

Safeguarding Europe's water resources

CDP Policy Briefing 2014

Written on behalf of 530 investors with US\$57 trillion in assets



Co-funded by the Life Programme
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EU Communication Partner



break through

About CDP

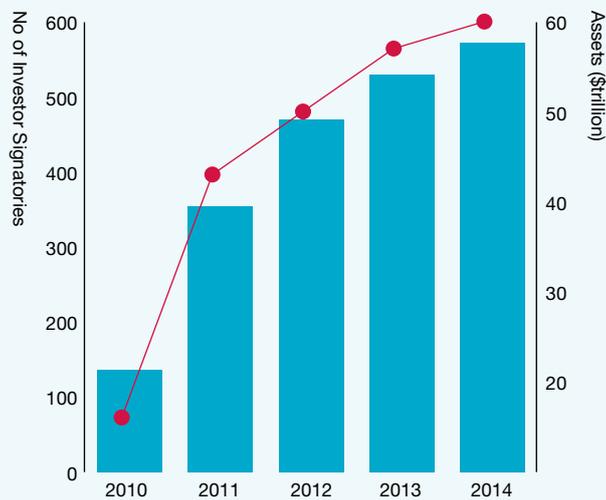
Water scarcity, especially in developing regions, may lead to greater political and economic instability and in turn affect VINCI's operations.

VINCI



1 Growth in investor signatories to the water program over time

- CDP Water Disclosure Signatories
- ▲ CDP Water Disclosure Signatory Assets (\$trillion)



CDP is an international not-for-profit organization providing the only global system for companies and cities to measure, disclose, manage and share vital environmental information. Its water program aims to catalyse action on corporate water stewardship to safeguard precious water resources. In 2013, 530 institutional investors representing approximately US\$57 trillion in assets called for greater transparency on corporate water issues through CDP's water program – this figure has more than quadrupled, growing to 573 investors with US\$60 trillion in assets in 2014.

In 2013, CDP's water information request was sent to 1,036 of the world's largest organizations as determined by market capitalization. 593 responded, a 59% increase from 2012. In addition to the largest companies in the world, CDP targets those organizations that have the greatest potential to impact or be impacted by water scarcity issues. Together, these corporations account for approximately 11 billion megaliters of water withdrawals per year, enough to provide 50 liters of water per day to the world's current population for nearly 82 years.

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Summary of findings

The CDP report “Safeguarding Europe’s water resources” is based on the analysis of 70 European companies in mainland Europe that responded to CDP’s 2013 water information request. Among these 48 are listed companies targeted by the CDP’s “Global 500” sample, the remaining companies responded voluntarily. A full list of responding companies can be provided.

- ▼ **1.** Almost three-quarters (73%) of targeted European companies reported to CDP in 2013 compared to 60% of CDP’s “Global 500” sample.
- ▼ **2.** 83% of European respondents report having operations located in water-stressed regions and almost three-quarters (73%) report being exposed to risks in either their direct operations or their supply chain.
- ▼ **3.** 96% of European respondents report having a water management policy, plan or strategy in place, with 81% reporting board-level oversight of those policies, strategies or plans.
- ▼ **4.** All European respondents have information on their direct water usage; 100% of respondents reported water withdrawal accounting data and 81% are able to identify discharges by destination, treatment type and quality.
- ▼ **5.** More than three-quarters (77%) of European respondents identify trade-offs between water use and carbon emissions, such as increased carbon emissions as a result of increased energy used in water recycling.

Analysis suggests that a selection of European companies is capable of, and see value in, disclosing their water related data. CDP has found that the disclosure process provides valuable evidence and insight for key stakeholders, thus catalysing behavioural change that leads to a reduction in impacts on water resources. CDP is seeking to increase the disclosure of water data from Europe.

Our analysis demonstrates that European respondents are anticipating that water is already and will continue to have a profound effect on both short term and long term profitability. Corporate water stewardship is increasingly recognised as the framework needed for companies wishing to safeguard their business. Government has a critical role to play in facilitating the stewardship framework for business and we look forward to working with policy makers across Europe to safeguard water resources and contribute to sustainable economic growth.

At time of writing it looks likely that a requirement for non-financial reporting by large companies will pass into European law within weeks. CDP has worked with EU institutions to encourage this development and to try to ensure that any new reporting requirement is of high quality.

