



# thenaturalvalueinitiative

*linking shareholder and natural value*

## Linking Shareholder and Natural Value

**A workshop on the management of ecosystem services risks and opportunities in the food, drink and tobacco sectors – common challenges and tools to address them**

20th November 2009, F&C, London.

### WORKSHOP REPORT

#### Opening remarks – why biodiversity and ecosystem services is an issue

**Matt Hale (Chair)**, Acting Chair, UNEP Finance Initiative Biodiversity and Ecosystem Services Work stream

- UNEPFI is a public-private partnership between the United Nations Environment Programme and the global financial sector. Over 180 financial institutions including banks, insurers, asset managers, and pension funds, as well as a range of partner organisations, are signatories to the initiative
- Members work together to embed best sustainability practice in financial institutions and change the way capital markets account for environmental, social, and governance issues. UNEP FI's developed a Biodiversity and Ecosystem Service work stream at the request of their members, the Natural Value Initiative is one of the key projects within this work stream
- Biodiversity and ecosystem services are essential to human development and well being, providing food, fibre and other raw materials which form the basis of many global industries. They act as a regulating system for the environment, controlling the quality of water, the development of soils, maintaining air quality, and plays a key part in regulating the level of carbon dioxide in the atmosphere. As a result, all businesses depend to a greater or lesser extent on the provision of ecosystem services
- A recent global assessment of ecosystem services showed that 2/3 of those services on which we rely are declining and that this is costing society Euro 50 billion each year from land based ecosystems alone. Much of this degradation has been caused by clearance of land for agriculture. Mankind has already cleared half the world's natural habitats – much of it to make way for cultivated land
- Demand for food is projected to increase 70-80% by 2055, and a further 10-20% of grassland and forest are projected to be converted to agriculture between 2000 and 2050, this will result in significant additional release of Greenhouse gases. We know that inaction on climate change may reduce global GDP by as much as 20%. However, until recently the role that loss of natural habitats play in climate change has not been recognised in climate change policy. This looks set to change
- As mankind erodes the capacity of biodiversity to provide ecosystem services, this poses a risk not only to corporate reputation but to operating margins through issues with security of supply and – increasingly – compliance costs

What is a risk for companies is a risk for their investors and the finance sector itself has been the target of a number of campaigns linked to concerns about the loss of biodiversity.

- Increasing awareness of these issues within the financial community is creating new and significant business opportunities and a greater awareness of potential risks – one example of this is the emergence of the concept of REDD – the reduction of emissions from deforestation



and degradation

- The Ecosystem Services Benchmark is currently the only comprehensive tool for investors on this issue and we encourage its uptake

### **Management of biodiversity and ecosystem services risks and– the results of the Ecosystem Services Benchmark**

**Annelisa Grigg**, Project Director, Natural Value Initiative, Fauna & Flora International

- The Natural Value Initiative is a collaboration between international environmental NGO, Fauna & Flora International, Brazilian business school FGV and UNEP Finance Initiative. It aims to raise awareness of the links between natural and shareholder value – demonstrating the importance of managing corporate impacts and dependence on biodiversity and ecosystem services
- More specifically it has developed – in collaboration with the investors Aviva Investors, F&C Investments, VicSuper, Pax World, Insight Investment and Grupo Santander Brasil – the Ecosystem Services Benchmark. This is a tool to evaluate corporate approaches to understanding and managing impacts and dependence on biodiversity and ecosystem services
- The tool has been tested on 31 companies in the food, beverage and tobacco sectors based on the holdings of the investors collaborating with the NVI, the results of this analysis are being used by the investors to inform their engagement/ dialogue process with the companies concerned. It uses process based measures as proxies for on the ground performance and is based on a tried and tested methodology developed by Insight Investment for the extractive sector and adjusted through a process of stakeholder dialogue for the food, beverage and tobacco sectors
- The initiative attempted to review performance based measures, drawing up a short list of indicators based on established schemes such as the Roundtable on Sustainable Palm Oil, however, the reporting of quantified data was extremely limited on this issue
- The findings of the NVI's analysis show that, whilst significant activity is underway on the issue, it is often piecemeal in nature with no clear link to a strategic analysis of corporate risk and opportunity. Furthermore, disclosures on the issue are insufficient to enable a clear picture of risk and opportunity management to be communicated to investors. Risks many go unmanaged and opportunities undeveloped

### **Panel discussion – perspectives on ecosystem services, strengths and weaknesses in current approaches and feedback on the Ecosystem Services Benchmark process followed by Q&A**

**Steve Waygood, (Head of SRI Engagement, Aviva Investors)**

- Investors find biodiversity a challenging issue. One of reasons that biodiversity and ecosystem services is not conventionally included in broker notes is that historically the private sector has received such services for free. As a result they are not currently incorporated into cash flows. This is a long-term market failure that needs to change. It is material right now and it will pay investors to investigate it
- If a company is managing this issue well, it's a good indicator of overall company management.



