

Protecting shareholder and natural value

Biodiversity risk management: towards best practice for
extractive and utility companies

This report and the benchmark upon which it is based were designed and written by Annelisa Grigg, Director of the independent consultancy Global Balance, and by Kerry ten Kate, Director, Investor Responsibility, Insight Investment.

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The authors have made their best efforts to ensure the accuracy of the information contained in this report and apologise for any inadvertent errors.

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Executive summary

Overview

Insight Investment is the asset manager of the Halifax Bank of Scotland (HBOS plc), with £71.8 billion of assets under management, as at 31 March 2004. 11.7% of Insight's investments in equities and substantial bonds holdings are in oil & gas, mining & minerals and utilities companies.¹ Insight applies its policy on corporate governance and corporate responsibility to all the assets that it manages and engages with companies to encourage them to adopt high standards on key social, environmental and ethical issues.

Insight has an interest as well as a responsibility to do this because shareholder value can be affected by a wide range of environmental, social, human rights and security issues, as well as the full range of financial and broader economic factors. **Biodiversity** is just one of the issues that can contribute to the risks and opportunities faced by a given company. Companies may face difficulties gaining permission and social license to operate in new sites, as well as liabilities, damage to reputation and increased operating costs unless they can demonstrate high standards with respect to biodiversity. As an identifiable and contributory risk, '**biodiversity risk**' is increasingly receiving specific attention by companies. This report sets out our work to improve our understanding of this risk and its potential impact on the value of our investments.

Terms in coloured italics are defined in the Glossary on p48

As part of an ongoing engagement process, we evaluated the performance of twenty-two UK-headquartered extractive and utility companies against standards of best practice in biodiversity management described in the **benchmark** and identified through a range of company consultations, seminars and research. The benchmark is a framework for the analysis of companies' performance against a set of criteria for each of 27 issues under 12 headings across the four main elements of **governance** structures, **policy & strategy**, management & implementation and assurance & reporting. See page 46. Our research was based on publicly available information and the results of our discussions with companies to date. Each company was invited to review its draft benchmark analysis to ensure this was an accurate reflection of its activities and to supplement information in the public domain with additional internal information, if they wished. Sixteen of the twenty-two companies within the benchmark sample did so.

Insight will use the results of this analysis to encourage all companies to meet a set of basic standards for biodiversity management and to move towards best practice, described in Table 2 on page 9. We believe that doing so will protect shareholder value as well as the **natural value** represented by biodiversity. Where we believe that biodiversity risk is significant, we will also use this information as an input to our investment decision-making for these sectors. We aim to collaborate with our colleagues in the institutional investment industry to promote a consistent approach to evaluating companies on this issue. It is likely that this benchmarking exercise will be repeated in coming years, in order to track improvements in companies' performance.

Results

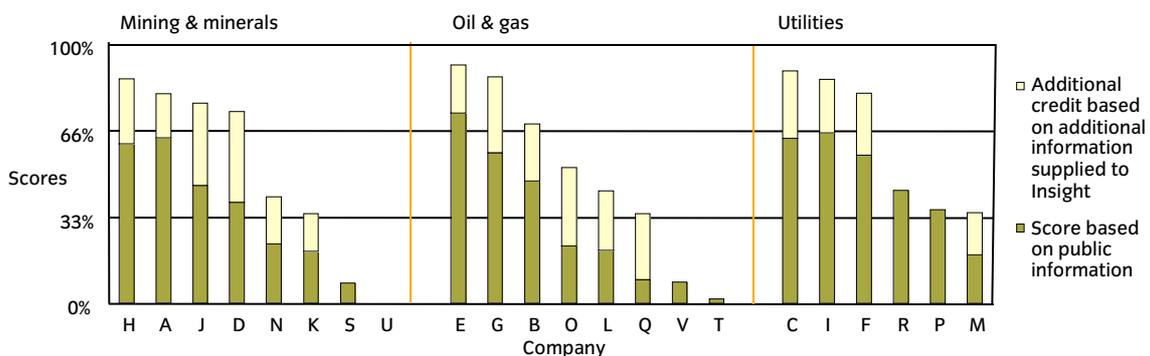
Our results are split into the three sectors – mining and minerals, oil and gas and utilities – to aid comparability. Companies can be divided into three categories as set out in Table 1 overleaf.

Table 1: How do the companies perform?

	Description	Mining and Minerals	Oil and Gas	Utilities
Companies engaged and actively managing	<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 	Anglo American BHP Billiton Rio Tinto RMC	BG Group BP Shell	Northumbrian Water+ Severn Trent United Utilities
Companies aware and mobilising	<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 passing reference within policy documents No explicit supporting biodiversity strategy or guidance for staff 	Lonmin+ Xstrata+	Cairn Energy* Premier Oil+ Venture*	Centrica Kelda+ National Grid Transco
Companies in early stages	<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 No explicit policy or management stance on biodiversity 	Antofagasta+ Aquarius Platinum*	Soco* Tullow*	
Notes	* Companies with an annual turnover that is less than £100 million + Companies with an annual turnover between £100 million and £1,000 million (source Hoovers.com)			

Our engagement approach focuses on building an understanding of companies' management of this issue and working with them to improve standards, where necessary. The level of responsiveness from companies on this issue was high. Publishing the final scores at this stage in the process could unnecessarily divert effort and attention from driving improvements in performance. We are therefore presenting anonymised results in this report. Companies are represented by letters and have been advised of their identity and those of the other companies in the benchmark. Scores in the benchmark are given as a percentage of the total score possible if all the benchmark criteria are met.

Chart 1: Overall score



The graph shows that a significant amount of information on the companies' approach to managing biodiversity, of interest to us as investors, is not in the public domain. As a result we, and other stakeholders, cannot gain a complete picture of how this potential risk is being managed. This could pose a reputational risk for companies.

Key findings

A number of companies have made great strides in developing processes to manage biodiversity-related risks and opportunities. Many more are aware of the issues and are mobilising resources to address them. We congratulate these companies and urge those that have yet to tackle the issues in depth to review their approach to them. It is our belief that building shareholder and natural value are not mutually exclusive and are, in fact, interdependent. A number of leading practices and emerging issues are outlined below.

Governance

Our evaluation of the structures companies have in place to ensure that biodiversity-related risks and opportunities are identified and incorporated into key decision making and management procedures indicated the following:

- Clear assignment of responsibilities for managing a company's impact on biodiversity – or indeed any major sustainable development issue – is a prerequisite for achieving lasting improvements in performance. While leading companies acknowledge this, assigning responsibility for managing biodiversity and incorporating biodiversity within internal risk or environmental committees, four companies in our study showed no evidence of this. In this situation, it is hard for us, as investors, to form a view as to whether a company is managing its biodiversity impacts effectively.
- Four companies in our study make a commitment to recognise existing World Heritage Sites as 'no go' areas.² This indicates emerging corporate understanding of the issue. However, much of the world's biodiversity – particularly in relation to the marine environment – lies outside protected areas. Companies without risk assessment procedures that enable them to routinely assess the biodiversity value of all sites in which the company currently operates or proposes to do so are not well placed to manage any reputational and operational risk.

