

Developing a framework for analysing biodiversity and ecosystem services risks within the food and drink sector

Risk and dependencies – the business case for biodiversity and ecosystem services management within the food and drink sector

Richard Burrett,
Managing Director
Head of Sustainability
Group Public Affairs



Content

- Biodiversity and ecosystem services (BES) as a business risk
- Relevance for the Financial Sector?
- Trends in ESG Risk Management
- Observations



Biodiversity and ecosystem services (BES) as a business risk

- Growing recognition that Biodiversity is essential to human development
- It acts as a regulating system for the environment
- A recent global assessment of ecosystem services showed that 2/3rds of those services on which we rely are declining
- Mankind has already cleared half the worlds natural habitats
- Demand for food expected to increase by 70-80% by 2050
- Role of BES in climate change mitigation and adaptation
- There is a growing understanding of the impacts on business viability



Biodiversity and ecosystem services (BES) as a business risk

- Impacts are varied, sometimes complex and often industry and region specific
- Reduced security of supply for raw materials such as water, timber, foodstuffs
- Security of supply (for fish and some types of timber) is increasingly an issue
- Soil erosion leading to loss of agricultural productivity and declining downstream water quality;
- Increased risk of litigation
- Restricted access to land
- Reputational damage and stakeholder activism
- Reduced access to markets
- Reduced production and profitability



Biodiversity and ecosystem services (BES) as a business risk

- Increased costs associated with securing adequate supply and quality of water
- Failure of key environmental services (recent example in the US of “Colony Collapse Disorder”) can have significant financial costs
- “Fifteen years ago companies were saying that climate change was not relevant to business.....I believe that the issue of biodiversity could well take the same path”

Tom Massey, RWE NPower

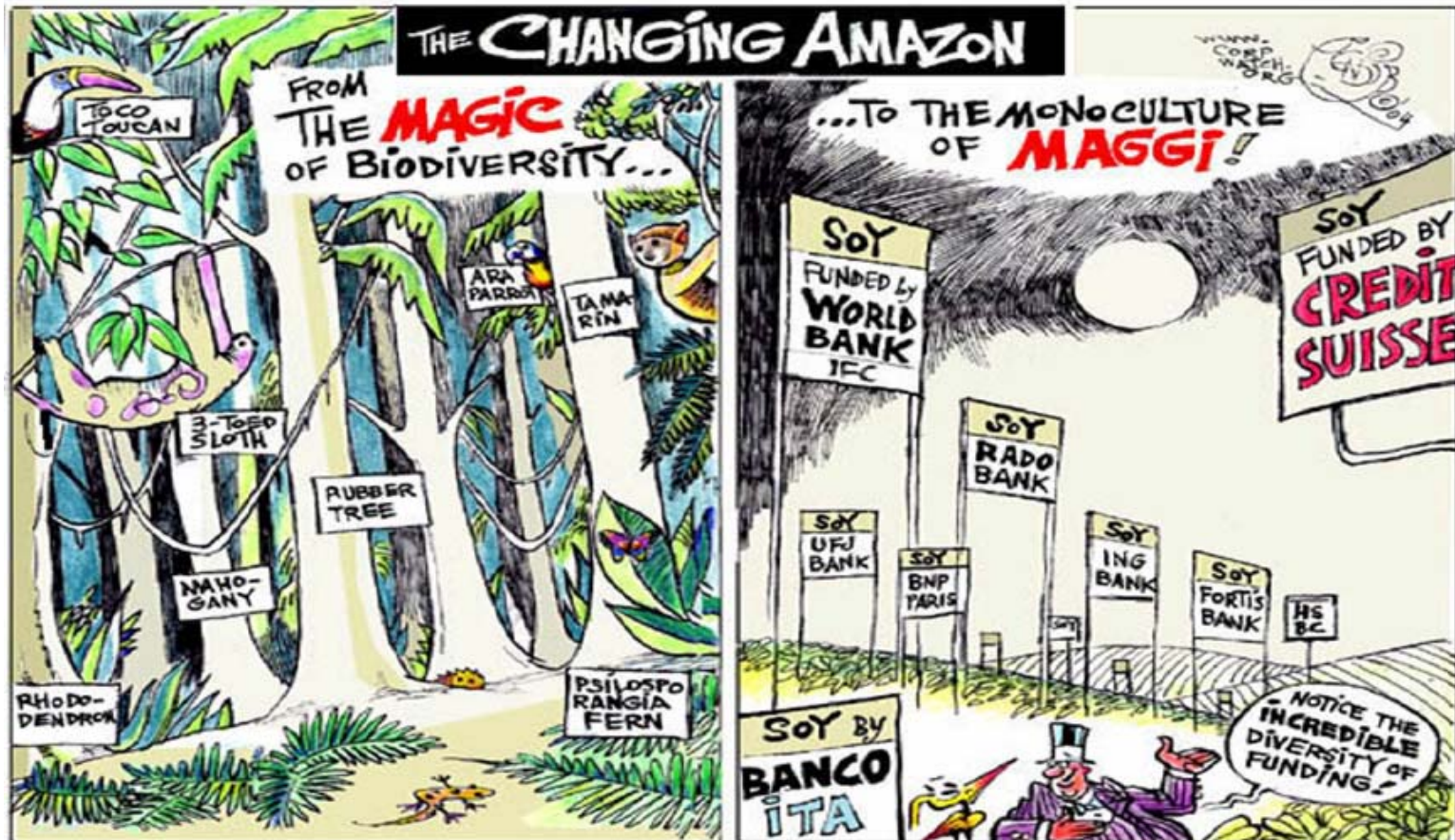


Relevance for the Financial Sector?

