

POLICY BRIEFING: TURNING THE TIDE

Recommendations for policymakers on tackling corporate water pollution

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In 2019 the world woke up to the environmental crisis affecting our planet. Millions of citizens filled the streets to demand urgent action from their governments on the climate emergency. Meanwhile a global assessment report on Biodiversity and Ecosystem Services published by IPBES¹ warned that three-quarters of the land-based environment had been significantly altered by human actions. WWF's Living Planet Index showed a decline in the average abundance of freshwater species populations by 83 percent since 1970². Now, in 2020, we find ourselves in the midst a global pandemic of unprecedented scale that is shifting economic paradigms.

Water runs through these crises. Our changing climate is making our already water-stressed planet drier in some places, wetter in others – with floods, droughts and extreme weather events more frequent, prevalent and prolonged. And with COVID-19 gripping our planet, access to clean water, the first line of defence to prevent the spread of the disease, is paramount.

This briefing draws from **CDP's Global Water Report 2019, "Cleaning up their Act"**, shining a light on corporate water pollution and the role that policymakers can play in driving business strategies that eliminate it. The discharge of industrial pollutants such as petrochemicals, agri-chemicals and mining waste not only poses threats to human health and biodiversity, but also exacerbates the issues of water scarcity and inadequate access. Companies have a moral obligation to stop polluting precious freshwater resources and to provide safe water to their employees.

Transparency drives meaningful corporate action on pollution; governments can foster this through policies conducive to more and better corporate environmental disclosure. CDP's water security program offers a mechanism through which companies can disclose in one place and their data reaches many stakeholders in a consistent, comparable format. Our standardized system for collecting data allows for ranking thousands of companies on their progress towards a zero-carbon, water-secure future and is used by investors, corporate purchasers, and capital market products.

Addressing water pollution should be a key component of business strategies that seek to increase resilience to climate change and other crises. It has never been more important for businesses to make this transformation. Building back better from the pandemic and next year's Climate COP26 provide crucial moments for governments to develop policies that guide businesses to a cleaner, greener - and bluer - future.

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1. <https://ipbes.net/global-assessment>

2. https://livingplanetindex.org/projects?main_page_project=LivingPlanetReport&home_flag=1



EXECUTIVE SUMMARY

- ▶ Industrial and agricultural production are significant contributors to an “invisible crisis” of water pollution that is threatening human and environmental well-being, as well as slashing economic potential.
- ▶ CDP’s data suggests that businesses are not taking sufficient action to address the issue, with just 10% of companies disclosing through CDP’s water questionnaire in 2019 reporting exposure to pollution-related risk. Only 12% are setting pollution reduction targets. This includes financial institutions that appear to have a low awareness of the issue, often failing to undertake adequate pollution-related due diligence on their lending and investment policies.
- ▶ The role of businesses and financial institutions in eliminating pollution must be recognized and further incentivized and scaled. Policymakers are the crucial levers of change in transitioning the private sector away from polluting practices and products at scale.
- ▶ Disclosure of corporate water management information is the foundation for corporate action on pollution. It helps the investors in these companies, as well as policymakers and other stakeholders, identify issues, make smarter decisions, increase their expectations of companies and ultimately drive meaningful corporate action.

Top-tier CDP policy recommendations to address water pollution

- ▶ **Boost national ambition on water pollution:** governments must enhance or put in place environmental safeguards, with robust enforcement mechanisms, which send a clear signal to corporates to invest in pollution elimination across all aspects of their value chains.
- ▶ **Enhance or put in place policies conducive to more and better corporate environmental disclosure,** and in particular on water pollution impacts and action.
- ▶ Adopt supervision measures for the financial markets which ensure that **financial institutions disclose and drive adequate mitigation of water pollution impacts in their portfolios, loan books and funds.**

WATER POLLUTION – WHAT’S THE PROBLEM?

The challenge of water quantity - namely droughts and floods - frequently hits the headlines, leaving the issues of worsening water quality underappreciated and underestimated. Analysis of the largest water quality global database by the World Bank warns of an “invisible crisis” that is threatening human and environmental well-being, whilst slashing the economic potential of heavily polluted areas³.

1/3
reduction

1/3rd reduction in economic growth caused by poor water quality in some areas.