Policy and strategy

From our assessment of the level of disclosure and quality of companies' policies and strategies on biodiversity, we conclude that:

- A number of companies focus on site-level management of biodiversity impacts with no reference to biodiversity in company-wide policy or strategy documents. To stakeholders, this signals an awareness of the issue at some locations, but may be insufficient to reassure them that the company has gone through a consistent and rigorous process of evaluating all their operations and has either identified those with significant biodiversity risk exposures or concluded that biodiversity risk is negligible.
- A clear policy and strategy that is publicly disclosed, formed in consultation with key stakeholders and experts, and sitting alongside disclosures on site level activity is a clear signal of the existence of a robust management framework for the issue.
- It is encouraging to see that over half of the companies had some form of company-wide policy or strategy commitment in place. Of these, two are in the form of specific biodiversity policy or guidance.
- However, many policy and strategy commitments lacked the detail required to form a robust framework to drive an improvement in performance and effective management of biodiversity risks and impacts. Commitments to 'protecting' and 'enhancing' biodiversity, could, for example, cover one-off projects involving philanthropic donations to conservation projects that are trivial compared with the company's overall impact. Three companies went beyond this, making commitments, for example, to have a 'net positive benefit on biodiversity', to avoiding all harm to biodiversity, or to offsetting the negative impacts of their operations. Only four companies publicly committed to specific goals and

targets on biodiversity at the company level, and another five had more limited goals and targets, which covered only some operations or were not in the public domain.

Management and implementation

The level of implementation of policy commitments related to biodiversity through the use of management tools and partnerships varied considerably within each sector:

- Nine of the companies in our study demonstrated that biodiversity was factored into a number of key management tools such as environmental and social impact assessments, site management plans, site selection tools and training programmes. However, we were concerned that five disclosed little or no activity to assess and manage biodiversity related risks.
- Leading companies have formalised tools that map their business operations against areas of high biodiversity value and incorporate clear biodiversity criteria within their environmental and social impact assessment processes. These tools are used to evaluate potential impacts on biodiversity at each stage of the project development process, anticipate problems and take steps to avoid them.
- Only half of the companies surveyed show widespread integration of biodiversity into site management plans. Activity ranged from isolated biodiversity-related projects to development and roll-out of biodiversity action plans based on corporate level evaluation of exposure to biodiversity-related risks, developed in conjunction with environmental **NGOs**. While the latter is commendable, the former gives us greater comfort as investors that the risks related to this issue are being managed.
- Many companies (sixteen of the twenty-two companies surveyed) implement biodiversity activities at site level through the use of partnerships with environmental NGOs. The most effective partnerships have defined goals set out in memoranda of understanding, clear links to corporate priorities and local, regional or national biodiversity priorities and have clearly defined measures of success. Such partnerships have the potential not only to deliver site level biodiversity programmes, but also to inform overall corporate strategy and increase the level of trust with NGOs.

Terms in coloured italics are defined in the Glossary on p48

Monitoring, reporting and assurance

Company processes to ensure that policy commitments and management systems related to biodiversity are implemented appear to be in their infancy:

- Half of the companies surveyed report little or no information on their activities to manage biodiversity risks, while others within their sector show detailed disclosures and are working with industry initiatives to develop acceptable standards of reporting. Shareholders need such information to reach an informed view of the extent to which companies are managing this risk appropriately.
- Even the companies most advanced in considering this issue are struggling to identify appropriate performance indicators for biodiversity management. No company currently provides a complete picture of how it is managing biodiversity through publicly available information. This is a challenge for the future. Nonetheless, many companies could significantly improve their reporting by disclosing more fully the actions undertaken to understand and manage biodiversity.
- Where biodiversity is deemed a significant risk, we expect to see that the company is monitoring the implementation of appropriate site level and corporate management systems. However, few companies have reached this point with only four companies showing well developed assurance processes for this issue.

Recommendations

In the short to medium term, we encourage all companies within our benchmark to commit and establish plans for meeting the basic recommendations for the management of biodiversity risks set out in Table 2 overleaf. In the medium term, we encourage them to meet the best practice recommendations. As part of our ongoing engagement, we will be suggesting specific steps that we feel each company could take to be confident that it is operating according to best practice and in a manner appropriate for its risk exposure. For those companies that demonstrate what is, *de facto*, best practice in today's operating environment, we encourage them to ensure that they have in place comprehensive, strategic approaches to managing biodiversity risks and opportunities, that can evolve in line with the changing international policy and operational environments and as the company's understanding of its impacts on biodiversity develops.

Finally, we recommend that companies demonstrate to their stakeholders leading-edge results in applied biodiversity conservation. In order to maintain public trust and license to operate, extractive and utility companies will increasingly need to address society's perception that they contribute to the loss of biodiversity and the expectation that companies will make a positive contribution to conservation, beyond basic risk management. In April 2000, Lord John Browne, CEO of BP, said 'We can have a real, measurable and positive impact on the biodiversity of the world. That is a high aspiration - but, like our other aspirations, we're determined to show that we can deliver'. We encourage leading companies to clarify and communicate the basis, goals, targets and key performance indicators upon which they plan to turn such visions into reality. We suggest that commitments to offset harm to biodiversity at the site level, through practical conservation measures in partnership with appropriate organisations, is a good way to start. We are conducting further research on this topic and invite participation from interested companies and other organisations. These recommendations are explained in more detail in Sections 1 to 6.

