** even situated outside India can be made liable for the obligations and liabilities of its subsidiaries.

Despite the presence of statutory framework and penalizing measures, many companies fail to comply with these legal provisions. Such non-compliance results in widespread and long-lasting environmental harm, **Bhopal Gas Tragedy** is one such examples. In such scenarios, court recognized the importance of piercing the corporate veil and directly holding members responsible for damages to ensure both public justice and corporate accountability.

## RATIONAL OF THE STUDY

The rationale of this study arises from a critical gap in Indian corporate law. Unlike ordinary disputes, environmental harm is widespread, long-term and often irreversible and endures across generations. The key aspects of this rational include:

- **Doctrinal Gap:** Parent companies evade liability for environmental harm caused by its subsidiaries relying upon the principle of separate legal entity.

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<sup>1</sup> Salomon v. Salomon and Co. Ltd. [1897] AC 22.

<sup>2</sup> Novartis v. Adarsh Pharma, 2004(3) CTC 95.

- **Compensation Gap:** Victims remain inadequately compensated limiting its liability to the subsidiaries.
- **Judicial uncertainty:** The critical question remains unresolved of whether and when the judiciary can pierce the corporate veil in cases of environmental harm.
- **Research Focus:** To assess the effectiveness of existing legal framework for piercing the veil to ensure environmental justice.
- **Reform objective:** To propose doctrinal and legislative reforms necessary by holding parent companies accountable.

## **RESEARCH QUESTIONS / HYPOTHESIS**

### **RESEARCH QUESTIONS:**

- How effective is the piercing of the corporate veil in imposing liability on parent companies for environmental damages in India, given the lack of specific legislation?
- What reforms in doctrinal and legislative measures are effective to prevent parent companies from escaping the liability?
- How can corporate accountability be strengthened in India, and what challenges and reformative measures shape this framework?

### **HYPOTHESIS:**

Existing Indian corporate law lacks sufficient legal provision to pierce the corporate veil and hold parent company liable for environmental damage. This shortcoming creates a gap in corporate accountability and necessitates for doctrinal and legislative reforms ensuring environmental justice.

## **LITERATURE REVIEW**

1. **HANSI JAIN AND HARDDIT BEDI, Piercing the Corporate Veil and Beyond: Analyzing the Human Right Violations of Multinational Corporations and Liability**

**of Subsidiaries**<sup>3</sup>, where limitations of the principle of separate corporate personality were critically examined using both corporate law doctrines and international human rights. It make a comparison on how Indian and UK courts have pierced the corporate veil yet the outcomes are inconsistent. Highlighting veil piercing is not sufficient and needs to be supported by the stronger legislative frameworks.

2. **ANJAMA ABRAHAM, To What Extent Should a Parent Company be Held Liable for the Acts of Subsidiary**<sup>4</sup>, this paper explores the legal challenges and exception where the veil can be pierced holding the parent company liable. It reviews the scope of liability in both International and Indian context using Ruggie's UN Guiding principle as duty of care, accountability, and remedy. It recommends for statutory reform in India, adoption of international practices and effective remedies.
3. **SRISTI GUPTA, Corporate Liability for Environmental Damages: A Critical Review of Legal Principles in India**<sup>5</sup>, where India has framed strong statutes like the Companies Act, 2013, the Environment Protection Act, 1986 and various progressive judicial decisions for holding corporation accountable. Yet, issues such as inadequate penalties, loopholes and ineffective enforcement undermines its effectiveness.

## METHODOLOGY

The research is **qualitative in nature** and involves the following approaches:

- **Doctrinal Analysis:** The study relied on doctrinal research to examine statutory provision under the Companies Act, 2013, and relevant environmental laws in India. This includes analysing the doctrine of separate legal personality, reviewing judicial interpretations, and key observations from cases like **Vedanta Sterlite, Bhopal Gas Tragedy and Plachimada Coca-Cola**.
- **Comparative Research:** A comparative study is applied where international precedents,

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<sup>3</sup> Hansi Jain and Harddit Bedi. (2023), Piercing the Corporate Veil and Beyond: Analyzing the Human Right Violations of Multinational Corporations and Liability of Subsidiaries, pp 625- 631. <https://doi.org/10.1000/IJLMH.116151>

<sup>4</sup> Anjama Abraham, (2021), To what Extent should a Parent Company be Held Liable for the Acts of Subsidiary, pp. 1151-1162. or <http://doi.org/10.1732/IJLMH.25759>.

<sup>5</sup> Sristi Gupta, Corporate Liability for Environmental Damages: A Critical Review of Legal Principles in India, pp 208- 218 or <https://www.jetir.org/papers/JETIR2405323.pdf>.

such as **Lungowe v. Vedanta (UK)** and other jurisdictions where parent company liability was recognised. The objective is to determine their applicability and draw insights to improve India's legal framework.