World Bank 2019



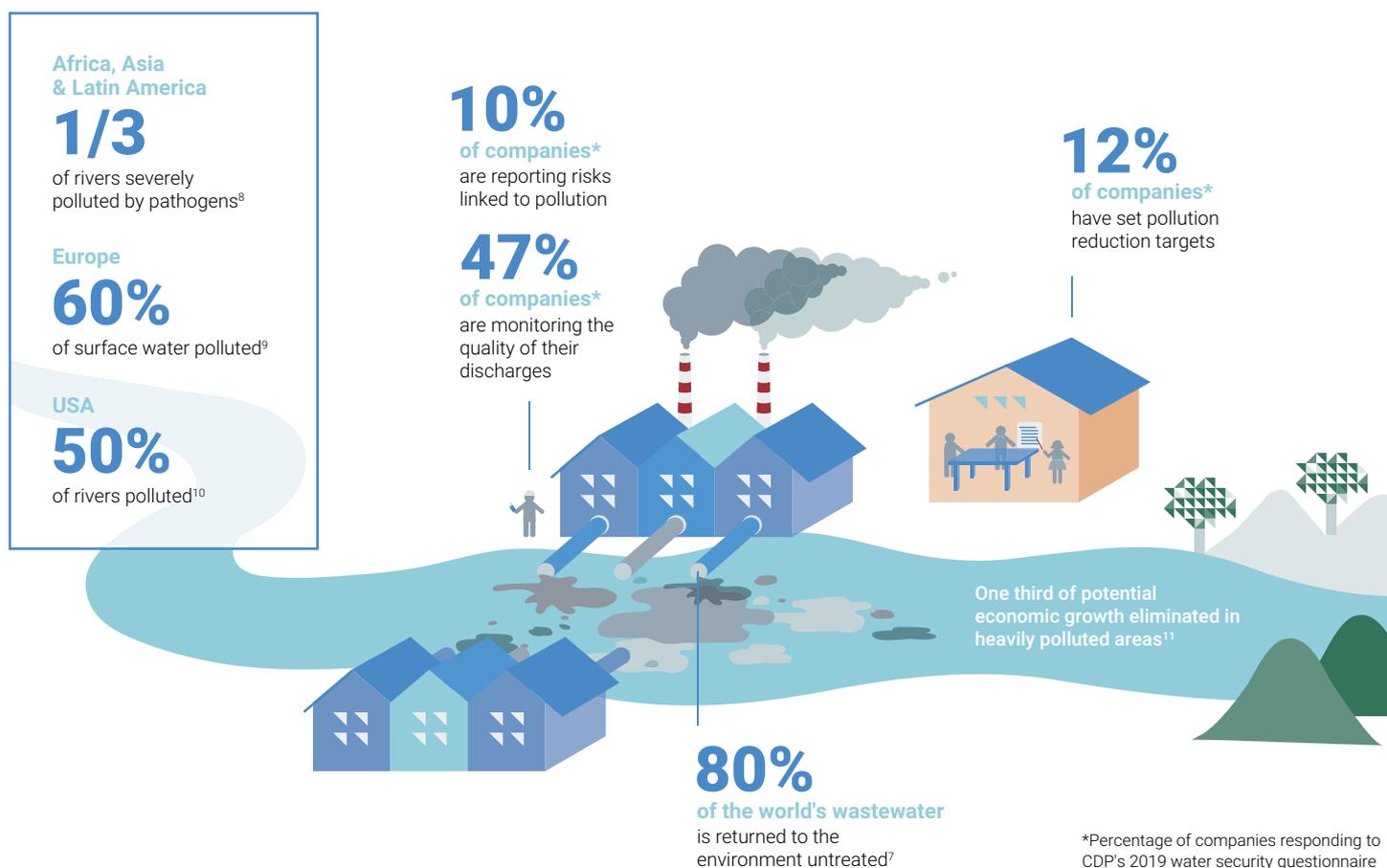
Only 20% of the world's wastewater is currently treated⁴: industrial and human waste is dumped into rivers and lakes, impacting human, environmental and animal health. A reduction of about one-third of biodiversity in rivers, lakes and wetlands globally is estimated to be a consequence of excessive algal growth caused by pollution⁵. 1.8 billion people use a source of drinking water contaminated with faeces, putting them at risk of contracting cholera, dysentery, typhoid and polio⁶. Even in wealthy nations, accidental or illegal releases from sewers, as well as runoff from farms and urban areas, contribute harmful pathogens to waterways.

Metals, petrochemicals and other chemical compounds produced by industrial activities such as mining, oil exploration, textile manufacturing, food production and pharmaceuticals are also harmful to the environment and human health. Some are carcinogenic, others cause microbial resistance, others lead to mental health disorders and birth defects. Business models founded on the assumption that the discharge of waste can continue unabated – such as the pursuit of “fast fashion” and the prolific use of single-use plastics – are compounding the water quality crisis.

The latest hydrological science tells us that we are way off track for achieving SDG 6.3.

SDG 6.3

By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.