Table 2: Recommendations to companies

BASIC MANAGEMENT OF BIODIVERSITY: In the short to medium term, we would like to see all companies:	BEST PRACTICE MANAGEMENT OF BIODIVERSITY: Ultimately, we would like to see all companies taking steps to:
Governance: Identify and understand their impacts on biodiversity and assess business risks and opportunities associated with these impacts.	
<ul style="list-style-type: none"> ■ Demonstrate awareness of the location of company assets and operations in, near or containing legally designated protected areas and areas already identified as sensitive sites.^{3*} Use this to perform a high-level evaluation of the related potential business risks and opportunities. ■ Perform periodic reviews of the appropriateness of this assessment as part of routine review of environmental policy. 	<ul style="list-style-type: none"> ■ Understand, identify and periodically review the biodiversity risks, impacts and opportunities for contributing to conservation associated with all existing and proposed operations, recognising some areas may not yet have been identified by government and conservation experts as sensitive.^{4*} This should be informed by local, regional and national biodiversity priorities and goals identified in National Biodiversity Strategy and Action Plans and discussions with key stakeholders. ■ Integrate consideration of biodiversity risks and impacts into key decision-making processes and governance structures.
Policy and strategy: Introduce company-wide policy and/or strategy commitments to understand and manage biodiversity-related risks and opportunities and to avoid, minimise and mitigate impact where possible. Collectively, these should set out vision, priorities, goals and targets for managing biodiversity risk.	
<ul style="list-style-type: none"> ■ Devise a policy and/or strategy on the management of biodiversity risk and opportunity, committing, as a minimum, to manage biodiversity impacts at locations assessed as high biodiversity risk or opportunity. 	<ul style="list-style-type: none"> ■ Board-approved publicly available policy on biodiversity (or reference to biodiversity in board-approved environment or sustainable development policy supported by more detailed policy guidance). ■ Group-level biodiversity strategy that acts as a framework for implementing policy commitments developed, in conjunction with key stakeholders, and informed by local, regional and national priorities.
Management and implementation: Implement policy and strategy commitments.	
<ul style="list-style-type: none"> ■ Where relevant, ensure biodiversity is considered explicitly in Environmental and Social Impact Assessments (ESIA). ■ Site management plans incorporate management of biodiversity impacts where identified in the ESIA. ■ Key stakeholders identified to assist company to design and deliver policy, strategy and site biodiversity management plans commitments for high biodiversity risk sites. 	<ul style="list-style-type: none"> ■ Develop and use a tool that considers biodiversity in initial decisions on siting of new or expanded operations. ■ Ensure consistency of integration of biodiversity into ESIA e.g. guidance documents. ■ Biodiversity action plans or site management plans that include biodiversity at all sites where there is a significant risk to biodiversity or opportunity to contribute to conservation. ■ Develop partnerships with key stakeholders that contribute to biodiversity conservation priorities and corporate strategy. ■ Ensure all staff with biodiversity related responsibilities have access to the relevant competencies and resources.
Monitoring, assurance and reporting: Monitor performance and communicate activities to key stakeholders.	
<ul style="list-style-type: none"> ■ Report publicly that biodiversity risk has been assessed, with resulting policy commitments and site level management activities. 	<ul style="list-style-type: none"> ■ Ensure that internal and external assurance processes address the processes for managing biodiversity risks. ■ Develop and report publicly on site and corporate level key performance indicators that cover both biodiversity management process and performance.
<p>* E.g. Ramsar sites, World Heritage Sites and Man and Biosphere Reserves, areas in the UN list of protected areas and areas that conservation organisations have identified as of particular significance for biodiversity. The latter include WWF Global 200 Ecoregions, Conservation International 'Hotspots', BirdLife 'Endemic Bird Areas', WRI 'Forest Frontiers', IUCN's Centres of Plant Diversity and The Nature Conservancy's Last Great Places. See Box 1 on page 12. This includes, but is not limited to legally designated areas and areas already known to be of high biodiversity value.</p>	

1. Introduction

Insight Investment is the asset manager of the Halifax Bank of Scotland (HBOS plc), with £71.8 billion of assets under management, as at 31 March 2004.

Insight applies its policy on corporate governance and corporate responsibility to all the assets that it manages.⁵ It has an interest as well as a responsibility to do this because shareholder value can be affected by a wide range of environmental, social, human rights and security issues, as well as the full range of financial and broader economic factors. Insight's Investor Responsibility team supports and encourages the companies in which our funds are invested in their efforts to improve their environmental, social and ethical performance, through programmes that target companies within industry sectors affected by specific issues. 11.7% of Insight's investments in equities and substantial bonds holdings are in oil & gas, mining & minerals and utilities companies.⁶

Growing scarcity of natural resources, increasing development pressures and escalating public concern about the resulting loss of biodiversity pose a strategic threat and offer potential competitive advantage to extractive and utility companies. These companies face '**biodiversity risks**': unless they demonstrate high standards with respect to the conservation of biodiversity, they may face difficulties in the medium- to long-term in accessing resources in new sites, suffering competitive disadvantage relative to others with better practice. They may also lose revenues through incurring liabilities, damage to reputation and increased operating costs in the short term. This can compromise long-term shareholder value. Conversely, best practice management of impacts on biodiversity can offer benefits such as speed of obtaining consents and licenses or favoured partner status, increasing shareholder value and links directly to corporate commitments to operate responsibly.

Biodiversity is just one of a range of connected risks and opportunities that may affect the reputation and shareholder value of extractive companies, including other aspects of sustainable development, human rights and security. Any one of these issues will affect corporate performance to some extent, particularly in companies that seek to differentiate themselves from competitors based on a leading corporate responsibility stance. In order to understand the extent to which companies in its portfolio of investments have assessed and are responding to these risks, Insight launched its 'Biodiversity and Extractives' programme in March 2003. As part of this programme, we have conducted an evaluation of twenty-two extractive and utility companies' performance against a biodiversity '**benchmark**' which describes a set of best practice biodiversity management activities identified through a range of company consultations, seminars and research.

This report sets out the results of the benchmarking study. We will use the results as a basis upon which to engage with the companies, and, where biodiversity risk is deemed to be significant, we will also use it as an input to our investment decision-making for these sectors. Where possible, we will work with our fellow investors to share an assessment of what constitutes best practice in the field, the degree to which companies are meeting this standard and to encourage companies to rise to this standard.

The report starts by exploring companies' and shareholders' motivations for addressing biodiversity as an issue, the context for Insight's work, how we intend to use the report in our engagement work with the companies in which we hold shares and the methodology applied in benchmarking the biodiversity management practices of the companies. It then sets out our main findings and, from these, draws some conclusions with associated recommendations to companies.

See See www.insightinvestment.com/responsibility

See 'Is Biodiversity an issue for business?', p14

For companies analysed, see p14

For an overview of the benchmark, see Appendix 2 p48

For 'Methodology', see p14

For the results of our survey see p16

See 'Conclusions & recommendations', p35 and 'How Insight will use this report', p15

2. Is biodiversity an issue for business?

2.1 What is biodiversity?

Biodiversity is the variability among living organisms and includes diversity within species, between species and of ecosystems. Many of the natural services on which we rely (such as the provision of freshwater, fertile soil, clean air and stable weather systems) are dependent on maintaining biodiversity. Although biodiversity underpins our very existence, the impact of human activities is increasingly damaging the integrity of ecosystems that provide these essential resources and services for our well-being and economic activities.⁷

According to governments, maintaining biodiversity is one of the most pressing issues for society to address. One hundred and eighty-seven countries and the European Union have ratified the Convention on Biological Diversity. At the Johannesburg World Summit in August 2002, biodiversity was identified as one of five key issues and a global target was set of significantly reducing its loss by 2010. Governments, the public and NGOs are increasingly holding business accountable for its negative impacts on biodiversity and expecting companies to contribute to the global goal of saving it.

