

Protecting shareholder and natural value

Biodiversity benchmarks as a tool for financial analysis
United Nations Environment Programme Biodiversity & Ecosystem Services
Workstream
5th April 2007



Kerry ten Kate (Independent consultant) & Annelisa Grigg (Director of Corporate Affairs, Fauna & Flora International)



HBOS plc



Contents

- **What is the biodiversity benchmark?**
- **What does it do and what does it cover?**
- **How was it developed and how is it done?**
- **What have been the results in 2004 – 2005**
- **The next steps**

What is the biodiversity benchmark?

- Framework describing best practice in the management of biodiversity by companies, produced by Insight and FFI.
- Based on business risk and opportunity.
- Includes 34 standard and 7 leadership aspects of management.
- Establishes criteria for different scores on each aspect, so each company can be marked on the quality of cradle to grave management of biodiversity.
- Allows the comparison of companies' risk management and performance.

What does the benchmark do?

- Provides an **objective**, consistent basis for examining the comparative risk exposure and management of companies on biodiversity.
- Helps answer the question “how does the CBD translate into **specific responsibilities** for companies”.
- Reveals specific **strengths** and **weaknesses** of **companies** on biodiversity.
- Allows mainstream investors to consider biodiversity in their **investment decisions**.
- Transparency and **public visibility** of results offers companies incentive for further improvement.
- Provides a **model** which can assist companies in meeting commitments under the Principles for Responsible Investment

How does the benchmarking exercise take place?

- Information from **publicly available** corporate **literature** matched against benchmark criteria for **initial results**.
- Initial results sent to each company for correction and addition of **supplementary information** which is not in the public domain.
- Discussions/meetings with companies for any necessary **clarification**.
- Benchmark **results finalised**. **General report published**.
- **Specific results sent to each company** together with “engagement” letter **requesting changes** in governance, policy/strategy, management and disclosure.

Biodiversity Benchmark

Elements of the biodiversity benchmark:

- **Governance structures**
- **Policy and strategy**
- **Management and implementation**
- **Assurance and reporting**
- **Leadership**

How do the participants perform?

	Description	Mining and Minerals	Oil and Gas	Utilities
Companies engaged and actively managing (Score >66%)	<ul style="list-style-type: none"> Biodiversity is acknowledged as a potential business risk and opportunity Biodiversity risk has been formally assessed Specific related policy commitments and management tools in place 	Rio Tinto Anglo American BHP Billiton Alcoa#	BG Group BP Shell Total#	Northumbrian Water* Severn Trent Water United Utilities
Companies aware and mobilising (Score 33% - 66%)	<ul style="list-style-type: none"> Awareness demonstrated through acknowledgement of company's impact on biodiversity, its inclusion within certain aspects of risk management and/or some reference within policy documents and/or management tools 	CEMEX# Lafarge# Lonmin* Xstrata†	Cairn Energy*† ENI# Norsk Hydro# Premier Oil* Statoil# Venture*†	Centrica National Grid Scottish Power# Scottish & Southern# Kelda
Companies in early stages (Score < 33%)	<ul style="list-style-type: none"> Little or no evidence that potential risks relating to biodiversity have been formally assessed No publicly expressed rationale provided for any conclusion that biodiversity is not a business risk Policy for biodiversity risk management is limited in geographical and/or business function scope or does not exist at all 	Alcan# Antofagasta Aquarius Platinum* Holcim# Vedanta*#	OMV# Soco*† Tullow*†	E.ON# Suez#

* Companies with market capitalisation of £2 billion or less (source: Datastream, as at 31 December 2004)

Companies that are new to the benchmark of 2005

† Companies that improved their scores by more than 100% from the 2004 benchmark

Power for Change?

©Cartoonbank.com



"My question is: Are we making an impact?"

Recommendations

- **Report sets out series of minimum and best practice recommendations for biodiversity management**
- **As a minimum companies should report outcome of biodiversity risk evaluation, policy commitments and site level management activities**
- **Companies are encouraged to pay particular attention to**
 - Making clear policy and strategy commitments
 - Undergoing robust risk assessment processes and creating linked biodiversity management activities
 - Development of biodiversity performance indicators
 - Addressing gaps in assurance processes
 - Participating in effective integrated land use planning

Encouraging change

- Average scores show overall trend of improvement

	2004	2005
Mining and metals	48%	56%
Oil and gas	46%	51%
Utilities	62%	66%

- Cairn Energy, Xstrata, Venture, Soco & Tullow more than doubled their performance
- Ongoing dialogue and key engagement points beginning to be addressed
- A number of companies actively tracking and participating in initiatives to address emerging issues e.g. offsets, landscape level planning
- Areas of significant weakness remain (risk evaluation, policy and strategy, assurance and reporting)

What are the limitations of the benchmark?