*Percentage of companies responding to CDP's 2019 water security questionnaire

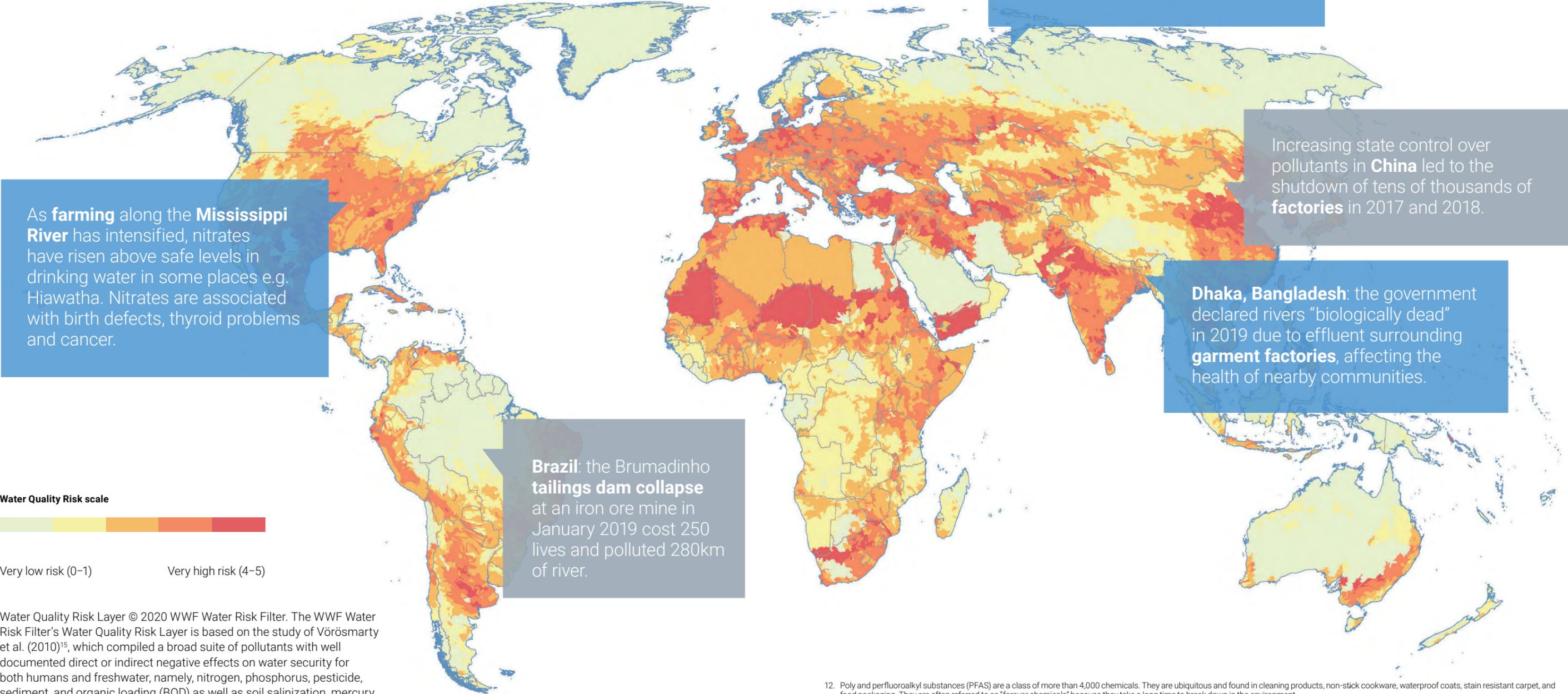
3. <https://openknowledge.worldbank.org/handle/10986/32245>
 4. <http://www.unesco.org/new/en/natural-sciences/environment/water/wwap/wwdr/2017-wastewater-the-untapped-resource/>
 5. <https://www.unwater.org/publications/wastewater-management-un-water-analytical-brief/UNESCO>
 6. <https://www.unwater.org/water-facts/quality-and-wastewater/>
 7. UNEP. 2016. A Snapshot of the World's Water Quality: Towards a global assessment. United Nations Environment Programme, Nairobi, Kenya. https://uneplive.unep.org/media/docs/assessments/unep_wwqa_report_web.pdf
 8. UNEP. 2016. A Snapshot of the World's Water Quality: Towards a global assessment. United Nations Environment Programme, Nairobi, Kenya. https://uneplive.unep.org/media/docs/assessments/unep_wwqa_report_web.pdf
 9. 60% of surface waters in the EU have not achieved good ecological status. <https://www.eea.europa.eu/publications/state-of-water/>
 10. <https://www.nrdc.org/stories/water-pollution-everything-you-need-know>
 11. Damania, R., Desbureaux, S., Rodella, A., Russ, J., Zaveri, E. 2019. Quality Unknown: The Invisible Water Crisis. Washington, DC: World Bank. <https://openknowledge.worldbank.org/handle/10986/32245>

WHAT ACTIONS ARE COMPANIES TAKING ON WATER POLLUTION?

Industrial and agricultural production are significant contributors to the pollution problem, putting everything from plastics to pesticides, pharmaceuticals to PFAS¹² into the environment and into the market.

Pollution pervades almost every industrial sector. Mining has been identified as a particularly toxic industry in America. Red Dog Mine in Alaska, the largest source of zinc in the world, releases 340,000 tonnes of toxins into the environment annually¹³. Ten years on from BP's Deepwater Horizon spill, the oil & gas industry is still one of the most polluting industries: in June, 20,000 tonnes of diesel oil leaked into several rivers in the Russian Arctic, prompting President Putin to declare a state of emergency¹⁴. The fashion industry is another top polluter, with textile dyeing releasing a cocktail of harmful chemicals, some of them carcinogenic, into the environment. The food & beverage industry is responsible for pesticide and fertiliser pollution, threatening the health of waterways and communities the world over.

Corporate water pollution: impacts on lives and livelihoods



Water Quality Risk Layer © 2020 WWF Water Risk Filter. The WWF Water Risk Filter's Water Quality Risk Layer is based on the study of Vörösmarty et al. (2010)¹⁵, which compiled a broad suite of pollutants with well documented direct or indirect negative effects on water security for both humans and freshwater, namely, nitrogen, phosphorus, pesticide, sediment, and organic loading (BOD) as well as soil salinization, mercury deposition, potential acidification, and thermal alteration. For more information please refer to the Water Risk Filter Methodology at <https://waterriskfilter.panda.org/en/Explore/DataAndMethod>