2.2 What are the business opportunities and risks associated with biodiversity?

Companies, investors⁸, brokers, NGOs and multistakeholder groups have described the business case for extractive and utility companies to manage biodiversity risks. Some companies already recognise the potential opportunities presented by demonstration of best practice on biodiversity, not only in greater motivation and support for company operations among staff and other stakeholders, but in faster permit and concession negotiations that produce earlier revenues and considerable savings, as well as the competitive advantage of favoured status as a partner.⁹ In terms of risk, the groups above emphasise the risk of jeopardising access to resources and the costs imposed by liabilities and operating inefficiencies, focusing on:

(a) Liabilities and costs: Companies that do not manage biodiversity effectively are exposed to potential business risks: liabilities, damage to reputation and increased operating costs, as experiences in the oil & gas and mining sectors over the last two decades have shown.^{10, 11} According to the Energy and Biodiversity Initiative, a partnership between four major oil companies and five NGOs, 'failing to address biodiversity considerations at the project level can lead to delays and problems on the ground, impeding a company's ability to operate efficiently'.¹²

(b) Access to land and assets: A coincidence between hydrocarbon and mineral reserves and areas of high biodiversity value.^{13, 14} Thus evidence points to an overlap between future extractive activities, increasingly outside OECD countries¹⁵, and biodiversity, which is concentrated in tropical areas. Protected areas now cover some 12.7% of the earth's surface.¹⁶ An increasing volume of environmental law and policy governs all operations, especially those in protected areas and 'sensitive sites'. Coupled with growing awareness and concern about the loss of biodiversity, these factors suggest that, in the medium- to long-term, companies may face more stringent regulation of access to land in the future.¹⁷ Companies often compete against each other for extractive and utility concessions or to lead or take part in consortia involved in major extractive operations. Companies that are not able to demonstrate best practice management of all key environmental issues, one of which might be biodiversity, may be at a competitive disadvantage relative to others in securing concessions.

(c) Access to capital: Concerns about biodiversity, environmental quality and livelihoods have led banks and export credit agencies to review decisions on whether to grant loans to consortia.¹⁸ The International Finance Corporation is revising its safeguard policies, which set out conditions that must be met, including on biodiversity, by companies to which IFC loans

money.¹⁹ Private banks that are signatories to the Equator Principles will review customers' requests for project financing on the basis of similar criteria.²⁰

2.3 Factors affecting levels of biodiversity risk

The risk profile and scope for opportunities related to biodiversity for individual companies vary according to the nature and location of their current and projected operations. The following factors combine to influence the level of exposure:

- **Proximity to legally designated protected areas:** Protected areas may be designated at the international level (e.g. Ramsar sites, World Heritage Sites and Man and Biosphere Reserves) and at the national level (e.g. the UN list of protected areas).²¹ Protected areas are one category of 'sensitive sites', which are discussed below.
- **Sensitivity of sites:** Proximity of operations to sites that are sensitive in biodiversity terms – such sites may not necessarily be legally designated as protected areas. See Box 1.
- **Regulatory framework and enforcement:** Companies' reputations are at risk in a highly regulated environment where any undue impact on biodiversity will be exposed and punished. They are also at risk where a lack of law, policy and enforcement mean that a company will be held accountable for defining its own standards.
- **Cultural norms:** In some locations, certain species or ecosystems will have a particular value to local communities that might be higher than levels of biological diversity might suggest.
- **Nature of the company's operations:** Companies whose activities focus on exploration, involving disturbance to relatively modest areas of land, are likely to be less exposed than those with large-scale extraction operations and those that are involved in the construction of pipelines running through thousands of kilometres of habitats or tanker routes traversing the globe. Companies operating through joint ventures may be less visible to external stakeholders but nonetheless vulnerable to criticism if seen to be involved within a joint venture with poor environmental credentials.
- **Company size and complexity:** Smaller companies are a special case (see Box 2 page 17). By virtue of the more modest scale of their operations, they may be less exposed to biodiversity risk. It is easier for senior management to track risks within a company that has a small number of regional sites than one that with a global presence and a variety of activities. However, smaller companies may be more exposed to risk in that they may not have the resources to devote to biodiversity expertise specifically and may focus on broader environment and development issues.
- **Brand positioning:** Companies that seek comparative advantage and to build brand value based on 'green' credentials are particularly exposed to the risk of criticism for unwarranted impacts on biodiversity, as these will be seen as evidence of inconsistency in policy and practice, or even of 'greenwash'. Companies that are seen (and hold themselves out) as leaders may be more exposed than others in this regard.
- **Public awareness:** Certain industry sectors, companies and kinds of business operations appear to attract more attention from society than do others. The role of extractive companies operating in sensitive sites has been particularly visible in the media and NGO campaigns and on the internet. This can rapidly draw global attention to remote business operations. NGOs often target companies headquartered in their own countries and those companies that are the most successful in their sectors. UK NGOs are active in this area and a significant proportion of the world's biggest extractive companies are headquartered in the UK.
- **Calibre of management:** A company that would appear more exposed to biodiversity by virtue of the factors described above may in fact be less exposed to risk than others if it can demonstrate a good understanding of these risks and best practice in risk management, for instance, as described in this report. In cases where biodiversity risk or actual biodiversity impacts are financially significant, this – in conjunction with many other factors – is likely to influence investment analysts' views of the quality of management of the company and resulting investment decisions by fund managers.

Box 1: What are sensitive sites?

There is no agreed definition of what makes a given site 'sensitive' (or of 'high biodiversity value') for reasons related to biodiversity. However, factors contributing to 'sensitivity' include:

- High species diversity or high levels of endemism
- Rare, vulnerable and threatened species (See countries' species Red Lists – www.redlist.org) and habitats ecosystems (e.g. arid lands or wetlands)
- Representative and intact ecosystems that are able to maintain key species and provide critical environmental services such as watershed protection or serve evolutionary functions
- Sites where indigenous people are still pursuing 'traditional' lifestyles, based on biodiversity
- Natural and heritage assets of particularly important social or cultural value
- Charismatic species or spectacular landforms

Conservation organisations have identified certain areas as of particular significance for biodiversity:

- WWF Global 200 Ecoregions: biologically outstanding terrestrial, freshwater and marine habitats WWF considers critical for maintaining representative samples of habitats and species: www.worldwildlife.org/science/global200.cfm
- Conservation International 'Hotspots': 25 of the richest global reservoirs of biodiversity, by virtue of their threatened status and levels of endemism: www.conservation.org/xp/CIWEB/strategies/hotspots/hotspots.xml
- BirdLife 'Endemic Bird Areas': 218 regions rich in endemic bird species and where two or more restricted-range bird species overlap: www.birdlife.org/action/science/endemic_bird_areas/index.html
- WRI 'Forest Frontiers': the last tracts of intact forest deemed sufficiently large to maintain habitat and species intact in the face of a once-in-a-century natural disturbance²²
- IUCN's Centres of Plant Diversity: areas of global botanical importance due to levels of diversity and endemism <http://iucn.org/themes/ssc/plants/centres.htm>
- The Nature Conservancy's Last Great Places: a list of terrestrial and marine sites that, if conserved, would support the long-term survival of biodiversity. <http://www.lastgreatplaces.org/>

(adapted from Koziell and Omosa, 2003; Miranda et al, 2003; and the Energy and Biodiversity Initiative, 2003)

2.4 Conclusions

The prominence accorded to biodiversity as a key sustainable development challenge makes it an issue for business in two main ways. First, society is increasingly sensitised to the issue and is voicing its expectation that business should shoulder its responsibility for the loss of biodiversity and to make a positive contribution to its conservation. In order to win trust and maintain a license to operate, companies will need to position themselves to be able to demonstrate they are responding to this expectation.

