

Developing a framework for analysing biodiversity and ecosystem services risks

Risk and dependencies – the business case for biodiversity and ecosystem services management



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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
- Soil erosion leading to loss of agricultural productivity and declining downstream water quality;
- Reduced production and profitability
- Restricted access to land
- Increased risk of litigation
- stakeholder activism
- Reputational damage
- Reduced access to markets



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

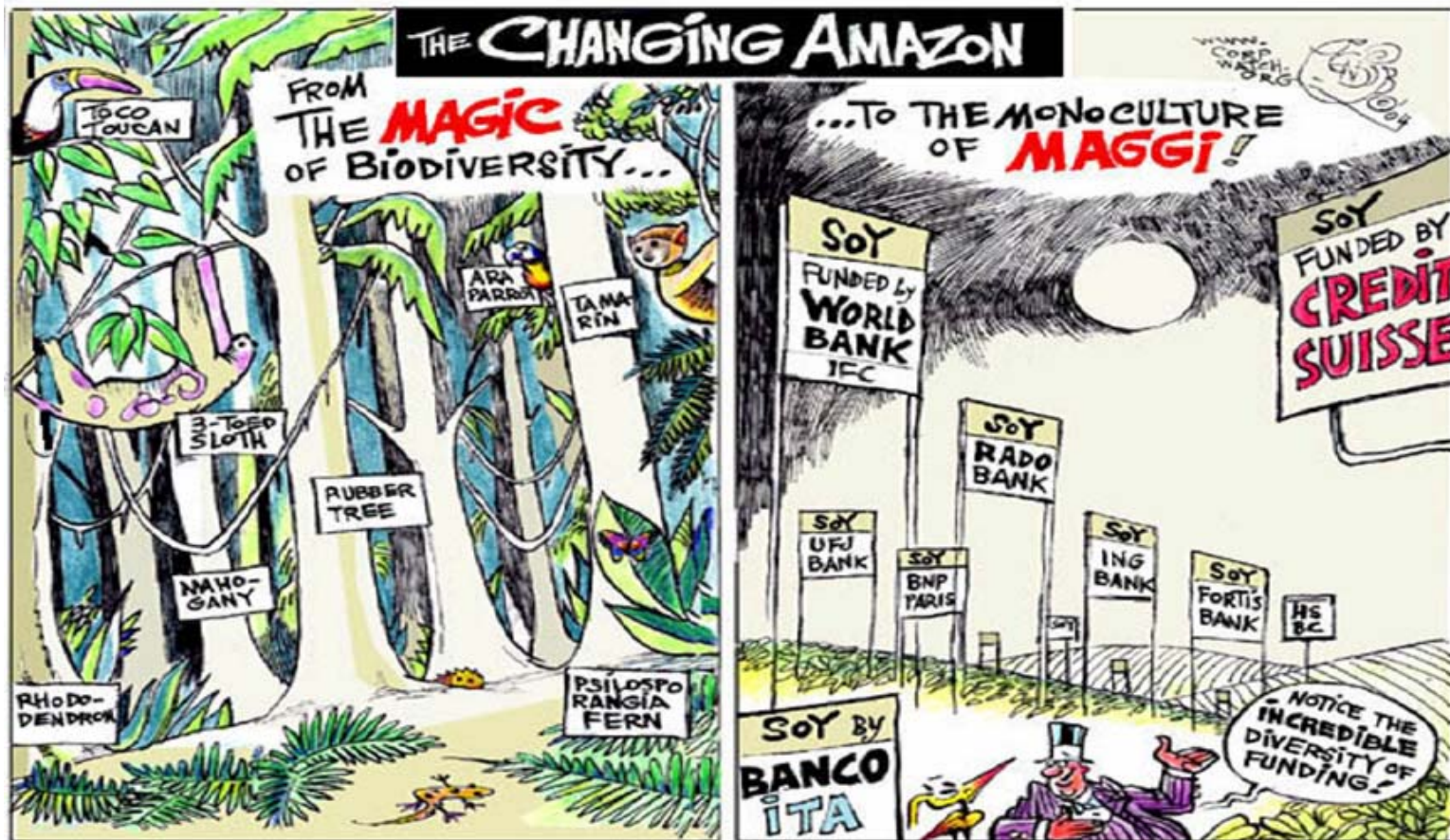


Relevance for the Financial Sector?

- 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
- Internalising 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?



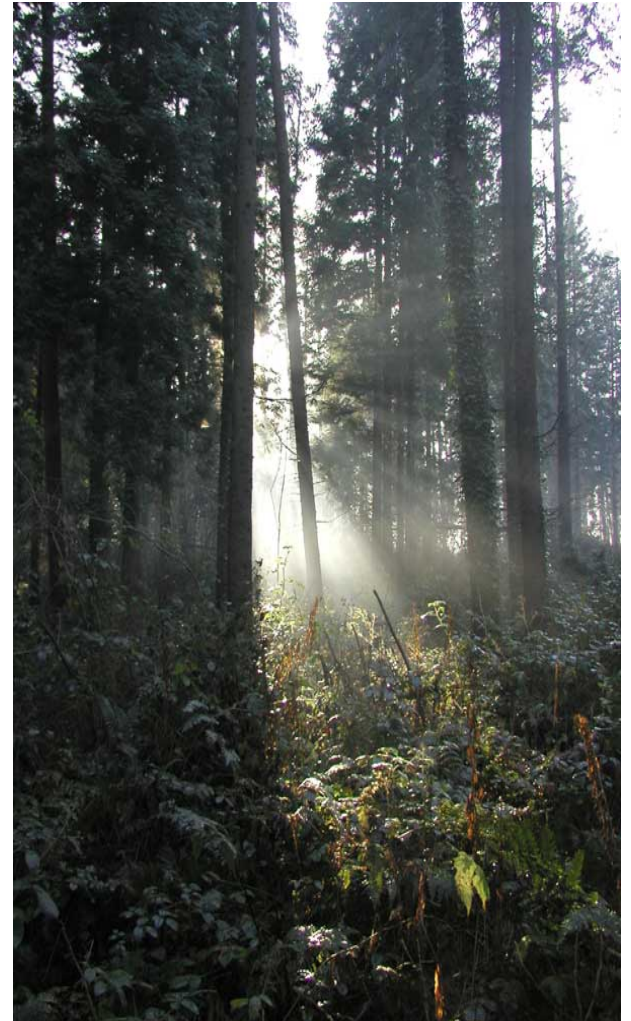
Trends in ESG Risk Management

- Equator Principles has fostered a more structured approach to risk management in project financing
- The Principles for Responsible Investment are incorporating ESG issues into investment analysis and decision-making processes
 - Risk and reputation management issues receiving greater attention
 - 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
 - A number of the EP Banks 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



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.....