Water impacts and availability are crucial aspects of climate adaptation, and water stewardship is an important climate resilience measure. The findings outlined in this briefing are therefore highly relevant to the EU adaptation policy agenda.

CDP asks European policy makers to consider the findings outlined in this report and calls on you to encourage greater levels of corporate transparency and pursue policy initiatives that support corporate water stewardship across Europe to contribute to the safeguarding of Europe’s water resources.

¹ Global 500 companies are the largest companies by market capitalisation as listed by the FTSE Global Equity Index.

Introduction



Water is the lifeblood of the economy. Due to an increasing global population, the impacts of climate change and a growing demand for water, the world now faces an unprecedented global crisis.

Today, almost one-fifth of the world's population resides in areas where water is physically scarce; that number is expected to rise to two-thirds of the world's population by 2025 (FAO, 2013). Population growth shows no signs of stopping. We are expected to add another 1 billion people to our planet in the next 12 years, bringing the global population to 9.6 billion by 2050 (UN, 2013). The increased population, coupled with growing competition from increasing industrialisation and globalisation is anticipated to lead to a global shortfall of water supply versus demand of 40% by 2030.

It is therefore hardly surprising that this year's Global Risk report, produced by the World Economic Forum, highlighted water crises as its third risk of highest concern. This is the third consecutive year in which the water crisis has emerged in the top ten risks.

Whilst public perception is that Europe is generally considered to have adequate water resources; water scarcity, drought and the depletion of water resource through pollution is an increasingly frequent phenomenon. It was estimated by the European Commission that by 2007, at least 11% of Europe's population and 17% of its territory had been affected by water scarcity, putting the cost of droughts in Europe over the past thirty years at EUR 100 billion (European Commission, 2010) .

Further, many European companies are now reliant on supply chains located in water stressed or water scarce regions, increasing potential exposure to water risk. Supply chains located outside of Europe are not all that is of concern however; as Europe focuses on re-industrialization in an effort to improve their economic growth, it is important to understand its potential impact on an already scarce resource.

These factors leave us with difficult choices to make as Europe works to increase economic prosperity whilst meeting basic needs for food, energy and water. As our shared water resources face greater demands, European policy makers need to act now to ensure sufficient water is available for all these needs, including economic growth.

This policy briefing provides an overview of European corporate performance with regards to water stewardship. It compares European respondents, where relevant, against their peers in the Global 500. It also provides an overview of CDP's plans for increasing its work on water in Europe and discusses the need for increased transparency and disclosure. The briefing can be used by policy makers to determine critical next steps towards improving European water stewardship.

1. European companies demonstrate greater transparency than their global peers

Corporate disclosure is a crucial first step towards water stewardship, and compared to their global peers, Europe is leading the way in transparency. In 2013, 73% of European companies (48 companies) responded to CDP’s water information request compared to 60% of Global 500 companies.

Whilst Europe’s overall response was encouraging, there are marked differences between sectors. For example, the Materials, Consumer Staples and Utilities sectors all saw response rates of close to 90% whilst the Energy sector saw only a 50% response rate, and neither of the two European companies targeted in the Information Technology sector responded.

GICS Sector	European Response Rate	Global 500 Response Rate
Materials	90%	74%
Consumer Staples	89%	76%
Utilities	89%	70%
Health Care	83%	74%
Consumer Discretionary	67%	48%
Industrials	56%	47%
Energy	50%	47%
Information Technology	0%	54%

Policy makers have an opportunity to capitalise on some sectors leading performance and push for improved disclosure from those sectors falling behind European reporting standards. A focus on the low response sectors, such as Energy and Information Technology, will ensure companies providing a vital service to Europe engage with water as a critical issue.

2. European companies are exposed to water risk around the world, but especially within the Europe

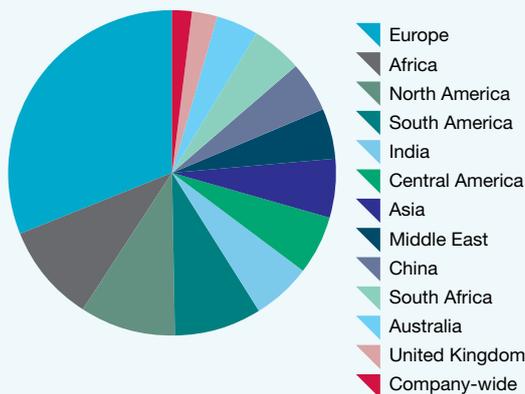
With 83% of European respondents reporting operations located in water stressed regions, identifying potential water risk exposure in both direct operations and supply chains is a vital step for companies to take when looking to safeguard their business. 80 countries were identified by respondents as being ‘water stressed’, of those countries, Europe was the region where most operations were located.

