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COMPANIES MUST GEAR UP TO WEATHER THE COMING NATURAL RESOURCE CRUNCH

Many companies are failing to adequately address the issue of sustainable sourcing of raw materials, a report from the United Nations Environment Programme Finance Initiative, conservation charity Fauna & Flora International and Brazilian business school, Fundação Getulio Vargas stated today.

The report evaluates 31 multinational and Brazilian companies in the food, beverage and tobacco industries against a new tool – the Ecosystem Services Benchmark. The benchmark is designed to enable investors to assess the level of risk of investing in companies that rely heavily on certain ecosystem services. Until now, this aspect of investment risk has been latent; however the Ecosystem Services Benchmark exposes these potential risks. It does this by highlighting companies' dependence on the ecosystem and allows investment analysts to rank companies in accordance with the level of sophistication of supply chain management of biodiversity and ecosystem services.

It is the first comprehensive analysis of how companies within the food, beverage and tobacco sectors are addressing business challenges relating to their impacts and dependence on ecosystem services. Such services (which include healthy soils, pollination and water) are vital for companies with agricultural supply chains. These sectors are amongst those that are most dependent on ecosystem services, while having the potential to have a significant impact on biodiversity.

The Ecosystem Services Benchmark tool was designed in conjunction with investors from Europe, Brazil, the USA and Australia: three UK-based asset managers (Aviva Investors, F&C Investments and Insight Investment); US-based asset manager (Pax World); Brazilian based bank (Grupo Santander Brasil) and a leading Australian pension fund, VicSuper. Collectively, these represent €455 billion (£398 billion, US$633 billion) of assets under management.

Commenting on the new report, Karina Litvack, Head of Governance and Sustainable Investment, F&C Investments, said "Companies and their investors have long taken ecosystem services for granted, as if they came for free. Yet recent pressures on natural resources suggest that in future such services will start to command a premium, or, worse, become unavailable. This could have a profound impact on the strategies and valuations of companies in high-risk sectors."

The survey reveals a picture of early stage response. Companies have pilot projects in place, but no plans disclosed to roll them out. They have management systems that tackle the issue in part, but are incomplete – perhaps applied to a single commodity or region. They have a wealth of activity but no clear rationale/ risk assessment process underlying it. This suggests a reactive rather than proactive approach.

UNEP Finance Initiative

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This, combined with incomplete disclosure by companies, makes it challenging to determine whether a company has understood and is managing the issue. The overall poor performance was not because the companies evaluated were inactive or disengaged, but because they could not readily demonstrate that the extent of their activity to manage this issue was appropriate for the risk involved.

“Almost two thirds of the companies were attempting to address the issue through some form of pilot programme, but often these were small initiatives at local level rather than company wide schemes that deal with natural resource issues at a scale equivalent to the company’s global footprint.” said Mario Monzoni, Director of the Centre for Sustainability Studies at the Brazilian business school Fundação Getulio Vargas. “Such programmes often reflected a reaction to immediate risks rather than being part of a longer-term strategic risk assessment that anticipates the ‘natural resource’ crunch before it becomes a reality.”

“Perhaps the most telling result from the survey was the fact that less than half of the companies evaluated incorporated the full range of ecosystem services within their corporate risk assessments” said Annelisa Grigg, Project Director of the Natural Value Initiative for Fauna & Flora International. “Hence, risks may be unmanaged and opportunities to build shareholder value missed.”

It is not all bad news, however, as many of the companies in the analysis had started the journey to understand and address their impacts and dependence on ecosystems. Commenting on the study, Steve Waygood of Aviva Investors said, “Investors concerned about long term performance will examine the sustainability of a company's business model. Companies that monitor their dependence on ecosystems and ensure the security of raw material supply have a competitive advantage in a resource-constrained world."

Dutch food giant, Unilever was the only company to fall within the realm of best practice within the survey. The UK retailer, Marks and Spencer also performed well. Both companies were distinguished by their well-documented, strategic and risk-focused approach which indicated they had understood and were managing many aspects of their ecosystem services footprint.

Lauren Orme, the manager responsible for UK retailer M&S’ sustainable sourcing policies, stressed the importance of the issue. "The sustainable sourcing of raw materials is a key pillar in our sustainability plan, Plan A. For us this means identifying those areas in which we have the biggest impact and the biggest opportunity to influence. As resources become increasingly scarce, building resilience in our supply chain will become more and more important. It is critical that we take action now for the future."

Each year, it is estimated that we are losing ecosystem services, with an annual value equivalent to around €50 billion, from land-based ecosystems alone[1]. This loss has important implications for the long-term viability of the businesses dependent on these services, in particular those with agricultural supply chains. As biodiversity and

[1] The Economics of Ecosystems and Biodiversity Interim report 2008

ecosystem services decline, this is increasingly translating to business risk and opportunity linked to reputational risk, security of supply and legal compliance.