12. Poly and perfluoroalkyl substances (PFAS) are a class of more than 4,000 chemicals. They are ubiquitous and found in cleaning products, non-stick cookware, waterproof coats, stain resistant carpet, and food packaging. They are often referred to as "forever chemicals" because they take a long time to break down in the environment.
 13. <https://www.pri.org/stories/2018-06-09/most-toxic-town-america>
 14. <https://www.theguardian.com/environment/2020/jun/10/three-arrested-over-huge-fuel-spill-in-the-arctic-circle>
 15. Vörösmarty, C. J., McIntyre, P. B., Gessner, M. O., Dudgeon, D., Prusevich, A., Green, P.,... & Davies, P. M. 2010. Global threats to human water security and river biodiversity. Nature, 467(7315), 555. <https://www.nature.com/articles/nature09440>

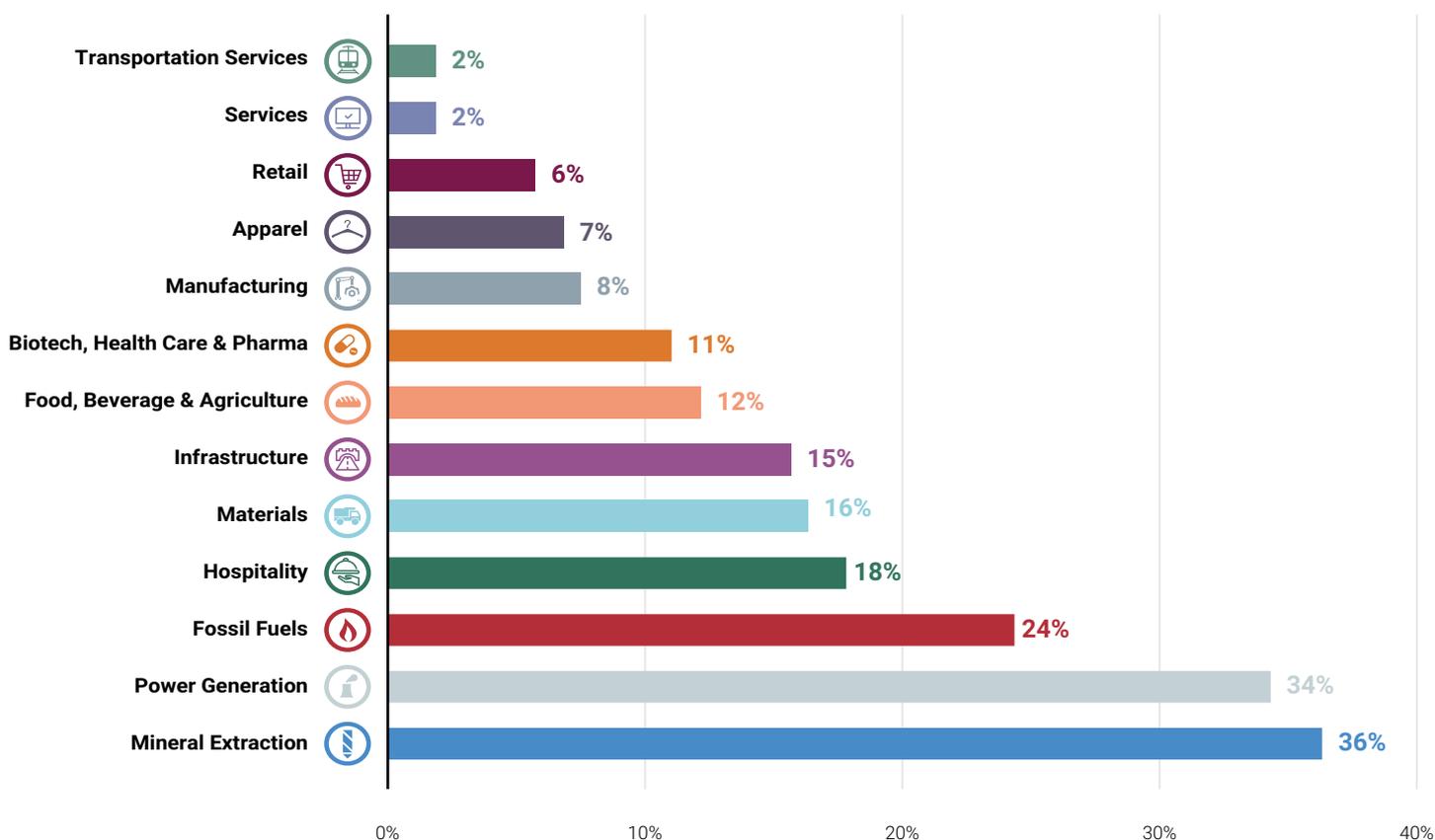
Despite such impacts on the environment and on human health, recent CDP data suggests many companies are not even aware of the issues, let alone taking responsibility for addressing them. CDP requests water-related disclosures from the largest publicly listed companies in high-impact sectors. Of those companies reporting through CDP, just 10% report exposure to pollution-related risk. The perception of pollution-related risks is surprisingly low in some sectors, such as apparel and food & beverage, which are known to have polluting supply chains.

Less than half of companies reporting to CDP monitor the quality of their discharges, and just 12% have any form of pollution-related target. And this number gets worse as we consider progress, with only 7% of responding companies showing tangible progress against pollution reduction targets (80% of those with targets).

The private sector is a big contributor to the pollution crisis but is also crucial to addressing it. Companies in the food & beverage, apparel, energy, chemicals, pharmaceuticals and mining sectors wield enormous influence over freshwater use and pollution globally; how they choose to grow will have a significant impact on the quality of freshwater resources. Companies must transition their business models and practices - including products, markets, suppliers and locations - in ways that decouple production and consumption from pollution.