- So far, only designed for **direct footprint impacts**, not supply chain impacts.
- **Relies** largely on **corporate information** (eg existence of policies and management tools on biodiversity) and companies' statement on how these management tools are applied. (But does require some evidence to back up assertions.)
- Doesn't provide detailed, technical "**how to**" information, but points companies to examples of best practice.
- **Human and financial resources** required to do the analysis and communicate with companies.

Feedback from the finance sector

Feedback from investors:

- Consider addressing second tier companies e.g. junior mining companies as a key risk area;
- Link the analysis to a more thorough initial risk assessment of the locations in which the company is operating; and
- Use the learning and expertise from the extractive industry benchmark to develop tools for sectors within the industry other than asset managers.

Feedback from companies:

- Company use of the benchmark as a framework to audit approaches to biodiversity management and see it as a logical framework for approaching biodiversity management; and
- Interest from investors is a means of securing senior attention on biodiversity, builds the internal business case.

Feedback from NGOs

- Need to adjust the methodology and application to evaluate biodiversity risks within companies with agriculturally based supply chains; and
- Tailoring of the analysis to consider issues within developing countries more comprehensively, using local expertise to supplement the analysis.

Where next for the benchmark?

- Four year programme initiated in 2007 in collaboration with UNEP FI and a range of collaborating organisations.
- Overall objective: a finance sector better informed of biodiversity risks within their investment portfolio, and better able to act to manage that risk.
- Subsidiary objectives:
 - Better informed business sectors, better able to manage biodiversity related risks
 - Capacity built in key institutions to understand and manage biodiversity issues
 - To make the initiative redundant over a four year period

The Biodiversity Benchmark Initiative

	Supply chain benchmark	Extractive industry benchmark
Q2 2007	Benchmark methodology developed, benchmark performed for two markets (UK and Brazil) (up to 40 companies) & report released	
2008	Engagement with companies and finance institutions on benchmark results	Benchmark methodology reviewed & benchmark performed for up to 20 companies in each of Chinese, UK, USA, South African and Brazilian markets, report released
2009	Benchmark expanded to 3 further countries & report released	Engagement with companies and finance institutions on benchmark
2010	Engagement with companies and finance institutions on benchmark results	Benchmark re-performed Report released
2011		Engagement with companies and finance institutions on benchmark

- Reviews and confirms the current form of the benchmark tool and its use by the finance sector
- Designs and pilots a biodiversity benchmark for use on supply chain companies with a significant presence in Brazil & the UK, then extends it to China, the USA and South Africa
- Expands and repeats the existing benchmark of the extractive industry in 5 markets

The supply chain benchmark

1. Scoping phase

- Q2 2007 • Series of discussions/ workshops with the finance sector in UK and Brazil to determine 1) the tools required to evaluate biodiversity risk and 2) appetite for benchmarking tool for companies with an agricultural supply chain
- Q3 2007 • Revision, update and adaptation of the benchmarking tool for application to companies with an extended supply chain
- Q3 2007 • Workshop with supply chain specialists and companies within the food and drink producer/ processing and retail companies in the UK and Brazil to outline the business case for managing biodiversity risk in their sector, best management practices and critique the draft benchmarking methodology

Outputs:

- Confirmation of the utility of the benchmark in its current range and agreement to support an engagement process based on the benchmark results
- Draft benchmarking tool for finance institutions to apply on supply chain companies
- Information gathered to support the UNEP FI CEO briefing and confirm points of biodiversity risk and control within supply chain companies

The supply chain benchmark

2. Implementation phase – supply chain industry

- Q4 2008 •The revised benchmarking framework will be applied to up to 40 companies in the forestry, food and drink sectors
 - Q1-2 2008 •A report will be launched which outlines the findings of the benchmarking work
 - Q2-4 2008 •Engagement with companies to discuss areas of weakness and performance improvement and with financial institutions to encourage uptake of the methodology
 - 2009-2010 The process will be repeated in 2009 when it will be extended to 3 additional countries with a second report launched in 2010 to coincide with the 2010 target deadline.
- Outputs:**
- Analysis of 40 company approaches to biodiversity, communication of results to those companies and suggestion of performance improvement
 - Report outlining the results of the benchmark, identifying emerging issues and outlining best practice approaches to addressing them