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Some companies are just not responding. There were some companies that scored zero. Aviva will look into these ones and see where there is a problem

- Collectively the market can respond and the NVI is helping that. One example of a strategy to help market corrections is Marks and Spencer's Plan A. One company in our portfolio is United Plantations, so we are pleased to hear the good progress made by this company. We have also been investing in Unilever (which came top of the analysis) for several years.

## **Mirza Baig (Associate Director Governance & Sustainable Investment)**

- Declining biodiversity and ecosystem services is an emerging but critical issue for investors. F&C have a suite of sustainability funds representing £3 billion of assets under management. These funds include explicit criteria which monitors the quality of companies' management of biodiversity and ecosystem services. We will not invest in any company if it is deemed to be performing poorly in this area. In addition, we undertake analysis of environmental issues across all F&C funds. This may affect the valuation of companies in high impact sectors when deemed to be material. Historically this has tended to be focused on direct impacts, but we are now shifting our attention to include dependency.
- Whenever there is a financial crisis, this leads to a period of reflection so this report is timely in that it provides a fresh perspective on corporate risk and opportunities. The analysis is valuable in itself, but the results also act as a good proxy for the quality of management. A company performing well in the benchmark provides us with a sense of assurance that management are looking at every issue that may affect the long-term sustainability of the business.
- The benchmark will help us to identify poorly performing sectors, focus and prioritise our engagement and provide for more informed recommendations. We are hopeful that the NVI report will act as a catalyst for greater investor and corporate attention on this critical issue.

### General comments:

- Investors need good examples of the upside such as the example quoted of the 7% increase in yield experienced by cocoa farmers which grow crops near protected areas
- Information is provided by the NGO community which is relevant to risk and opportunity management within the private sector, yet the investment community does not fund this – perhaps there is a need for them to do so?

## **Managing biodiversity and ecosystem services risk – a retailer perspective**

### **Lauren Orme, Marks and Spencer, Sustainable Development Manager - Raw Materials**

- Plan A helps manage risk and manage supply chains for the future. Consumers are more forward thinking now than every before. M&S' approach to every issue is tailored and different, reflecting differing levels of information that exist within the supply chain
- At the start of Plan A M&S thought it would cost £200 million. To date the plan's implementation has been cost neutral as a result of efficiencies realized through implementation. There are areas in which further investment is required with a longer term return on investment



- Although some industry measures exist, measuring customer response to Plan A is challenging
- There is a need for the market as a whole to address sustainability issues in a strategic and focused way, there may be a role for regulation in this

### **Tools to assist companies in understanding and managing biodiversity impacts and dependence**

**Monica Barcellos Harris**, UNEP-WCMC Head of business, biodiversity and ecosystem services

**Monica Barcellos Harris**, UNEP World Conservation Monitoring Centre. Head of business, biodiversity and ecosystem services

- BES is a very complex theme. It is not just about having the right metrics. The challenge is interpreting the data. We need to have simple and effective tools. A significant number of tools are developing and there is a further challenge in ensuring their uptake and use in an integrated fashion
- The Integrated Biodiversity Assessment Tool (IBAT), a collaboration between Birdlife International, IUCN, UNEP-WCMC and Conservation International enables companies to locate areas of known biodiversity importance (legally protected or not) in proximity to their operations or sourcing regions.
- The Proteus Partnership is composed primarily of mining and oil and gas companies and provides a tool based on the World Database for Protected Areas which provides information on all the protected areas in the world, thereby allowing companies to access information on potential impacts on such areas and risks arising as a result. The WDPA data is available through IBAT.
- The World Resources Institute and World Business Council for Sustainable Development's Corporate Ecosystem Services Review provides a process for companies to develop understanding and a strategic approach to managing impacts and dependence on ecosystem services.
- The Business and Biodiversity Offset Programme offers a set of tools linked to the mitigation hierarchy (avoid, minimize, mitigate and offset impacts on biodiversity), assisting companies in the development of robust offset schemes.
- For many local NGOs levels of mistrust of corporates is high and they are unwilling to engage. For companies attempting to identify local expertise to help them understand and minimize impact, this can be a barrier to effective management of this issue. International NGOs such as Fauna & Flora International can play a role in brokering partnerships and building trust between NGOs unfamiliar with working with the private sector and the companies seeking assistance to minimize impacts and dependence.

**The chair, Matt Hale, finished on the following note:** ultimately we are trying to develop end to end strategic decision making, as we seek to create positive change and act as a catalyst for improved practices along the whole supply chain. We cannot wait for governments. NGOs are doing a good job under difficult circumstances. This is beginning to help investors know what they can and cannot do. However more transparency is needed, greater reporting from companies and greater engagement from the private sector are required on this vital issue.



## PARTICIPANT LIST

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Lauren Orme	M&S
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