Additionally, a higher proportion of European respondents report exposure to water risks that could cause a substantive change in their business, operations, revenue and expenditure compared to their Global 500 peers (73% vs 70%). The European Utilities (100%), Materials (100%) and Health Care (83%) sectors have the highest proportion of companies exposed to risks.

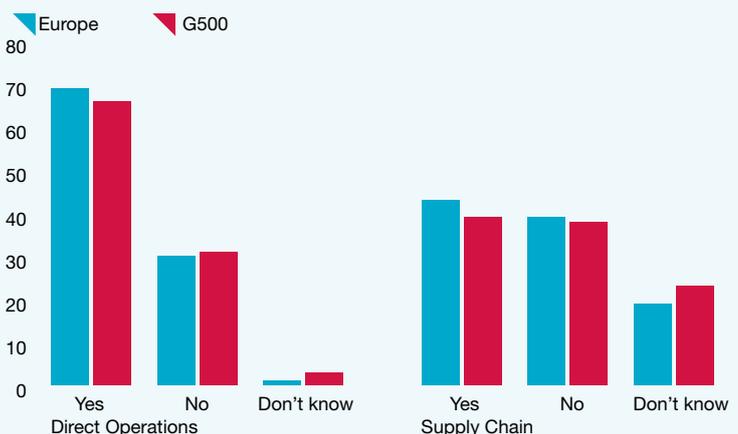
Results from the Energy sector suggest a potential lack of understanding as to water related risk, as only 33% of European energy sector respondents report exposure to water risks compared to 82% of their Global peers. This potentially important finding requires further analysis given the sample size for this sector.

Our analysis indicates that the generally higher stated level of risk exposure could be linked to the fact that European respondents are more capable than the Global 500 of identifying risks across their direct operations (69% vs 66%) and supply chains (43% vs 39%).

3 Percentage of operations located in water stressed regions



4 Ability to identify risk in Direct Operations and Supply Chain



Importantly, the majority of risks reported (193 short term risks to direct operations) are anticipated to impact either now or in the next few years, suggesting that an urgent response is required.

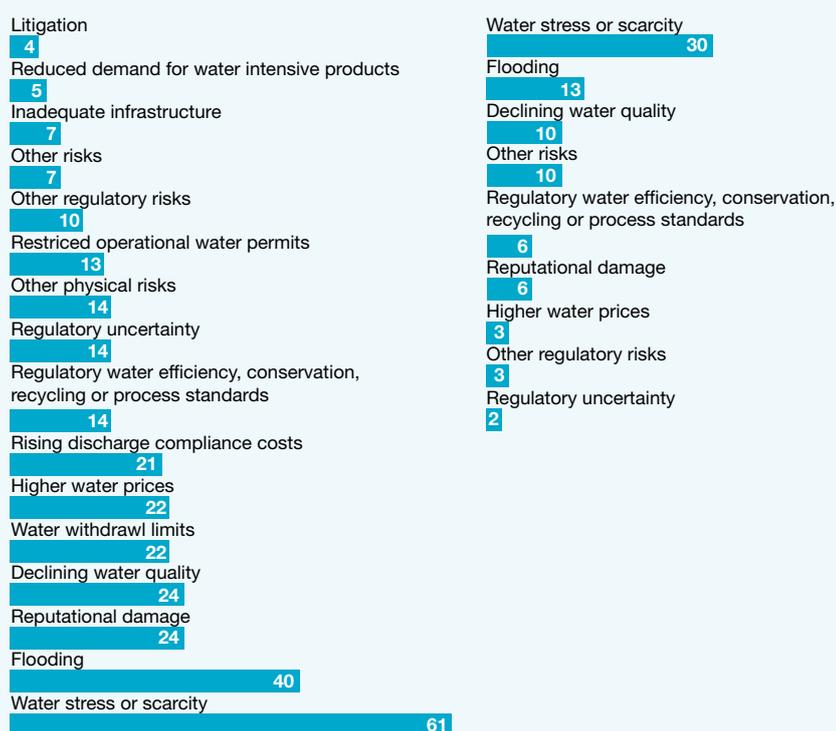
European respondents also report greater levels of engagement with their supply chains. Slightly less than half (44%) of respondents require their key suppliers to report on their water risks, more than the third (37%) of global organizations who require the same of their key suppliers.