The report encourages investors to build capacity to engage on the issue and challenge their investments on their performance in this area. Companies are encouraged to disclose more fully on the issue and put in processes to allow a better understanding and management of their company's impacts and dependence on biodiversity and associated risk exposure.

The decline in ecosystem services is the next big challenge for society and business. Addressing some of the weaknesses raised by the report Bob Welsh, CEO of a leading Australia pension fund VicSuper stated, "We encourage companies to rise to this challenge and address some of the weaknesses raised by the Natural Value Initiative's survey.".

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Notes to Editors:

1. **Ecosystem services** — also called 'environmental services' or 'ecological services' — are the benefits that people obtain from ecosystems. Examples include freshwater, timber, climate regulation, protection from natural hazards, erosion control and recreation. Biodiversity itself plays a vital role in sustaining our agricultural system – from providing pollinators, to regulating water quality and quantity and ensuring soil quality. A company **depends** on an ecosystem service if that service functions as an input or if it enables, enhances, or influences environmental conditions required for successful corporate performance. A company **impacts** an ecosystem service if the company affects the quantity or quality of the service. *Source: C.Hanson et al. (2008) The Corporate Ecosystem Services Review.*

2. The **Ecosystem Services Benchmark** was conducted from September 2008 to March 2009 based on publicly available information (company websites, sustainability/ environmental reports, annual reports, and media searches). It considers five interdependent categories of performance: Competitive advantage, Governance, Policy and strategy, Management and implementation, and Reporting.

3. **The Natural Value Initiative** The Natural Value Initiative (NVI) – led by Fauna & Flora International (FFI) in collaboration with the United Nations Environment Programme Finance Initiative (UNEP FI) and Brazilian business school Fundação Getulio Vargas (FGV) – aims to create a toolkit for institutional investors to enable them to understand risk and opportunity relating to the impacts and dependency of their investments on biodiversity and ecosystem services.

4. **Fauna & Flora International (FFI):** FFI protects threatened species and ecosystems worldwide, choosing solutions that are sustainable, based on sound science and take account of human needs. Operating in more than 40 countries worldwide – mainly in the developing world – FFI saves species from extinction and habitats from destruction, while improving the livelihoods of local people. Founded in 1903, FFI is the world's longest established international conservation body and a registered charity. **(**www.fauna-flora.org)

5. **UNEP Finance Initiative (UNEP FI):** The United Nations Environment Programme (UNEP) Finance Initiative is a strategic public-private partnership between the UNEP and the global financial sector. UNEP FI works with over 170 financial institutions that are signatories to the UNEP FI Statements, and a range of partner organisations to develop and promote linkages between the environment, sustainability and financial performance. **(**http://www.unepfi.org)

6. **Fundação Getulio Vargas (FGV)** is a pioneering school in business education in Brazil and one of the main centres for business education, research and consultancy in the country, as well as in South America. The Centre for Sustainability Studies (GVces) aims to disseminate the concept and practices of sustainability through educational activities, training, research, publications and communication. (http://www.ces.fgvsp.br)

7. **Companies evaluated are listed below**

- Producers, Açúcar Guarani (ACGU3), Bunge (BG), COSAN (CZZ), Grupo André Maggi, SLC Agrícola (SLCE3), United Plantations (UTDPLT)
- Processors: Cadbury plc (CBRY), Dean Foods (DF), Groupe Danone (BN), Hain Celestial (HAIN), Nestlé (NESN), Parmalat Brazil (LCSA4), Sadia (SDA), Unilever (UN)
- Tobacco: Alliance One International (AOI), British American Tobacco (BATS), Imperial Tobacco Group (IMT), Philip Morris International (PM)
- Beverages: The Coca-Cola Company (KO), Diageo plc (DGE), Foster's Group (FGL), Heineken N.V. (HEIA), PepsiCo (PEP), SABMiller plc (SAB)
- Retailers: Ahold (AH), Carrefour (CA), M&S (MKS), Sainsbury's (SBRY), Tesco (TSCO), Wal-Mart (WMT), Woolworths (WOW)

Companies were selected on the basis of interests held by collaborating investors during the period of analysis and to ensure representation from all stages of the supply chain as well as companies from both the developed and developing world. We elected to focus on Brazil due to the vital role it plays in the global food web and the increasing awareness and engagement of the private sector within Brazil on social and environmental issues.

8. **Publication availability**
Linking shareholder and natural value.
For a full copy of the report, please contact Annelisa.grigg@fauna-flora.org