Disclosure plays a critical role in shining a light on the current state of play among thousands of companies - in terms of their understanding of pollution risks, how they are responding to these risks, and whether they are seizing the opportunities available. This transparency has enabled us to pinpoint where progress is lacking and where action must be focused.

Percentage of companies reporting substantial pollution risks by sector

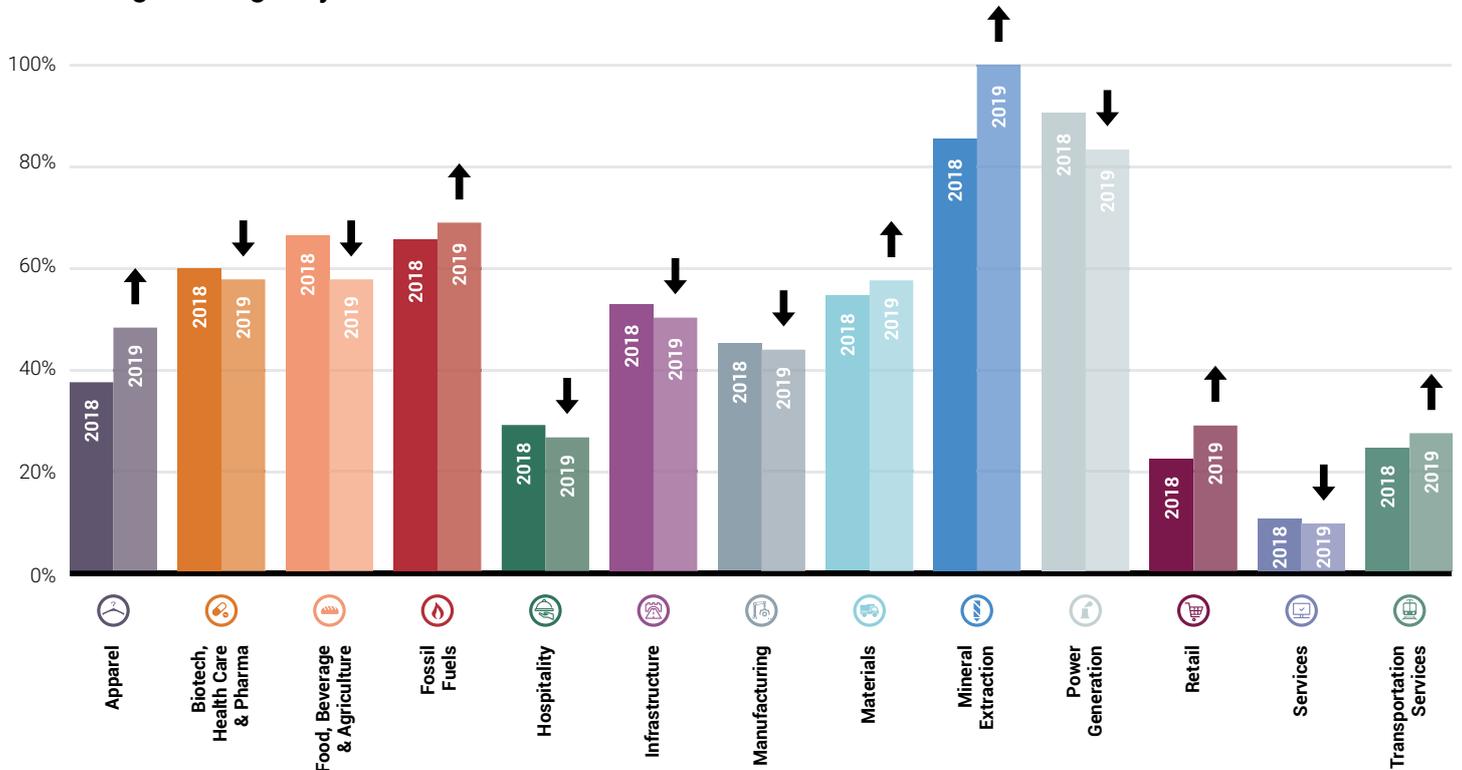


% of responding companies reporting pollution-related risks

There may be more pollution-related risks than those analyzed here due to differences in approach to reporting risks amongst companies.