Secondly, companies, governments, investors, brokers and NGOs are describing biodiversity business risks and opportunities to which companies will need to respond. Where good practice is not in place or cannot be demonstrated, companies are exposed to business risks such as difficulties accessing land and resources, as well as reputational damage, and the delays, costs and inefficiencies caused by disaffected stakeholders and employees. Benefits of demonstrable good practice include faster permit and concession negotiations, preferred partner status, and efficient operations through stakeholder support.

3. Methodology

3.1 The research leading up to this benchmarking exercise

Insight’s ‘Biodiversity and Extractives’ programme, launched in March 2003, aims to increase our understanding of how companies are managing the risks and opportunities related to their impacts on biodiversity, and to clarify best practice. To date, our programme²³ has included:

- A preliminary survey of the companies in which we invest against fifteen parameters relating to biodiversity, including a review of the location of their operations in ‘megadiversity’ countries²⁴ to identify initial evidence that the companies in which Insight holds investments are potentially exposed to ‘biodiversity risk’.
- Correspondence with the Chief Executive Officers of twenty oil and gas, mining and minerals and utility companies to determine their policy with regards to sensitive sites and discussions with their senior managers responsible for biodiversity.
- Hosting a seminar attended by these companies, representatives from government and biodiversity experts, to discuss the principles and standards according to which extractive and utilities companies should operate, how their performance with respect to biodiversity should be measured and whether special arrangements were required for sensitive sites.
- The outcomes of these engagement activities were presented at the World Parks Congress in Durban, South Africa in autumn 2003.²⁵

Additional information on the methodology is described in Appendix 1

Table 3: Sectors and companies benchmarked

Mining & Minerals	Oil & Gas	Utilities
Anglo American	BG Group	Centrica
Antofagasta	BP	Kelda Group
Aquarius Platinum	Cairn Energy	National Grid Transco
BHP Billiton	Premier Oil	Northumbrian Water
Lonmin	Shell Transport & Trading	Severn Trent
Rio Tinto	Soco International	United Utilities
RMC	Tullow Oil	
Xstrata	Venture production	

These sectors and companies are particularly exposed to biodiversity risk as a result of the nature of their operations, which have a direct impact on land, and because they control their own operations in this field. The majority of the companies included within

Business risks and opportunities are outlined in Section 2

the survey have operations in developing countries, where high levels of biodiversity and less regulation may contribute to higher levels of biodiversity risk. The utility sector was included, despite a largely UK focus, as these companies are nonetheless exposed to risks around biodiversity as a result of a culture of environmental activism combined with a well developed legal framework.

3.2 How did we conduct the study?

Our research was conducted in December 2003 based on publicly available information and the results of our engagement programme to date. The benchmark provides a framework for the analysis of companies’ performance against a set of criteria aimed to determine standards of practice for each of 27 issues under 12 main headings across the four elements of governance structures, policy & strategy, management & implementation and assurance & reporting. In January 2004, each company was invited to review its draft benchmark analysis to ensure this was an accurate reflection of its activities and to supplement information in the public domain with additional internal information, if it wished. Sixteen of the twenty-two companies within the benchmark sample did so.

4. How Insight will use this report

As described in Section 3 and Appendix 1 on methodology, the research in this report is part of an ongoing engagement programme on this issue that started in March 2003. The analysis of companies against our biodiversity benchmark has led to a series of conclusions and recommendations, which we set out in Section 6. These recommendations describe two levels of performance:

- **Basic risk management:** The minimum actions that we feel would enable companies within these sectors to understand and identify major biodiversity-related risks and to demonstrate that they are starting to manage them. We encourage all the companies studied to meet the basic standards described in Table 6 on page 27 as soon as they are able.
- **Best practice:** Companies that meet the basic standards described above are likely still to be exposed to a level of risk and are better placed to take advantage of related business opportunities if they can demonstrate best practice. Table 6 on page 27 describes our view of the key elements of best practice that would be found in a company with a strategic, comprehensive approach to managing the risks and opportunities posed by biodiversity. Ultimately all companies that commit to operate as responsible corporate citizens and that are exposed to biodiversity risk should move towards best practice.

Insight has written to each company studied in this survey to communicate the final results of our analysis for that company and the scores for all the companies benchmarked. We took into consideration any supplementary information provided by companies in January 2004 after we sent them the initial results of the analysis. We have also sent them this report.

We plan to meet the companies surveyed and will use the results of our analysis to inform our discussions with them, following-up with companies after a period of months to discuss any progress made. Where we consider biodiversity risk to be significant, we will also use this information as an input to our investment decision-making for these sectors.

It is likely that a similar benchmarking exercise, improved to reflect any comments received on the methodology, will be repeated in coming years, in order to track improvements in companies' performance. Where possible, we will work with our fellow investors to share an assessment of what constitutes best practice in the field, the degree to which companies are meeting this standard and to encourage companies to do so.

5. The benchmark results

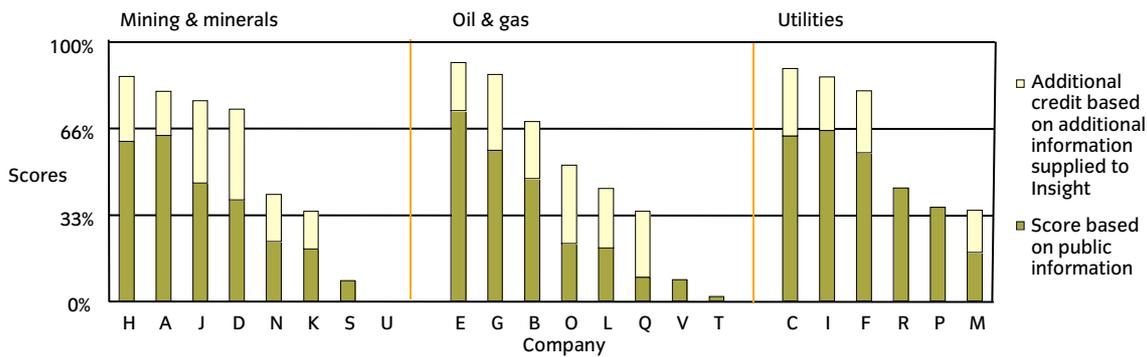
This section outlines the findings from our benchmark study and discusses the implications of these findings for effective management of biodiversity risk. An overview of our findings is provided, followed by detailed analysis of each component of the benchmark.

