

## Toolkit

# Climate risk and supply chains

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*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 supply chains

Supply chains are on the frontline of climate risk. From droughts and floods to carbon pricing and due diligence laws, the forces reshaping global supply networks are growing stronger and more immediate.

**Physical risks** arise from climate-induced hazards and include acute disruption - e.g., flood-damaged warehouses or rail lines buckling in extreme heat - and chronic ones, like reduced water availability or declining crop yields.

**Transition risks** arise from shifts in regulation, consumer expectations, trade tariffs, and market access which are all increasingly tied to emissions and climate-related performance.

**Example 1:** A Tier 2 supplier in a newly re-mapped flood zone suffers a month-long outage after extreme rainfall. Delivery targets are missed, contractual penalties triggered, and a knock-on delay cascades up the value chain.

**Example 2:** A logistics provider relying on temperature-sensitive rail transport experiences multiple delays during summer heatwaves. Perishables spoil, customers cancel, and alternative transport costs surge.

*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.*



We are also likely to see supply chains turning on each other as decarbonisation targets tighten, with businesses distancing themselves from high-emitting partners to protect their own compliance, reputation, or access to climate-linked finance.

These risks are no longer remote or abstract. They are **identifiable, quantifiable** and increasingly **foreseeable**.

## Impacts and legal consequences

When climate risk isn't adequately accounted for in supply chains, the consequences can cascade quickly and painfully. Delays caused by extreme weather or disrupted logistics can lead to missed delivery targets and blown project milestones. These in turn may trigger breach of contract claims or liability disputes (civil and criminal), especially where time and performance are contractually critical.

Operational disruption doesn't stop there. Business interruption can strain cash flow and stretch resources, while pushing up insurance costs or, in some cases, making cover hard to obtain. Infrastructure damage or degraded assets (e.g., flood-prone warehouses, heat-affected rail lines) may require expensive repairs or even relocation, adding to capital and operational costs.

Reputational damage is another key risk. Clients, investors and consumers are increasingly intolerant of companies whose supply chains are visibly brittle or environmentally misaligned. A public failure to anticipate or respond to climate events can quickly erode trust and competitiveness.

Finally, when things go wrong, the fallout often centres on one issue: who pays. Poorly drafted or outdated contracts can lead to messy disputes over the allocation of risk, liability and cost. This is a drain not just on legal budgets but on commercial relationships too.

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Legal teams must also consider director and fiduciary duties to foresee and mitigate foreseeable risks, particularly where climate resilience is relevant to business continuity or asset value.

## Practical tools for risk management

### 1. Risk identification and pre-contract due diligence

- a. Map climate risks across the value chain, including Tier 2 and 3 suppliers
- b. Conduct climate-related financial risk assessments
- c. Identify suppliers with science-based targets and/or credible adaptation plans, distinguishing between incremental adaptive action (adjustments to existing systems) and transformational adaptation
- d. Consider developing a climate transition plan if your business does not have one already (see our [climate transition plan guidance](#))

### 2. Contract design and drafting

- a. Include climate resilience clauses: climate-related business continuity, alternative delivery provisions and adaptive performance thresholds
- b. Draft ESG-linked KPIs that incentivise resilience and emission reductions (for example, see our [gainshare incentives for reducing emissions](#))
- c. Clarify duties to disclose material climate risks and incidents
- d. Include triggers for precautionary or adaptive action (e.g., temperature thresholds)

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### 3. Contingency, communication and collaboration

- a. Develop emergency protocols and contact chains with counterparties
- b. Pre-plan rerouting, storage or alternative fulfilment with third parties
- c. Advocate for [shared responsibility](#) over one-sided risk transfer
- d. Collaborate via trade associations or sector alliances to influence infrastructure planning (e.g., lobbying for climate-adapted rail or flood defences), which can also help to ensure climate adaptation doesn't disproportionately burden vulnerable suppliers.

### 4. Ongoing monitoring and review

- a. Include contract provisions for regular climate risk audits
- b. Require reporting or reassessment following major climate events
- c. Consider dynamic pricing or flexible KPIs to accommodate climate volatility, as well as climate-specific change control provisions allowing contractual amendment processes based on regular climate risk audits with clear triggers, procedures and cost allocation mechanisms

## Two key clauses

TCLP's two key supply chain clauses to consider:

[Matilda's Annex](#) - the Net Zero Standard for Suppliers: includes responsibilities for meeting decarbonisation targets and reporting together with cascading obligations and price adjustment mechanism.

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[Raphael's Procurement DDQ](#) - asks potential suppliers to provide information regarding a wide range of climate change-related issues going beyond the standard questions.

Climate change will test the limits of every supply chain. Legal frameworks must evolve to build resilience, enable adaptation and support proactive decarbonisation. Contracts are not just mechanisms for risk transfer - they are opportunities to embed shared values, shared responsibility, and climate-aligned behaviour.

***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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