Monitoring and target-setting

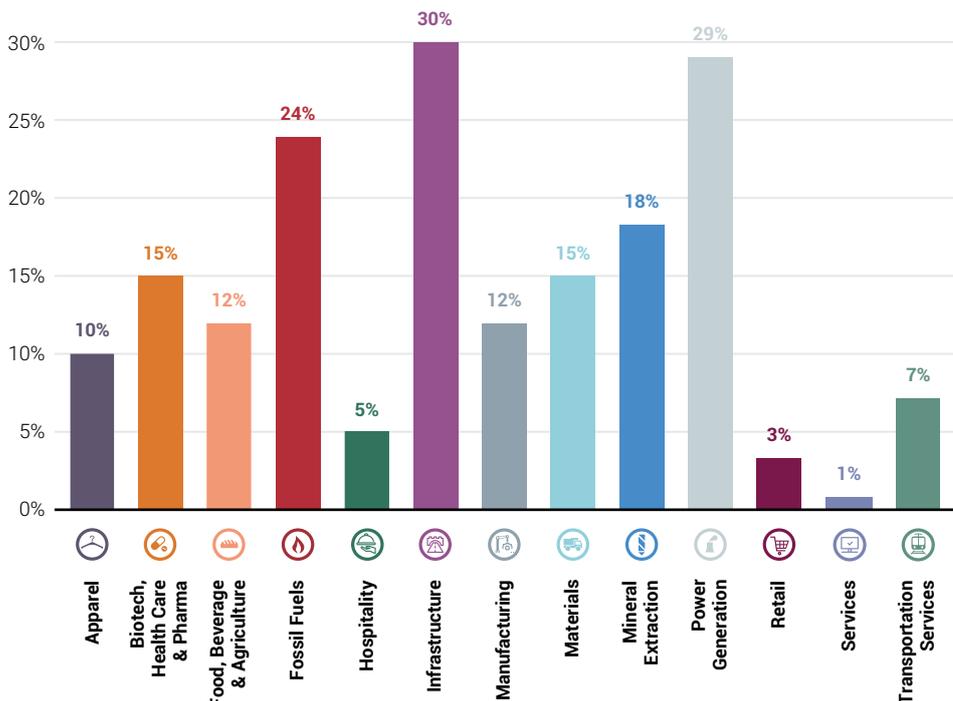
Monitoring discharges by sector



% of responding companies per sector that are monitoring the quality of discharges at 75% of facilities or more

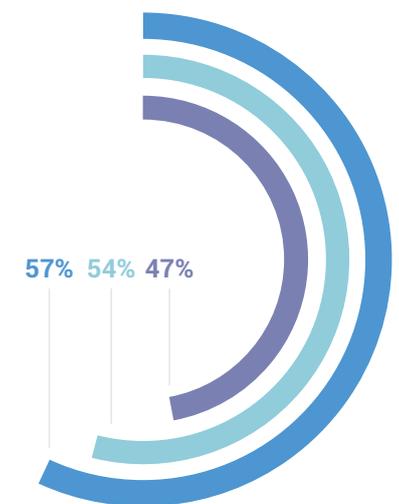
Some companies changed their sector classification between 2018 and 2019. Therefore the differences between 2018 and 2019 can only give an indication of trends.

Pollution goals and targets by sector



% of responding companies per sector setting pollution goals and/or targets

Monitoring wastewater discharges



■ % monitoring discharges
 ■ % monitoring volume of discharges
 ■ % monitoring quality of discharges

REGULATION: CLEAR SIGNALS NEEDED TO CATALYZE ACTION

The private sector is central to addressing the pollution problem, but clear signals and incentives for change are needed from governments to make the business transition required to eliminate pollution. Our corporate data suggests that the policies and regulations on pollution currently in place are not sufficient to drive the transformation needed. The fines and penalties reported through CDP often have a limited impact on the profits of a multibillion-dollar company, and therefore may not be determining the desired behavioral change.

Globally, there is a mixed picture in terms of trends and approaches to pollution regulation – with tightening of standards and enforcement in some countries and rolling back of regulations in others.

In 2018, Chinese regulators undertook the largest nationwide plant inspection in history, closing tens of thousands of supplier companies for water pollution breaches against a wide range of regulatory standards. Several companies reported risks through CDP in 2019 associated with the tightening of Chinese regulations. Meanwhile, a wave of environmental deregulation is sweeping across America. The US has recently rolled back almost 100 environmental regulations that protected the health of both citizens and the environment, putting the US in “uncharted territory”¹⁶. However, despite the sweeping environmental rollbacks, some states are tightening regulations around certain pollutants: for example, in March 2019 the State of New Jersey directed chemical manufacturers to pay millions of dollars to clean up PFAS-related contamination.

Recent analysis of CDP’s data shows that regulatory risk - caused by uncertainty, stricter controls and regulatory shutdowns - is the 2nd most widely reported water risk type, following physical risks such as flooding, drought and water stress. 18% of all risks reported through CDP globally are regulatory. Regulatory risks are most common in France, China and Canada¹⁷ - making up 37%, 32% and 31% of all risks reported.

Whilst regulatory uncertainty is a risk for businesses and prevents effective transition away from polluting behaviors, clear regulatory signals lead to sound business investments and positive environmental impacts. There are several such examples reported through CDP’s water questionnaire:

- ▶ **Mitsubishi Chemicals Holdings Corporation**, in response to the European Parliament approving a law to ban single-use plastic in March 2019¹⁸ and other potential regulation of plastics worldwide, is increasing its investment in R&D of new non-plastic or biodegradable plastic products, as well as treatment and recycling technologies.
- ▶ **Newmont**, a mining company, made upgrades at its Yanacocha operation and introduced reverse osmosis treatment to meet new water quality standards in Peru. The plant also provides water for downstream users in the dry season.
- ▶ **Wus**, a Chinese electrical components manufacturer, increased wastewater reuse and optimized wastewater treatment in response to more specific water pollution regulations in the Yangtze river basin. This has significantly reduced the concentration and quantity of pollutants discharged.
- ▶ **Gildan Activewear Inc.**, a clothing manufacturing company, strictly controls discharges from its wastewater treatment plants to ensure they meet regulations and are not discharging to protected waterways. It has invested in innovative wastewater treatment systems to remove chemicals used for dyeing and finishing textiles.

