

The background of the entire page is a black and white photograph of a dense forest of tall, thin evergreen trees, likely spruce or fir, with sunlight filtering through the canopy.

# Net positive natural capital ambitions

VIEWS AND OPINIONS FROM THE ACCA GLOBAL FORUM FOR SUSTAINABILITY

## About ACCA

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability. We believe that accountants bring value to economies in all stages of development. We aim to develop capacity in the profession and encourage the adoption of consistent global standards. Our values are aligned to the needs of employers in all sectors and we ensure that, through our qualifications, we prepare accountants for business. We work to open up the profession to people of all backgrounds and remove artificial barriers to entry, ensuring that our qualifications and their delivery meet the diverse needs of trainee professionals and their employers.

We support our 162,000 members and 428,000 students in 173 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of over 89 offices and centres and more than 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

### ABOUT ACCA'S GLOBAL FORUMS

To further its work, ACCA has developed an innovative programme of global forums which bring together respected thinkers from the wider profession and academia around the world.

#### Global Forum for Sustainability

In the context of increasing environmental regulation and the need for businesses to identify and manage a more diverse range of risks, the goal of the forum is to articulate and communicate the relevance of sustainability issues for the business community and the accountancy profession. It monitors international trends and developments in sustainability and leads ACCA's contribution to policy development in this area.

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A number of leading companies are looking to have a 'net positive' impact on natural capital. The concept of net positive is simple at a high level – to do more good than harm – but highly complex to apply in practice.

ACCA's Global Forum for Sustainability has explored the concept of 'net positive' natural capital ambitions, and collated the various views and opinions expressed by forum members in this paper.

#### FOR MORE INFORMATION CONTACT

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# 1. Introduction

All businesses, either directly or indirectly, depend upon natural capital. Natural capital is the stock of capital derived from natural resources such as biological diversity and ecosystems, in addition to geological resources such as fossil fuels and mineral deposits. It provides the many inputs and services that underpin human societies and economies.

At the same time, current economic activities are eroding natural capital. For example, the use of fossil fuels is driving climate change; the growing demand for products such as palm oil is a key driver of deforestation and biodiversity loss; and population growth and the need to feed growing numbers of people puts intense pressure on both terrestrial and marine ecosystems. These are trends that are likely to worsen in the future if a state of business-as-usual continues.

In view of these trends a number of businesses have stated publicly their aim to have a 'net positive' impact on various elements of natural capital. For example, home improvement retailer, Kingfisher, aims to have a net positive impact on forests by 2050, while metals and minerals company, Rio Tinto, recognises the high-impact nature of its operations on biodiversity, and uses the concept of net positive impact to plan how it can minimise its impacts and contribute to healthy ecosystems at the project or site level. These companies have an ultimately restorative ambition – that their operations should not reduce and destroy the natural world, but contribute to and enhance it.

The concept of net positive impact is simple at a high level – to do more good than harm – but highly complex to apply in practice.

## COMMENTS FROM ACCA'S GLOBAL FORUM FOR SUSTAINABILITY

ACCA's Global Forum for Sustainability has explored the concept of 'net positive' natural capital ambitions, and collated the various views and opinions expressed by forum members in this discussion paper. In addition to this, the forum has identified a number of areas requiring further discussion and research. These have been included throughout the discussion paper and highlight areas for further analysis.

Recent ACCA research on natural capital includes :

- *Is Natural Capital a Material Issue?*
- *Natural Capital – What Do Accountants Think?*
- *Improving Natural Capital Reporting and Finding the Tools to Help*
- *Identifying Natural Capital Risk and Materiality.*

### **The ACCA Global Forum for Sustainability**

The forum was created to contribute to ACCA's technical and research work on sustainability issues facing business and the accountancy profession.

It brings together experts from the public and private sectors and from academia around the world to advise ACCA on its thinking on current and future issues.

The composition of the forum is intended to reflect the diverse international character of ACCA's membership and to help ACCA to develop a genuinely representative international perspective on issues facing accountants and businesses. Sharing of national experiences by members is seen as a key virtue of the forum.

The group helps to develop ACCA's policy positions on key issues, including consultation exercises with national and international standard-setting and regulatory bodies, and advises on proactive initiatives such as events, publications and research projects.

## 2. Forum views and opinions

### **MOST 'NET POSITIVE' TERMS AND DEFINITIONS ARE DIFFERENT**

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The term 'net positive' has entered the language of a handful of leading companies as a means of communicating their long-term ambitions in respect of natural capital.

