

The Natural Value Initiative

An overview

Biodiversity provides a range of goods and services termed ecosystem services on which business is reliant. Provision of clean water, the maintenance of fertile soils, and the regulation of climate are all examples. These services are particularly important for companies with an agricultural supply chain, which are directly dependent on ecosystems to provide raw materials such as agricultural commodities, fresh water and fish.

The Millennium Ecosystem Assessment, a United Nations (UN) review of the ecosystem services on which we rely, showed that over 60% of these services are degraded or in decline. The G8+5 driven study, The Economics of Ecosystems & Biodiversity, which is currently reviewing the economic impacts of the global decline in ecosystems services, is just one example of the significance being attached to this issue by the international policy community.

This downward trend in biodiversity ecosystem services is likely to intensify, as demand for raw materials continues to grow. This clearly has implications for the long-term viability of businesses which depend upon natural systems for value generation. This is creating new risks to security of supply, brand value, license to operate and investment return, whilst also opening up new business opportunities.

▼ Companies that are heavily dependent on agriculture are equally dependent on the ecosystem services on which agriculture relies such as access to water, access to healthy soils and pollination.

CURRENT RESPONSES ARE LACKING

Current approaches to environmental management focus on a company's environmental impacts rather than dependencies. Failure by companies to anticipate, plan for and take steps to mitigate loss of biodiversity and decline in ecosystem services on which they depend creates potential risk for both the companies and the financial institutions that invest in, or provide financial services to, those companies. The risks are both commercial, if companies are unable to deliver sustained return on investment or are exposed to unforeseen costs and liabilities, and reputational, if the financial institutions are seen to be profiting from poor performance. Conversely, companies that actively manage and minimise these risks may create opportunities for investors.

Example of corporate dependence on ecosystem services: The wine industry in Australia

In Autumn 2007 JP Morgan revised their earnings forecast for winemaker McGuigan Simeon Wines from A\$2.5million profit to A\$1.1 million loss, due to a drought-induced fall in yields. Banrock Station wine producers, located in the Murray basin, noting the dependence of the industry on continued ability to access water in the right quantity and quality, are differentiating their brand to consumers through donating a proportion of their profits to wetland restoration. Wetlands play a key role in maintaining water quality and availability.



THE NATURAL VALUE INITIATIVE – AN OVERVIEW

The NVI, a collaboration between international environmental NGO Fauna & Flora International, the UNEP Finance Initiative and Brazilian business school FGV, aims to:

- Build awareness of the food, beverage and tobacco sectors' dependence on biodiversity and ecosystem services;
- Build expertise in the finance sector to evaluate biodiversity and ecosystem services opportunities and risks within the food, beverage and tobacco sectors, and drive integration of these issues into investment decisions;
- Stimulate improved performance of food, beverage and tobacco companies and encourage greater reward of responsible behaviour.

THE NATURAL VALUE INITIATIVE TOOLKIT

The first phase of the NVI is complete. During it, a toolkit was created to enable institutional investors to better understand the impacts and dependency of their investments on biodiversity and ecosystem services. It was developed in collaboration 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.

The toolkit consists of the following:

- **A BRIEFING DOCUMENT FOR THE FOOD, BEVERAGE AND TOBACCO SECTORS ON BIODIVERSITY AND ECOSYSTEM SERVICES:** A document outlining the business case for managing dependence and impacts on ecosystem services focusing on the food, beverage and tobacco sectors.
- **THE ECOSYSTEM SERVICES BENCHMARK:** This has been developed to enable institutional investors to better understand the risks and opportunities associated with the impacts and dependencies of the companies in which they invest in relation to biodiversity and ecosystem services.

The ESB was tested on 31 investment holdings of our collaborating investors. We adjusted the toolkit based on the results of this pilot study, and have now made it available for groups to use and adapt as required. The results of this analysis are summarized in our report Linking shareholder and natural value. We encourage companies to read this report to gain a better understanding of how to manage their impacts and dependence on biodiversity and ecosystem services.

The Natural Value Initiative will repeat this benchmarking exercise in 2010-11, working with our collaborating investors to engage with the companies being evaluated to encourage performance improvement. We invite investors that are not yet engaged in this initiative to join us in this work, to gain a better understanding of this emerging issue and how it impacts risk within their investment portfolio.

For further information please visit the NVI website at www.naturalvalueinitiative.org, or contact:

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