There are examples of companies spending large sums of money to keep in line with regulations. For example, US energy giant Duke Energy Corporation estimates US\$4.4 billion of closure costs for impoundments affected by coal ash in response to state and federal regulations. Meanwhile, EDF, a French energy company, is investing US\$440 million to mitigate the risk of shutting down its nuclear power plants during heatwaves to comply with thermal pollution regulations. Governments can ensure such investments are spent effectively and lead to positive environmental impacts by communicating clear ambitions and rationales for policy change on pollution, along with detailed plans and timescales.

16. <https://www.theguardian.com/commentisfree/2020/apr/22/earth-day-50-years-anniversary-environment-trump>

17. Out of countries where more than 20 risks are reported. 6 out of the total of 7 water risks reported in New were linked to regulation.

18. The “Single-Use Plastics Directive” – Directive (EU) 2019/904

Stronger regulation to reduce water pollution is critical to achieving SDG 6.3, and it is not limited to discharge controls or use of certain pollutants. A key aspect is governments catalyzing greater disclosure and transparency from corporations on how they are transitioning away from pollution. CDP's water disclosure platform has moved thousands of companies through the stages of our disclosure and scoring process: from disclosure to awareness, to management and finally, to leadership. As more companies disclose through CDP's platform, better water management practices are made possible through increased accountability from investors and other stakeholders in terms of water stewardship ambition and action.

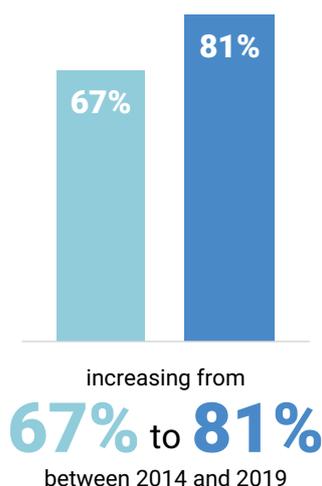
CDP data which compares the disclosures of a cohort of companies reporting over several years demonstrates that disclosure and benchmarking is leading to action on water - with a 14% increase in companies setting targets monitored at board level and a 15% increase in companies reducing or maintaining their water consumption.

As well as catalyzing corporate action, disclosure helps businesses reduce their water risks and capitalize on opportunities; this also benefits the communities and ecosystems where they operate. Another benefit of disclosure through CDP is the use of data by governments to improve their corporate environmental policies.

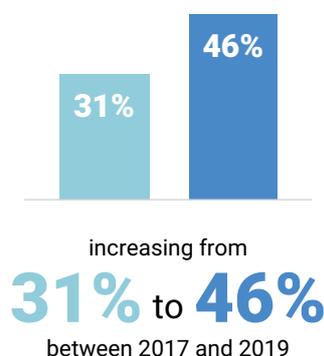
Disclosure is driving meaningful corporate action on water

CDPs data shows that:

The percentage of companies with board level oversight of water targets



The percentage of companies reducing or maintaining water consumption



Using CDP's water questionnaire as a framework, we have benchmarked our strategies for addressing water-related impacts against sector peers, supporting us to further advance water stewardship in our direct operations and wider supply chain. – **Mars**

Using CDP's water questionnaire as a framework helped us improve our comprehensive water management strategy to mitigate water-related risks and capitalize on opportunities. The questions prompted us to identify stakeholder requirements to increase transparency of our internal system and water management practices at BASF. – **BASF**

The Ministry of Environment of Japan uses CDP water and climate data to create guidance for the business sector...Water disasters are a critical issue in Japan, and the guidance is designed to help major companies and suppliers meet this challenge. – **The Ministry of Environment of Japan**

THE FINANCIAL SECTOR: A UNIQUE LEVER FOR CHANGE

Financial institutions such as banks and institutional investors can offer companies systemic incentives for change by ensuring their investment and lending practices drive companies to eliminate pollution, take-up opportunities for resource reuse and develop non-polluting products.

Yet a recent CDP survey suggests that awareness of water issues within the financial sector is low: while 70% of responding financial institutions regard climate change as an important issue for their institution, this drops to just 22% for water security. The lack of awareness means that financial institutions often fail to undertake adequate due diligence on their lending, underwriting and investment practices – perpetuating business activities that may be causing pollution.

We are seeing some of the right signals, however, with several central banks and supervisors calling for banks to manage and report climate-related and environmental risks associated with their financed activities. In May 2020, the European Central Bank (ECB) published a guide for consultation¹⁹ that outlined how it expects banks to consider climate-related and environmental risks (including water stress and pollution) in their governance and risk management frameworks and enhance the disclosure of such risks. At the same time, the Network for Greening the Financial System (NGFS)²⁰ produced a guide on the integration of climate-related and environmental risks into prudential supervision. The guide recommends that supervisors set expectations for financial institutions in terms of disclosure and adequate mitigation of such risks. These guides follow the People's Bank of China, which in 2017 issued a plan for "green financial standardisation"²¹ with a focus on product standards, information disclosure standards and green credit rating standards for financial institutions.