One final factor potentially contributing to the higher levels of risk exposure could be that 58% of European respondents have already experienced detrimental water-related impacts in the past five years, the same percentage experienced by the Global 500, encouraging proactive engagement with the issue. Impacts related to tightening of water-related regulation, inadequate water infrastructure and increasing water stress were reported.

E.ON for example, experienced water shortages, leading to reduced water flow for its hydroelectric power generators in 2011 that resulted in 0.5 billion kWh (9%) less power generated than usual.

Our analysis indicates European respondents have both direct operations and supply chains in Europe and the evidence provided shows that companies view Europe as a region of water risk. Policy makers are asked to support greater corporate water stewardship in Europe in an effort to encourage companies to identify water impacts and mitigate water related risk. Table 2 provides insights into the risks European respondents currently face as well as the varied mitigation responses being pursued.

5 Types of risk drivers reported in Direct Operations and Supply Chain



6 Number of reported detrimental impacts per sector



Company	Sector	Risk	Timescale	Response
ACCIONA	Industrials	Physical: Annual summer droughts impact thermosolar and biomass electricity generation plants	6-10 years	Designed water accumulation pools that ensure continuous water supply, making it possible to manage potential risk arising from legal and administrative restrictions in water capture and consumption
BASF	Materials	Regulatory: Regulatory changes to requirements relating to quality, volume and heat of discharge water may result in higher compliance costs as well as limit growth of production sites	1-5 years	Manage the implementation of the Water Framework Directive through investment into mitigation measures or through the installation of new plants at other locations
Bayer AG	Health Care	Reputational: Low enforcement of wastewater standards for pharmaceutical/chemical suppliers, especially in developing countries, can lead to water pollution; if picked up by the media or NGOs, coverage in developed countries, where the topic receives higher attention, potentially affects the reputation of the entire industry	Current	Implement Bayer's Supplier Code of Conduct (CoC) which addresses responsible water management by suppliers; the CoC is a fixed element of the supplier selection and evaluation process, is legally binding and is integrated into all electronic ordering systems and contracts throughout the Group

Water Energy Nexus

CDP asks companies whether they have identified linkages or trade-offs between water and carbon. 77% of European respondents answered positively with 38% reporting trade-offs i.e. a situation where their requirement for water lead to an increase in carbon emissions.

Energias de Portugal S.A reports that the degradation of incoming water quality results in more energy consumption in pre-treatment operations and pumping, thus increasing carbon emissions.

As **BASF** incorporates more recycled water into their operations, their ability to reach their 2020 goal to increase energy efficiency by 25% relative to 2002 is challenged.

3. Corporate response to water needs to move from management to stewardship

In line with Global 500 respondents (93%), almost all European respondents (96%) report having a water management policy, plan or strategy in place. Further, 81% report board-level oversight of these policies, strategies and plans, significantly more than the Global 500 (58%).

Analysis suggests that great importance is placed on robust water accounting; 100% of European respondents report water withdrawal data and 81% report being able to identify discharge by destination, treatment type and quality.

Whilst providing relevant water accounting data and ensuring high levels of corporate oversight of water is good news, analysis also suggests that European corporate responses may be inadequate in dealing with the variety of water risks and in setting a course towards better water stewardship. For example, 21% of European respondents paid a fine and/or penalty in 2013, almost ten per cent more than the Global 500 (13%).

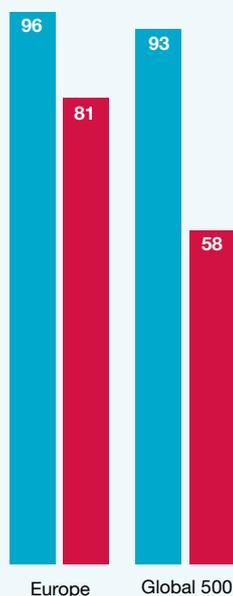
Further, whilst 81% of European respondents report setting actions, goals or targets to manage their water use, the majority focus on actions within organization's direct operations - such as improved water efficiency through reduced water use or increased water recycling/reuse.