Nonetheless, a generally accepted definition does not exist at present, and the topics and timeframes addressed by the various corporate initiatives tend to vary.

'Net positive' can mean different things to different people at the national, regional or stakeholder level. For example, a company could have a net positive impact on forestry if it plants more trees than it fells, but if it plants large-scale monocultures while felling mixed woodland, levels of biodiversity will decrease – leading to an overall decrease in natural capital. As such, companies need to define clearly how they are applying the term, to avoid misinterpretation. As more companies start to apply the principle, it may be necessary to develop generally accepted definitions of 'net positive' and guidance on how to apply the term in practice.

#### **Areas for further discussion**

- Should more companies adopt 'net positive' initiatives, and if so how can achievement of the desired impacts be ensured?
- Is the variety of approaches to and applications of the term 'net positive' beneficial or detrimental?
- Is it necessary to develop a generally accepted definition of 'net positive impact'?

### **THERE MAY BE TRADE-OFFS WITHIN NATURAL CAPITAL AND WITH OTHER FORMS OF CAPITAL**

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Trade-offs exist when a company is looking to have a net positive impact on natural capital, both between different forms of natural capital and between natural capital and other forms of capital. Here are a couple of examples to illustrate this.

- A hydroelectric power plant involving the damming of a river generates carbon-free electricity, which helps mitigate climate change but comes at the cost of lost biodiversity and ecosystem services from the land that is flooded.
- The development of a mine at a remote site in a developing country will reduce levels of natural capital but may bring much-needed economic and social development, thus enhancing economic and social capital.

To avoid any unintended and negative consequences of trade-offs, companies need to take a holistic view of their operations and avoid considering single issues in isolation. One way companies can achieve this is through the adoption of integrated reporting. The integrated reporting framework of the International Integrated Reporting Council (IIRC) centres on assessment and communication of how value is created or diminished for six forms of capital (natural, human, social and relationship, intellectual, manufactured and financial).

#### **Areas for further discussion**

- Are trade-offs between different forms of natural capital and between natural capital and other forms of capital inevitable, and if so how can protection of natural capital be maximised?
- How can a company prioritise areas of natural capital to protect and conserve?
- How can companies adopt an integrated approach to assessing their impacts and dependencies on natural capital in practice?

## BASELINES AND INTERNATIONAL AGREEMENTS

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When determining whether an initiative has had a net positive impact, it is necessary to set a baseline from which to measure progress. When looking at an issue such as climate change this is relatively straightforward, as demonstrated by the Kyoto Protocol, which set baseline emission levels at those obtaining in 1990. This is because greenhouse gas emissions have a global, rather than a local, impact.

When dealing with natural capital, however, the issue of baselines is more complicated because biodiversity and ecosystem services tend to be most relevant at the local level. As a result, forming international agreements on how to manage natural capital is difficult.

In addition, developing countries tend to have higher levels of natural capital than developed countries – for example, 12% of the UK's land surface is covered with forest, compared with 50% in Indonesia, an issue that should be considered by multinational companies headquartered in one country but operating elsewhere.

### Areas for further discussion

- How can companies set baselines for natural capital and how are movements from the baseline measured?
- For multinational companies operating in multiple countries with differing levels of natural capital resources, should different baselines be calculated for different regions?
- What should be the role of governments, business and organisations in setting baselines?

## BOUNDARIES OF REPORTING – A SUPPLY CHAIN APPROACH

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In a globalised world, large multinational companies tend to have supply chains that extend across national borders and rely on a complex network of suppliers, traders and processors. Many of a company's impacts and dependencies on natural capital will be situated in its supply chain, often out of its direct control. As a result, companies with net positive natural capital ambitions will need to work with suppliers to achieve these. Suppliers often have a number of different customers themselves, so collaborating with other companies when attempting to influence suppliers will increase the effectiveness of any engagement. To address natural capital impacts in their supply chain, companies can learn from organisations such as the Carbon Trust, the Forest Stewardship Council and the Marine Stewardship Council.

Recent corporate reporting developments, such as the launch of the G4 guidelines by the Global Reporting Initiative (GRI) and the integrated reporting framework by the International Integrated Reporting Council (IIRC), require companies to consider their complete value chain when assessing material issues. As companies manage what they measure, these reporting developments will help companies identify natural capital impacts and dependencies in their supply chains.