See p35 for 'Conclusions and recommendations'

5.1 Overview

The overall results of our survey are summarised in Chart 1 below. Each company's score is presented as a percentage of the total possible score in the benchmark. Our engagement approach focuses on building an understanding of companies' management of this issue and working with them to improve standards, where necessary. The level of responsiveness from companies on this issue was high. Publishing the final scores at this stage in the process could unnecessarily divert effort and attention from driving improvements in performance. We are therefore presenting anonymised results in this report. Companies are represented by letters and have been advised of their identity and those of the other companies in the benchmark. Scores in the benchmark are given as a percentage of the total score possible if all the benchmark criteria are met.

Chart 1: Overall scores



See p35 for a discussion of the implications of this

We have split our findings according to sector – mining & minerals, oil & gas and utilities - in recognition that the risk profile of this issue varies in the different sectors. Our results indicate that, across all sectors, companies are undertaking considerably more activity on biodiversity management than they are reporting. This cuts across all areas of management, and would not be addressed simply by additional examples of site level activities on biodiversity, but by addressing fundamental components of biodiversity risk management, such the existence of methods to identify sensitive sites, location of such sites and incorporation of biodiversity management systems within internal assurance procedures.

Box 2: Smaller companies and resource constraints

In analysing our results, it is apparent that leading companies tend to be those with annual turnovers exceeding £1,000 million. Northumbrian Water was a notable exception, with a turnover of approximately £500 million, but a score that rivalled some much larger companies. Companies obtaining the lowest scores were generally the smallest companies in the sample. These companies are relatively new or rapidly expanding. As a result, some of them are still developing their approach to communicating their management of environmental and social issues. This may be justified because it would be inappropriate to focus on biodiversity in favour of other, potentially more significant issues without having reviewed and prioritised all risks and opportunities to the business relating to social and environmental issues. However, as the approach to managing these issues develops within these companies, and given the nature of their business, we would hope to see greater disclosure on their activities to manage biodiversity.

5.2 Governance

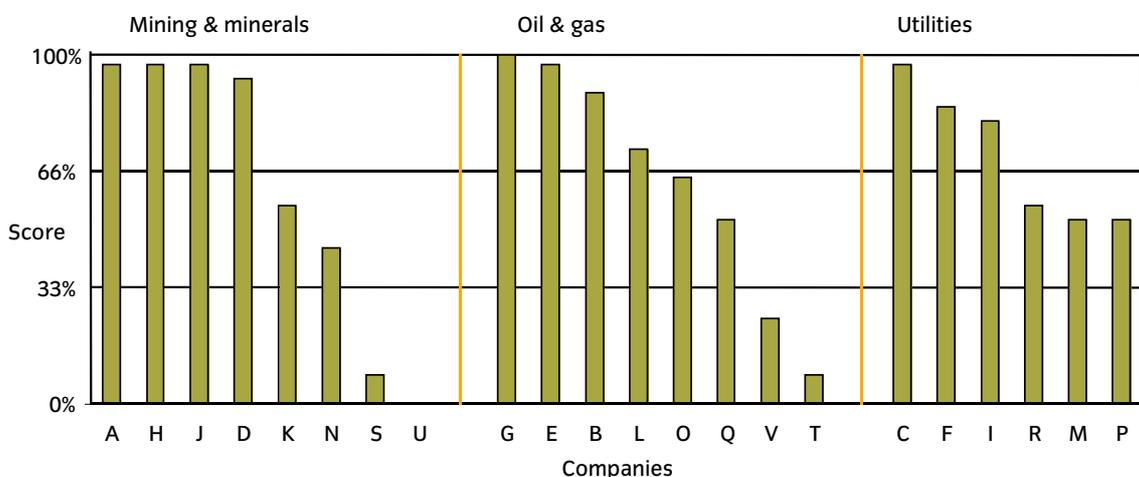
In this section, we evaluate the structures companies have in place to ensure that biodiversity related risks and opportunities are identified, incorporated into key decision making processes and integrated into mainstream management procedures. The questions underpinning this section are: Do companies perceive biodiversity in terms of business risk and opportunity? How have they evaluated these risks and opportunities throughout their operations, particularly in reference to sensitive sites? Does this evaluation incorporate consideration of external stakeholder views – which may provide a different risk profile to a purely internal viewpoint? And finally – how have companies ensured the outcome of this process is used to inform strategic and operational decisions?

For details of the benchmark components see Appendix 2

The existence of strong governance structures is essential to ensure that, in addition to managing the issue on an operational level, companies consider and manage wider strategic risks posed by operating in biodiversity rich locations such as licence to operate and continued access to resources.

5.2.1 Results

Chart 2: Governance



The results of this section are outlined in Chart 2 above. Four companies showed very limited or no explicit incorporation of biodiversity into governance structures and, of these, two appeared to have limited governance structures in place for environmental issues generally. Given that both of these companies were operating oil exploration and production activities, this may be a weakness in their overall management of risk.

Table 4: Governance – results commentary

<p>All sectors</p> <ul style="list-style-type: none"> ■ Leading companies assign responsibility for managing biodiversity as an issue at site and group level. Some have dedicated steering groups or biodiversity networks to drive policy development or link biodiversity management to performance rewards. ■ Eleven companies indicated that biodiversity was included within their risk management processes. Seven described risk/governance committees that considered wider environmental issues including biodiversity. ■ The level of stakeholder engagement varies. Some is conducted on a site-by-site or project-by-project basis. Some is based on ongoing partnerships with environmental NGOs and the use of stakeholder panels to inform risk management and strategy development. ■ Some companies show little or no integration but others make a specific policy commitment to integrate biodiversity into key business processes and can demonstrate how biodiversity is taken into consideration at all key decision-making points. 	<p>Mining & minerals</p> <ul style="list-style-type: none"> ■ Strong links with stakeholders through participation in the International Council Mining and Metals - IUCN initiative (see Box 4) and use of relationships to develop and implement strategy. ■ Three companies make commitments not to operate in World Heritage Sites and a fourth is undergoing a review of all operations in partnership with BirdLife to identify key risk areas. <p>Oil & Gas</p> <ul style="list-style-type: none"> ■ Leaders are closely involved with multistakeholder initiatives such as the Energy and Biodiversity Initiative²⁶ (see Box 4), Climate and Biodiversity Alliance or have ongoing relationships with environmental NGOs through partnerships or secondments, using these relationships to inform strategy. ■ Five of the eight companies made commitments to understand and manage impact on protected areas. Two of these have indicated that they do not have operations affected by these considerations but provide no basis for this assertion. <p>Utilities</p> <ul style="list-style-type: none"> ■ Three of the six companies surveyed had minimal or limited policy and strategy commitments, one made no reference to biodiversity in their policy or strategy documents. ■ Stronger reference to local and national context made reflecting the largely UK focus to operations. ■ For those that do have explicit biodiversity policy and strategy documents, public disclosures do not always clearly indicate whether policy and strategy refer to international operations e.g. provision of advice on water infrastructure development in developing countries.
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5.2.2 Commentary

Assignment of responsibilities

Clear assignment of responsibilities for managing a company's impact on biodiversity – or indeed any major sustainable development issue – is a prerequisite for achieving lasting improvements in performance. The method for assigning these responsibilities varies. Some companies, such as Anglo American, make specific commitments to 'assigning resources, responsibilities and accountability for biodiversity management' within biodiversity guidelines whilst others link the management of environmental issues, including biodiversity to performance incentives. Both Shell and BP have established networks of biodiversity champions throughout their organisations, while Rio Tinto has a biodiversity steering group in place tasked with developing and implementing its biodiversity strategy.