While focusing on how much water a company uses is a sensible first step that may indicate where efficiencies and reduction opportunities lie, it will reveal little about the impact a company is having on water resources without being set in the context of where and when the water is used. Failing to recognize this drives short-termism that will not lead to better corporate water stewardship or any of the associated business benefits.

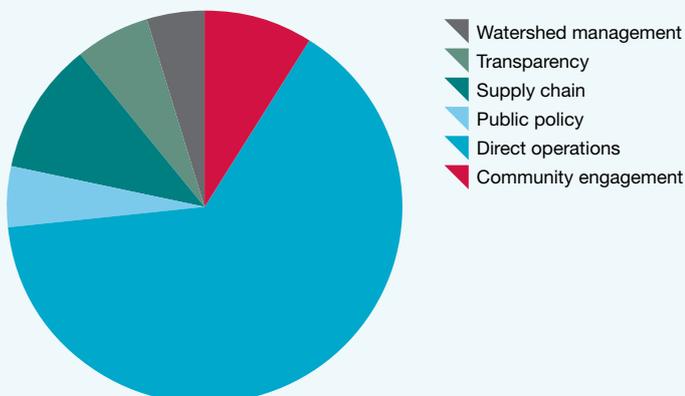
Corporations must recognise that water in one basin is not the same as water in another basin; applying a blanket strategy that focuses on reducing water use, similar to a carbon strategy, will be insufficient in managing their water risk. Corporate actions, goals and targets must align with a holistic and robust water stewardship strategy. Policy makers, by supporting the framework suggested by water stewardship, can help companies to realise all benefits.

7 European water governance

Europe G500



8 Categories of targets and goals



Policy Recommendation

CDP asks European policy makers to consider the findings outlined in this report and calls on them to encourage greater levels of corporate transparency and pursue policy initiatives that support water stewardship across Europe.

Why corporate transparency of water?

Evidence and insight is vital to driving real change. CDP's experience has shown that the power of measurement and information disclosure radically improves the management of environmental risk. By leveraging market forces, including shareholders, customers and governments, CDP has incentivized thousands of companies to measure and disclose their environmental information. We put this information at the heart of business, investment and policy decisions.

CDP's water program, now in its fifth year, has proven that the creation and widespread availability of meaningful and comparable data, on the use of water by major businesses, provides a catalyst for change. The information collected by CDP offers support to key stakeholders to address global water challenges by:

- ▶ Establishing performance metrics and benchmarks for companies to use in setting targets, assessing investments and developing plans;
- ▶ Encouraging other smaller businesses to understand and address their own challenges and opportunities relating to water;
- ▶ Enabling investors (in both the private and public sectors) to make better, more informed decisions about the impact of water on their investment portfolio and help to identify opportunities to improve the environmental impact and business performance of their investments;
- ▶ Informing public policy development and move the debate away from focusing on the needs and activities of the water (supply) industry; and
- ▶ Promoting a better understanding and collaborative working between different stakeholders.

Disclosure offers a vehicle to establish a dialogue between organizations and their stakeholders. It is imperative that increasing numbers of European corporations engage with the disclosure process and increase transparency of vital water data. Whilst we have been able to provide key insights as to European companies' response to the water challenges they currently face, our analysis is limited in its scope, only 70 European companies responded to the 2013 information request. CDP would therefore like to encourage disclosure at a much greater scale.

Investors also know how damaging inaction, inappropriate action or delaying interventions on water-related issues can be...The global economy will favour businesses that take a proactive approach to water stewardship.

Eurizon Capital

Next steps for CDP

In 2015, CDP hopes to expand its sample to include 270 of the largest companies in Europe, as determined by market capitalisation. These 270 companies account for more than €5,600 billion in annual revenue, and are also likely responsible for consuming almost 8,600 billion litres of water – the equivalent volume of drinking water requirements of approximately 135 million inhabitants or 22% of Europe's total population. Subject to funding, this increased scope allows for a greater understanding as to the current state of corporate water stewardship in Europe. Further corporate disclosure will help identify potential water-related risks and opportunities; enable sharing of best practice and importantly, it will push the market beyond where it would otherwise be on the issue thus safeguarding Europe's precious water resource.