### Areas for further discussion

- How can companies manage impacts on natural capital within their supply chain?
- What is the most effective means of influencing suppliers that fall outside a company's control?
- What role do sector-/industry-focused initiatives have in helping individual companies manage their supply chain impacts and dependencies on natural capital?

### 3. Net positive natural capital ambitions in practice

In the absence of a generally accepted definition of 'net positive', companies are developing and implementing their own natural capital plans and strategies. Although having different approaches, all these companies are engaging with and challenging their key stakeholders to consider their actions in the context of their company-wide ambitions.

#### **KINGFISHER – NET POSITIVE IMPACT PRIORITIES**

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Launched in October 2012, Kingfisher aims to have a net positive impact on four priority areas: timber, energy, innovation and communities. The initiative was launched in recognition of the challenges associated with resource scarcity and social inequality – problems that are likely to worsen as global population increases. Each priority area is linked to the company's business goals, demonstrating a level of integrated thinking in securing resources, realising new opportunities and driving growth.

Kingfisher aims to have a net positive impact on the four priority areas by 2050 and has developed a vision for what it wants to achieve, along with aspirations for how this vision will be realised. The company recognises that 2050 is a long way off, so has included interim targets for 2020 aimed at initiating a shift in how the company operates.

#### **RIO TINTO – NET POSITIVE IMPACT ON BIODIVERSITY**

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Mining and mineral processing have a high impact on the landscape, with inevitable negative effects on biodiversity. In light of this, Rio Tinto seeks to go beyond balancing its negative impacts to having a positive effect on biodiversity. The company aims to achieve this by considering the 'mitigation hierarchy':

- avoiding unacceptable impacts on ecosystems
- minimising the impacts that may occur
- rehabilitating affected ecosystems
- compensating for residual impacts with offsets
- seeking additional opportunities to contribute to local conservation.

The company assesses the level of biodiversity at all its landholdings and surrounding areas. Any sites that are

deemed to have a high or very high biodiversity value must have a biodiversity action plan in place, which allows the company to avoid, mitigate, restore or offset its biodiversity impacts.

#### **PEPSICO – STRIVING FOR POSITIVE WATER IMPACT**

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Access to water is a fundamental human right and companies that have a high dependency on water are in direct competition with local communities for water. Each watershed is different, so companies need to assess their impacts at every site where they operate water intensive activities.

Pepsico has launched five pilot programmes in 2010 which identify sub-optimal watersheds for restoration, activities for improving water conditions, and the estimated costs and benefits with these activities. The pilot programmes are located in the following locations:

- Phoenix, United States: Irrigation system improvement and upgrades and municipal groundwater mitigation.
- Mexico City, Mexico: Rainfall retention in mountains, restoration of the Tlahuac-Xico Lake and wastewater re-use.
- Boxford, England: Wastewater re-use.
- Sangareddy, India: Rainwater harvesting at facility, rehabilitation of defunct water infrastructure in local villages and improved irrigation practices.
- Zhanjiang, China: Wastewater re-use, rainwater harvesting at facility and rainwater harvesting from surrounding rural areas.

Through these pilots, Pepsico is attempting to secure water supplies for both themselves and local communities.

## 4. Key points

The following key points emerged through the discussion and serve as a summary of the views and opinions of the global forum members.

### **BE CLEAR ABOUT THE DEFINITION OF 'NET POSITIVE'**

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Owing to the various ways in which the term 'net positive' can be interpreted, it is important to define clearly what is meant in a particular context. The development of a generally accepted definition of 'net positive' impacts on natural capital would be useful.

### **AVOID CONSIDERING SINGLE ISSUES IN ISOLATION**

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Such an approach could lead to unintended negative consequences owing to trade-offs between different forms of natural capital and between natural capital and other forms of capital. A holistic view of a company's operations is necessary.

### **BE CLEAR ABOUT BASELINES**

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Companies that want to have a net positive impact on natural capital need to set clear baselines against which to measure progress.

### **THE ISSUE IS COMPLEX, BUT COMPLEXITY SHOULD NOT BE A BARRIER**

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Assessing impacts and dependencies on natural capital is a very complicated process, but the key is for more companies to start attempting to understand and engage with the issues.

### **SUPPLY CHAIN ASSESSMENT IS ESSENTIAL**

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Many natural capital impacts and dependencies are found in company supply chains. Companies need to map and understand their supply chains in order to identify risks and opportunities related to natural capital considerations.

**TECH-TP-NPNCA**