Risk management

Eight of the twenty-two companies surveyed outlined the impact of their operations on biodiversity, referring to biodiversity as a business issue. Fewer turned this analysis inwards to ask the question – what does this mean for company value? Some examples of this are given in Box 3.

See also
Section 1 p10

Box 3: Examples of links made between biodiversity and drivers of corporate value

- 'The ability to manage biodiversity issues will be an increasingly important part of securing continued access to land. To reduce business risks and to ensure better outcomes, particularly in new operations, biodiversity issues need to be fully incorporated into all our business decisions.' (Rio Tinto Social and Environmental Review 2002)
- BG stated that its approach to biodiversity had business benefits in 'Being a preferred partner for host Governments by demonstrating how we work in sympathy with the country's biodiversity plans, in helping the Government to achieve two aspirations, resource development and biodiversity conservation.' (BG website 17/12/2003)
- 'The public is increasingly concerned about activities causing habitat destruction and species loss. This can affect Shell's bottom line in a number of ways – at the pump, in the financial markets and in the recruitment of highly-qualified staff.' (Shell website 06/01/2004)

In addition to linking biodiversity to business risk and articulating the business case for managing biodiversity, leading companies are developing mechanisms to identify key risk areas – some in dialogue with environmental NGOs.

For many companies, there was no clear link between the evaluation of biodiversity risks and the focus of management activity on the issue. This makes it difficult for investors to determine the extent to which management is aware of biodiversity risks and managing them. For instance, within the utilities sector, a number of companies have consultancy functions that specialise in provision of advice to developing countries on infrastructure development. The nature of the advice could potentially affect biodiversity. While the UK operations may be very well controlled, the consulting activities are rarely mentioned. We accept that this is often because the companies consider the impacts of these operations to be immaterial. However, the process by which management has reached this conclusion was not transparent.

The ability to state the business case for managing biodiversity clearly in addition to understanding the impact – both direct and indirect – of the company on its environment is a indicator to us, as investors, that the company understand the risks posed by the issues and is well positioned to manage them.

Approach to managing operations in sensitive sites

Many of the key risks in this area centre around continued access to resources and the potential impact on companies' licence to operate, and these risks are likely to be heightened where companies operations are in or near sensitive sites. We consider commitments to understand and manage the impact of operations in such sites as evidence of integration of biodiversity into risk management procedures. Over half (twelve) of the companies made commitments of this nature, however the links between this commitment and what this means in terms of risk exposure for the company was rarely made.

It is encouraging to note a number of companies have made an undertaking to recognise existing World Heritage Sites as 'no go' areas.²⁷ This commitment is a clear sign of emerging corporate understanding of the issue. However, much of the world's biodiversity – particularly in relation to the marine environment – lies outside protected areas. A global gap analysis to assess the effectiveness of protected areas in representing species diversity was prepared for the Fifth World Parks Congress in Durban in 2003. The study concluded that more 1,424 species – 12% of those analysed, including 300 critically endangered animal species and about 500 other less-threatened species – have no protection at all over any part of their natural range.²⁸ Conservationists in South Africa also point out that in order to meet key conservation targets such as representativeness and persistence of conserved species, in some settings, as much as 50% of land would need to be protected.²⁹ Clearly, this will not be possible through protected areas and much important biodiversity will always remain outside formally designated areas.

See also
Section 1 p10

Companies without risk assessment procedures that enable them routinely to assess the biodiversity value of all sites in which they currently or propose to operate could potentially be exposed to reputational and operational risk linked to environmental damage.

Engaging with key stakeholders

An essential element of the management of this issue is the use of stakeholder engagement processes. Not only does this facilitate the capture of all stakeholder views and, therefore, all risks and opportunities, it can also help the company gain access to the expertise and sources of information needed to determine whether they are operating in an area of high biodiversity risk or not.

Box 4: Industry groups and stakeholder initiatives

- **The Energy and Biodiversity Initiative (EBI):** an initiative between Statoil, Shell, Chevron Texaco, BP and leading conservation organizations the Smithsonian Institute, Fauna and Flora International, The Conservancy Council and Conservation International, the EBI aims to produce practical guidelines, tools and models to improve the environmental performance of energy operations, minimize harm to biodiversity, and maximize opportunities for conservation wherever oil and gas resources are developed. (www.theebi.org)
- **The International Council on Mining and Metals (ICMM) task force on mining and biodiversity:** is focusing on best practice principles, reporting criteria, evaluating the application of the IUCN protected area system and members have made a commitment not to operate within World Heritage Sites. (<http://www.icmm.com/html/index.php>)

A number of the companies benchmarked highlighted the importance of strong stakeholder relations in managing biodiversity issues. For example, BG stated that ‘There are a number of features that need special attention once a site is identified as “sensitive”. These include stakeholder consultation - early recognition of parties that would have an interest in the development,³⁰ and Premier noted that ‘Allowing all parties to come and share their concerns and responding to each concern, however minor or insignificant, has been one of the primary elements of the success of the company’s projects. When working in protected areas, companies should be more open to interaction with all stakeholders involved in the projects.’³¹

Leading companies have formed ongoing relationships with environmental NGOs such as Fauna and Flora International, the World Conservation Union (IUCN), Earthwatch or BirdLife International, working with them to understand key risks, devise appropriate policies and strategies and deliver management programmes.

Box 5: The ‘no go’ debate

Following demands for prohibition of extractive activities in protected areas by NGOs such as WWF, the IUCN World Conservation Congress in Amman in 2000 recommended a moratorium on ‘all exploration and extraction of mineral resources in IUCN Protected Area Management Categories I-IV’ and tight controls in Categories V and VI and near any protected areas.

Reports from the Mining, Minerals and Sustainable Development project of International Institute for Environment and Development (IIED) and dialogues between IUCN and the ICMM, among others, have addressed the issue. A number of organisations have started to develop tools to assist companies to identify and make decisions on whether particular sites should be considered ‘no go areas’. For instance, the Energy and Biodiversity Initiative has developed a site selection tool to guide the decision-making process, and the World Resources Institute proposes a methodology of risk assessment and stakeholder consultation to identify ‘probable “no go” zones’.