To review CDP's 2014 water information request, please see: <https://www.cdp.net/CDP%20Questionnaire%20Documents/CDP-Water-information-request-2014.pdf>

Appendix – Response status and sector by company

Company	Country	GICS Sector	Response Status
ACCIONA S.A.	Spain	Industrials	Public
Air Liquide	France	Materials	Public
Akzo Nobel	Netherlands	Materials	Public
Anheuser Busch InBev	Belgium	Consumer Staples	Public
Arcelor Mittal	Luxembourg	Materials	Public
Asian Bamboo AG	Germany	Materials	Public
Atlas Copco	Sweden	Industrials	Not public
Banco Santander	Spain	Financials	Public
BASF SE	Germany	Materials	Public
Bayer AG	Germany	Health Care	Public
Beiersdorf AG	Germany	Consumer Staples	Public
BMW AG	Germany	Consumer Discretionary	Not public
Carrefour	France	Consumer Staples	Public
Christian Dior	France	Consumer Discretionary	Not public
Coloplast A/S	Denmark	Health Care	Public
Compagnie Financière Richemont SA	Switzerland	Consumer Discretionary	Public
Daimler AG	Germany	Consumer Discretionary	Not public
Danone	France	Consumer Staples	Public
E.ON SE	Germany	Utilities	Public
EDP - Energias de Portugal S.A.	Portugal	Utilities	Public
Electricite de France (EDF)	France	Utilities	Public
Endesa	Spain	Utilities	Public
ENEL SpA	Italy	Utilities	Public
Eni SpA	Italy	Energy	Not public
Essilor International	France	Health Care	Not public
Fiat	Italy	Consumer Discretionary	Public
Fortum Oyj	Finland	Utilities	Public
Gas Natural SDG SA	Spain	Utilities	Not public
GDF Suez	France	Utilities	Public
Glencore International AG	Switzerland	Materials	Not public
H&M Hennes & Mauritz AB	Sweden	Consumer Discretionary	Public
Heineken NV	Netherlands	Consumer Staples	Public
Holcim Ltd	Switzerland	Materials	Public
Iberdrola SA	Spain	Utilities	Public
Inditex	Spain	Consumer Discretionary	Public

Company	Country	GICS Sector	Response Status
James Hardie Industries	Netherlands	Materials	Not public
Kemira Corporation	Finland	Materials	Public
Kering	France	Consumer Discretionary	Public
Koninklijke DSM	Netherlands	Materials	Public
Lafarge S.A.	France	Materials	Not public
Linde AG	Germany	Materials	Not public
L'Oréal	France	Consumer Staples	Public
LVMH	France	Consumer Discretionary	Public
METRO AG	Germany	Consumer Discretionary	Not public
Nestlé	Switzerland	Consumer Staples	Public
Nokia Group	Finland	Information Technology	Public
Nordzucker	Germany	Consumer Staples	Not public
Norsk Hydro	Norway	Materials	Public
Novartis	Switzerland	Health Care	Public
Obrascon Huarte Lain (OHL)	Spain	Industrials	Public
Pernod Ricard	France	Consumer Staples	Public
Roche Holding AG	Switzerland	Health Care	Public
Royal BAM Group nv	Netherlands	Industrials	Public
Royal Philips	Netherlands	Consumer Discretionary	Public
RWE AG	Germany	Utilities	Public
Saint-Gobain	France	Industrials	Public
Sandvik AB	Sweden	Industrials	Not public
SANOFI	France	Health Care	Public
Siemens Aktiengesellschaft	Germany	Industrials	Public
Snam S.P.A	Italy	Utilities	Public
Statoil ASA	Norway	Energy	Public
STMicroelectronics Nv	Switzerland	Information Technology	Public
Syngenta International AG	Switzerland	Materials	Public
Total	France	Energy	Not public
UPM-Kymmene Corporation	Finland	Materials	Public
Valeo Sa	France	Consumer Discretionary	Not public
Vinci	France	Industrials	Public
Volkswagen AG	Germany	Consumer Discretionary	Public
WECKERLE	Germany	Industrials	Not public
Xstrata	Switzerland	Materials	Not public

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