4.5 CLIMATE-RELATED TRANSITION RISKS

Case study 2: Market-related risks

Key topics

- Climate-related transition risks for entities – market-related
- Impacts on entities' strategy and operations

Relevance for climate-related disclosures

This unit's case study will help you to understand how climate-related transition risks, in this case a market-related risk, can impact entities. It illustrates how changes in customer preferences and industry expectations can materially impact even small businesses – particularly those operating in emissions-intensive value chains.

Overview

This unit explores a case study designed to illustrate key concepts related to climate-related transition risks, specifically market-driven transition risk. It is a hypothetical example involving a small packaging company, grounded in real-world market dynamics and drivers. It may give you practical insights into:

- recognising market signals and emerging sustainability trends
- assessing customer-driven transition risks (i.e. changes in customer demands)
- identifying and quantifying business and financial implications, and
- considering response strategies aligned with evolving market expectations.

Introduction

This case study may help you to reflect on how similar climate-related market risks could affect your entity or value chain. The scenario is intended to prompt consideration of potential vulnerabilities and resilience strategies. This scenario does not describe real events or a real entity but is grounded in realistic conditions that manufacturers and suppliers are facing as markets respond to climate change and net zero targets.

Sector: Manufacturing - packaging materials
Entity: Flexible packaging and labelling products

ASIC Australian Securities & Investments Commission
Australian Government
Australian Accounting Standards Board
UTS
STUDIO THREE LEARNING

Location: Regional Victoria
Transition risk type: Market-related

What is the scenario?

PlasticsWrap Packaging is a small business that manufactures flexible plastic packaging for food and beverage companies across southeastern Australia. Its products are widely used by mid-sized food producers and boutique beverage brands.

In 2025, several key clients sign the Australian Packaging Covenant Organisation (APCO) roadmap to transition to 100% reusable, recyclable or compostable packaging by 2028, in line with national waste and circular economy targets. These clients now begin requesting packaging not only with higher recycled content and greater recyclability, but also with lower lifecycle carbon emissions. Plastic is primarily made from fossil fuels such as crude oil and natural gas which are refined further during the production process. PlasticsWrap's product portfolio is increasingly viewed as carbon-intensive and misaligned with broader decarbonisation and circular economy goals. A circular economy model focuses on eliminating waste and maintaining a circular flow of materials by recovering, retaining or adding to their value.

PlasticsWrap, which currently relies on virgin plastic (newly manufactured plastic) for most of its products, is not currently equipped to meet these new requests. Film made from recycled content is more expensive and more difficult to source reliably. The entity also lacks in-house capacity to redesign product lines or assess compostable alternatives.

If PlasticsWrap cannot meet the requests of major clients, it risks losing a growing portion of its customer base to competitors that offer more sustainable packaging options with lower lifecycle carbon emissions.

What are some potential business impacts?

Financial

- Increased cost of sourcing new sustainable materials given that supplier relationships are not established
- Risk of lost contracts and reduced revenue if key clients start sourcing from competitors
- Price competition with early movers in the green packaging space
- Increased investment to innovate product formulation and process
- Opportunity to capture new market share and open new revenue streams from sustainable products

Operational

- Disruption to existing supply chains
- Packaging redesign needs
- Staff training on new materials and processes
- Opportunities to benefit from innovation and efficiency improvements

Strategic

- Repositioning brand to meet sustainability expectations
- Exploring partnership opportunities with suppliers of more sustainable and lower-carbon materials
- Need to align product development with customer climate goals
- Opportunity to strengthen market position and customer relationships by co-developing sustainable solutions aligned with client decarbonisation goals

Governance

- Monitoring market shifts
- Clear decision-making processes for evaluating and approving product redesigns, material substitutions and investment in sustainable production technologies
- Opportunity to build stronger foresight capabilities to guide strategic investment and innovation decisions.

What is the response strategy?

PlasticsWrap begins exploring a joint venture with a local start-up specialising in compostable bioplastics. It also applies for a regional circular economy grant to upgrade its production line. The business commits to publishing a packaging transition plan aligned with customer climate goals and APCO guidelines.