- G8 plus 5 “Potsdam Initiative” in March 2007
- Clear Challenge for Financial Sector
- Both Business Opportunities and Risks...
- Do new evaluation tools / filters need to be employed
- Externalising the Cost or Value of BES elements
- Vary depending on industry sector and location
- Largely an indirect risk?
- Impact of Activism on Market Capitalisation



Increased Risks for Banks?



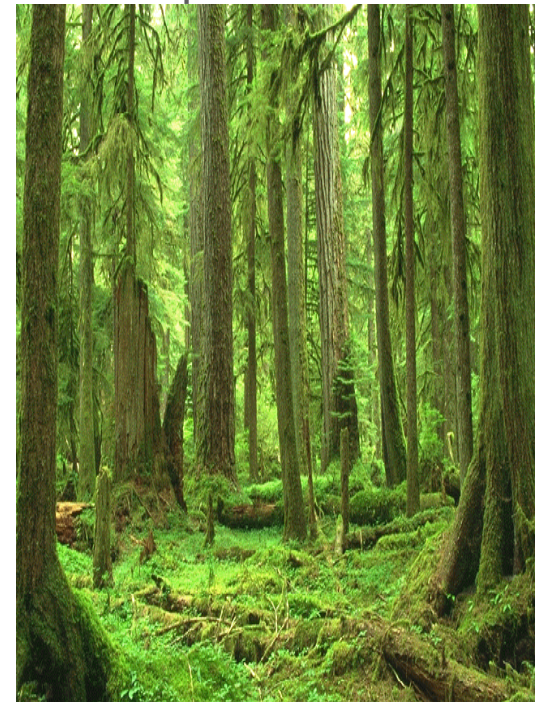
Equator Principles

- Over 40 Financial Institutions have adopted the framework since 2003 creating an Industry Market Standard
- Has fostered more transparent and consistent risk management and engagement with stakeholders
- The Principles have been revised following the IFC's adoption of its new Performance Standards
- Further expansion of EP into Developing Country Financial Institutions is a stated objective of the current Banks



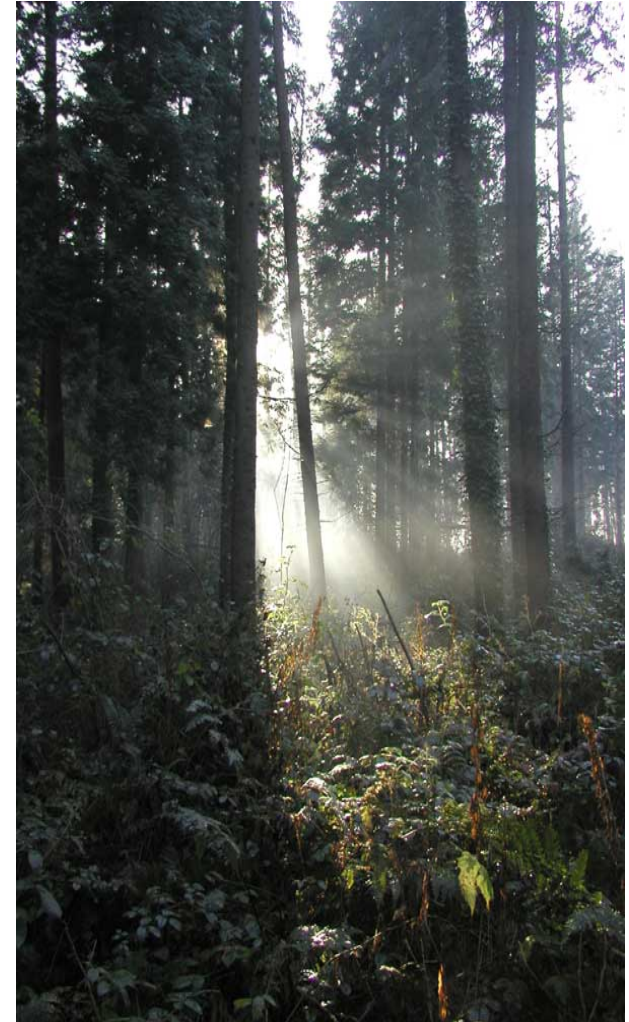
Wider implications of the Initiative

- Risk and reputation management issues receiving greater attention
- Recognition that the financial sector has a critical role as an intermediary of financial capital
- The financial sector has an opportunity to facilitate stewardship on these critical issues
- Engagement in sensitive industries and markets where risk levels are perceived to be high
- Forestry as an example falls into that categorisation
- A number of the EP Banks including ABN AMRO, HSBC, Citigroup, JP Morgan Chase and Bank of America have created specific forestry policies



Forestry Sector Policies

- Typically prevent involvement in illegal or unsustainable resource extraction from primary or high conservation value forests
- Illegal logging
- Sustainable forest management planning
- Respect for human or indigenous rights
- Bio-diversity and soil and water management
- Supply chain management issues
- Increasing use of certification standards such as FSC in decision making tools
- Used to determine business engagement
- Also impacting the Banks' own procurement



Principles for Responsible Investment

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles.



Observations

- Understanding the new risk profile emerging from these issues
- PES Markets are developing
- Watershed services predicted to be a US\$ 30bn market by 2050?
- Challenges in evaluating BES issues?
- Lack of metrics, capacity and leverage?
- Proliferation of initiatives?
- Engagement is increasing but...
- BES still largely an unmonitored Risk
- Part of a complex systems problem.....