- **Use of Tools for Resource and Platforms:** Data Collection and critical analysis are facilitated by the resources and platforms such as **Lexis, Nexis, SCC, Manupatra**.

## CASE ANALYSIS

It is crucial to understand that merely holding subsidiaries accountable for the harm caused is inadequate, accountability should also extend to those who control them. As per **Section 2(87)**<sup>6</sup> of the Companies Act, a subsidiary has an independent corporate personality and not deemed as mere agent of the parent firms. Judicial precedents permit lifting the corporate veil only in specific grounds, like **fraud**<sup>7</sup>, **tax evasion**<sup>8</sup>, **economic entity**<sup>9</sup> or **matters of public interest**<sup>10</sup>. Despite this parent companies evade liability by relying on legal separation, subsidiaries being at the forefront of environmental damage. Thus, the issue whether the veil can be lifted to hold parent company accountable requires urgent attention.

The most crucial modern instances where question of parent company liability for environmental harm was raised was the **Vedanta Sterlite case**<sup>11</sup>. Vedanta Resource Plc, a **U.K registered company**, operated in India through its **subsidiary Sterlite Copper** in Thoothukudi, Tamil Nadu. The plant was accused for releasing toxic emissions, groundwater contamination, and adverse health impacts on the local population. In 2018, widespread public protest lead to open police firing during demonstrations resulted in killing of 13 people and injured many others. Because of the incident the **Tamil Nadu Pollution Control Board (TNPCB)** ordered the complete closure of the plant. The decision was challenged before the **National Green Tribunal** granting a temporary relief by allowing reopening of the plant. However, the Supreme Court upheld the later decision citing environmental hazards posed by the factory's operation. Importantly, all sanctions and responsibility was restricted to the Sterlite Copper and the holding company Vedanta Plc **despite having all the evidence of**

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<sup>6</sup> The Companies Act, No. 18 of 2013, § 2(87), India.

<sup>7</sup> Gilford Motor Company Ltd v. Home, (1933) CH 953.

<sup>8</sup> Vodafone International Holdings B.V. v. Union of India, (2012) 6 SCC 613.

<sup>9</sup> DHN Food Items Ltd. v. Tower Hamlets, [1976] 1 WLR 852.

<sup>10</sup> Daimler Co Ltd. v. Mainland Tire & Rubber Co. Ltd. [1916] 2 A.C. 307 (H.L.)

<sup>11</sup> Sterlite Industries (India) Ltd v. Union of India, (2013) 10 SCC 212.

persistent pollution and its role in overall control and profit **the corporate veil was not pierced** to hold the parent company liable.

The judicial approach adopted mirrors a continuing pattern first evident in the **Bhopal Gas Tragedy**<sup>12</sup>, where the parent company Union Carbide Corporation (U.S) successfully escaped the direct liability holding the local subsidiary company Union Carbide India Limited (UCIL) liable, and victims received inadequate compensation through settlements. Similarly, in the **Plachimada Coca-Cola case**<sup>13</sup>, villagers alleges of groundwater contamination and its depletion against Coca-Cola's Indian subsidiary. Again, the multinational parent corporation was shielded by the corporate veil restricting its accountability to the local units. These judicial precedents demonstrated the **courts unwillingness to pierce the corporate veil** in India, even when irreparable harm is caused.

The judiciary in India has remained **cautious** in lifting the corporate veil even when broader **societal concerns** are at stake. The Apex Court upheld the corporate independence and that veil can only be lifted in cases involving fraud, tax evasion or any statutory requirement<sup>14</sup>. This view was further reinforced in **Balwant Rai Saluja v. Air India Ltd**<sup>15</sup>, court ruled that exceptions to the doctrine of separate legal entity must remain rare. Likewise, in **State of U.P v. Renusagar Power Co**<sup>16</sup>, the court refuses to pierce the veil having strong evidence of complete control by Hindalco restricting its reasoning to taxation and electricity duty.

Collectively, these ruling highlights the **Indian judiciary's rigid and cautious interpretation** of veil piercing narrowing its scope in India, protecting the parent companies from its accountability. As a result, local subsidiaries are held accountable, with victims are left with large-scale environmental harm without any meaningful justice.

## COMPARATIVE ANALYSIS

A comparable example can be found in France with the **Amoco Cadiz disaster**<sup>17</sup>, where a massive quantities of oil was spilled by the tanker in the northern coast. The negligence actions were taken against both parent company (Standard Oil Co) and its subsidiary (Amoco

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<sup>12</sup> Union Carbide Corporation v. Union of India, (1989) 3 SCC 38.