19. <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200520~0795c47d73.en.html>

20. NGFS is a network made of up 66 financial supervisors and central banks, and 12 observers.

21. Part of China's "Financial industry standardisation system construction development plan" (2016-2020) issued by PBOC and other Chinese ministries and commissions. <http://www.lse.ac.uk/GranthamInstitute/news/chinas-green-finance-strategy-much-achieved-further-to-go/>

THE WAY FORWARD: MORE DISCLOSURE AND POLICY INTERVENTION

Governments must recognize and scale the role of businesses and financial institutions in eliminating pollution through policies that incentivise corporate disclosure and ambition.

Disclosure by businesses of comparable, consistent and quantifiable information on pollution is the foundation for transformative action to eliminate it. Such information helps stakeholders including investors, large buyers, policy actors, civil society and consumers make smarter decisions and increase their expectations of companies with respect to pollution. This compels companies to act. Public benchmarking using such data drives a race to the top between companies and thus has the potential to significantly move the needle on industrial pollution. Governments can catalyze disclosure with policies that promote and incentivize it. As agreed in SDG target 12.6, Member States can encourage companies - especially large and multinational companies - to integrate and disclose sustainability information in their reporting cycle.

CDP's water security programme offers a mechanism through which companies and financial institutions can disclose in one place and through which the data is made available to many stakeholders in a consistent, comparable format.



POLICY RECOMMENDATIONS

Policymakers are the crucial levers of change: through fostering transparency on environmental risks and signalling enhanced pollution policies, governments can compel companies and investors to drive business strategies that phase out or mitigate pollution. Our specific recommendations to policymakers are:

- 1. Enhance or put in place policies conducive to more and better corporate environmental disclosure, in particular on water pollution** impacts and the action companies are taking to address them. This should include disclosure of meaningful targets on pollution for the most impactful activities and parts of the value chain, and the progress that companies are making against these targets on an annual basis.
- 2. Boost national ambition on pollution:** governments must enhance or put in place environmental safeguards, with robust enforcement mechanisms, which send a clear signal to corporate boardrooms to invest in pollution elimination in all aspects of their value chains. These safeguards should be in line with the achievement of SDG 6.3.
- 3. Through fiscal and financial policy, adopt supervision measures for the financial sector which ensure that financial institutions disclose and drive adequate mitigation of water pollution impacts in their portfolios and funds.** This should include the incorporation of water pollution indicators into financial investment criteria. Governments should also ensure that their pensions and sovereign funds are aligned with criteria that drive a transition away from polluting practices.

OPPORTUNITIES

The following initiatives present some of the key opportunities for governments to advance the above recommendations at national, regional and international level:

Climate COP 26: Gearing up to COP26 in November 2021, parties will need to present their Nationally Determined Contributions (NDCs) to the Paris Agreement. Integrated and holistic management of water accelerates action on both climate adaptation and mitigation: water is an enabling condition for several climate mitigation measures, whilst approaches to adapt and build resilience often contribute to achieving net zero carbon emissions. Increased corporate disclosure on water provides data to governments on climate risks, corporate action on mitigating and adapting to these risks, and opportunities – this is crucial for informing and tracking NDCs.

Convention on Biological Diversity: COP15, to be hosted in China by 2021, will adopt the post-2020 global biodiversity framework for achieving the Convention's 2050 vision of "Living in harmony with nature". National commitments to advance the implementation of this framework should be developed and announced prior to COP15. With recent research showing that half of the largest freshwater species in the world are threatened with extinction²², the protection of rivers and lakes is vital to achieving the Convention's 2050 vision. Corporate action to mitigate pollution is a critical component of safeguarding the freshwater environment, and government policy to drive such action should therefore feature in national commitments.

The **European Green Deal** sets out an ambitious agenda to place the EU on track for 'climate neutrality' by 2050, calling for transformative actions across economic sectors on climate, energy and water. It presents a unique opportunity to transform Europe's water economy by providing companies - and governments - with clear guidelines on ambitious water targets. The EU Green Deal includes the adoption of several strategies relevant to the preservation of freshwater including the Circular Economy Action Plan, the 'Farm to Fork' strategy, the Biodiversity Strategy for 2030, the EU Strategy for Adaptation to Climate Change and the Zero Pollution Action Plan. The Circular Economy Action Plan foresees revised water reuse regulations which will encourage wastewater reuse in agriculture and industrial processes.

As part of the European Green Deal, in December 2019 the European Commission committed to review the **non-financial reporting directive (EU NFRD)** in 2020 as part of the strategy to strengthen the foundations for sustainable investment. The EU NFRD requires large companies to disclose information on the way they manage social and environmental challenges. The review presents an opportunity to increase the consideration of water pollution in investment decisions by ensuring the inclusion of water pollution metrics.

The UK is expected to pass a broad and potentially radical **Environment Bill** in 2020. The Bill provides an opportunity for businesses to take a central role in the UK's commitment to leave the environment in a better state. Environmental groups have called for amendments that give businesses the right policy framework to invest for the long term and make significant contributions to improving the natural environment and tackling the climate crisis²³.

In March 2023, the UN will hold a **Midterm Review of the Water Action Decade** (2018-2028) to focus on the objectives of the Decade as laid out in the Secretary-General's Plan: Water Action Decade 2018-2028. This will provide an important opportunity to showcase progress and commitments made by corporations to reduce water pollution.

22. <https://freshwaterblog.net/2020/07/31/half-of-known-freshwater-megafauna-threatened-with-extinction/>

23. For example: <https://www.iema.net/resources/news/2020/02/25/iema-calls-for-parliament-to-complete-unfinished-environment-bill/>

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