<sup>13</sup> Hindustan Coca Cola Beverages (P) Ltd v. Perumatty Gram Panchayat, (2005) KER 252

<sup>14</sup> Life Insurance Corporation of India v. Escorts Limited and Ors, (1986) 1 SCC 264

<sup>15</sup> Balwant Rai Saluja v. Air India Ltd., (2014) 9 SCC 407 (India).

<sup>16</sup> State of Uttar Pradesh V. Renusagar Power Co, 1988 AIR 1737 1988 SCR Supl

<sup>17</sup> 954 F. 2d 1279 (7th Cir. 1992).

Transport). The U.S Court while setting a precedent held both the entities liable piercing the corporate veil in environmental matters. This approach was further reaffirmed in **United States v. Bestfoods**<sup>18</sup>, in which U.S Supreme Court disregarded the subsidiary's separate legal personality to impose liability on parent company for the wrongful acts of its subsidiaries.

## FINDINGS

The findings of the court are as follows:

- **Parent Company Immunity:** Courts in India have systematically gave an immunity to the parent company from its liability, restricting it solely to local subsidiaries for environmental harm caused, despite evidence of their dominant control and benefit from subsidiaries operations.
- **Narrow Interpretation of Veil Piercing:** The judiciary has adopted a narrow approach by lifting of the corporate veil only in certain circumstances such as fraud, tax evasion or statutory direction, ignoring larger societal concerns like environmental degradation or public health.
- **Rigid Reliance on Precedential Stance:** The courts have reinforced the doctrine of separateness, declining to pierce the corporate veil in cases of complete parent-subsidiary control<sup>19</sup>. Its reveals the judiciary's rigid reliance to the doctrine of separate legal entity.
- **Denial of Effective Relief to Victims:** This approach of the judiciary results in serious denial of justice, financially stronger parent companies escape accountability leaving victims of large-scale environmental harm inadequately compensated due to settlements.
- **Consistent Pattern of Protection:** Reading together, these rulings reveals a consistent judicial pattern of protecting the parent companies and prioritizing corporate separateness at the cost of public interest and environmental accountability.

## SUGGESTIONS

The suggestions which India could adopt to address the legal and institutional gaps are:

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<sup>18</sup> United States v. Bestfoods, (1998) 524 US 51

<sup>19</sup> New Horizons Ltd. v. Union of India, 1995 SCC (1) 478.

- **Statutory Codification of Holding Companies Liability:** To bridge the gap, the Indian laws such as the Companies Act, 2013 and Environmental Protection Act, 1986 must be amended, more rigid and based on more international legal principles such as Ruggie's concept and should be made applicable to all the multinational parent corporations that have subsidiary firms in India.
- **Establishment of Cross – Broader Liability Framework:** This framework would enable the Indian victims to bring claims directly against the foreign parent companies. For the same the courts must be granted with extraterritorial jurisdiction also bilateral and multilateral treaties would ensure enforcement of foreign judgements in India in environmentally risky industries like, beverages and chemicals.
- **Obligatory ESG and Due Diligence Mandates For Parent Entities:** Parent company must introduce mandatory ESG obligations and due diligence requirements across its subsidiaries to align corporate operations with sustainable practices. Failure to comply would result in lower ESG rating tracked through national ESG scorecard, affecting its business continuity in India.
- **Parent-Funded Environmental Relief Fund:** To avoid the delays and inadequate compensation, the parent company acting through its subsidiaries in India would be required to finance a compulsory relief fund guaranteeing prompt relief to the victims.

## CONCLUSION

The doctrine of Separate Legal Personality is vital to corporate law as it provides a shield to the parent companies from the liability caused by their subsidiaries in India in matters of grave environmental harm and human right violation which is often being misused. The law cannot permit the corporate veil to be misused which is demonstrated in various judicial precedents such as the Vedanta Sterlite case, the resistance to pierce the veil. This has resulted in a judicial gap<sup>20</sup> where parent companies remain shielded from the accountability while victims are left with inadequate compensation.

To address these gaps, India requires statutory recognition of parent company liability.

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<sup>20</sup> Mishra, Pradyumna K., Ravindra M. Samarth, Neelam Pathak, Subodh K. Jain, Smita Banerjee, and Kewal K. Maudar. "Bhopal gas tragedy: review of clinical and experimental findings after 25 years." *International journal of occupational medicine and environmental health* 22, no. 3 (2009): 193.



Accountability can be made proactive rather than merely symbolic by placing direct obligation on parent companies. The courts should expand the grounds on which the veil can be lifted, operating alongside with doctrine such as absolute liability to ensure fair outcomes. Such reforms would enhance corporate accountability and align Indian corporate law with best global practices. Holding parent companies liable is not a tool for victim compensation but it drives a cultural shift by directing businesses, investors, and boards to prioritize long-term sustainable practices.