On 20 August, 15 mining and metal-producing companies (including Rio Tinto, Anglo American and BHP Billiton) signed an undertaking to recognise existing World Heritage Sites as ‘no go’ areas.³² And on 27 August 2003, Shell’s CEO committed not to explore for, or develop, oil and gas resources within natural World Heritage Sites.³³

Companies still face lobbying and shareholder activity on the issue. For instance, in 2001 and 2002, some institutional investors and NGOs including WWF, filed a shareholder resolution requesting BP to prepare a report disclosing how it analysed and took steps to control significant risks to shareholder value from operating in environmentally or culturally sensitive areas, and lobbying for access to areas with a protected environmental status. While this resolution was not passed, BP responded by disclosing its operations in certain sensitive sites. A similar resolution filed predominantly by campaigners concerned about the Arctic Refuge at the 2004 AGM, requested BP’s Board to prepare a report on disclosing how it analyses and takes steps to control significant risks to shareholder value from operating in protected and sensitive areas.³⁴ This resolution received less support from the investment community than the earlier resolutions, probably due to the extent of BP’s current activities and disclosures on biodiversity.

It is now widely accepted by companies as well as governments and NGOs that in certain sensitive sites of high biodiversity value, the economic advantages of extraction will be outweighed by the environmental and cultural benefits of conservation and by the risks to companies’ reputation and shareholder value should they proceed. The basis on which this assessment is made – whether particularly categories of sites should be ruled out wholesale, and what should be the criteria for ‘no go’ determinations on a case-by-case basis – is still the subject of considerable controversy.

Insight is continuing its dialogue with companies, policy-makers and NGOs to support emerging best practice on the basis for such decision-making.

5.3 Policy and strategy

Our discussions with companies indicate that policy and strategy frameworks are fundamental to drive the management of biodiversity risks. In this section we assess the disclosure and quality of companies' policies and strategies for managing their impact on biodiversity and the associated reputational and operational risks.

For details of the benchmark components see Appendix 2

We define policy as a high level aspirational commitment, setting out a company's position on a particular issue. By contrast, strategy acts as a framework and roadmap to drive performance. It describes the company's vision for desired outcomes on a given issue in the medium term, outlining goals, prioritising them and assigning targets.

Two basic questions are asked – do companies have a policy and strategy framework in place? And does it contain the right things? With regard to the latter, there are two elements to this. The first is the process by which the framework is developed – the steps undertaken and the parties involved, the second are the commitments made.

5.3.1 Results

Chart 3 below illustrates that the performance gap is wider within the mining & minerals and oil & gas sectors than it is in utilities. Across each sector, policy commitments range from no reference to biodiversity in any policy documents to the existence of a specific biodiversity policy and associated guidance. Again, companies are assigned letter codes to preserve anonymity and scores relate to the score achieved by the company within our benchmark framework.

Chart 3: Policy and strategy

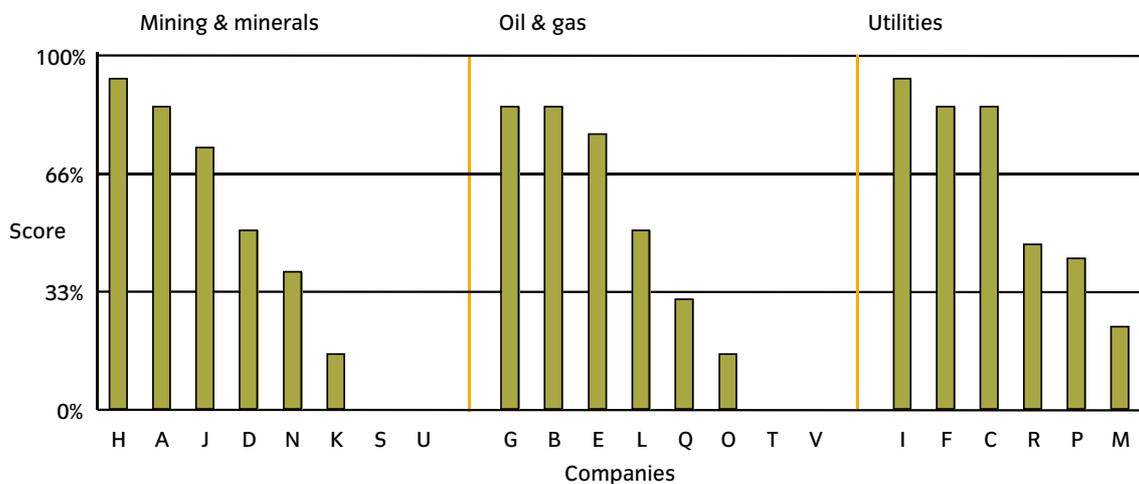


Table 5 overleaf provides further detail on our findings.

Table 5: Policy and strategy – results commentary

<p>All sectors</p> <ul style="list-style-type: none"> ■ Nine companies explicitly reference biodiversity in existing or draft policy commitments. Six of these made more detailed policy commitments. Of these six, two were in the form of a specific biodiversity policy or guidance. ■ Eight companies disclosed elements of a biodiversity strategy. Of these, only three were relatively well developed. ■ Seven companies disclosed neither policy nor strategy commitments. ■ Notable areas of weakness within the policy and strategies were poorly communicated vision, desired outcomes and targets. ■ Some leading companies, such as Rio Tinto, Shell, BP, Severn Trent, Northumbrian United Utilities and RMC, made commitments to positive contributions to biodiversity conservation, though the nature and scale of these is generally unclear. Few companies have committed to offsetting their impacts. ■ Working in partnership was a central theme for the majority of companies making biodiversity commitments. (See Box 8) ■ Leading companies such as Rio Tinto, RMC, Shell, BG and BP formulated their approach to biodiversity management in consultation with external and internal stakeholders and could meet the majority of Insight's suggested criteria for a strong strategy and policy. 	<p>Mining & minerals</p> <ul style="list-style-type: none"> ■ Of the eight companies have no explicit public policy and limited disclosed strategy commitments. One of these is amending its policy to include biodiversity. A second is drafting biodiversity guidelines for release in 2004. ■ Leaders such as Anglo American and Rio Tinto have or are developing stand-alone policy and strategy documents on biodiversity.
	<p>Oil & Gas</p> <ul style="list-style-type: none"> ■ Five of the eight companies in this category had no explicit policy or strategy, one of these intends to refer to biodiversity in its new policy. ■ Some do not mention biodiversity in environmental policy documents but to create detailed biodiversity guidance documents which link to the broader policy framework or integrate biodiversity into internal procedures and documentation.
	<p>Utilities</p> <ul style="list-style-type: none"> ■ Three of the six companies surveyed had minimal or limited policy and strategy commitments, one made no reference to biodiversity in their policy or strategy documents. ■ Stronger reference to local and national context made reflecting the largely UK focus to operations. ■ For those that do have explicit biodiversity policy and strategy documents, public disclosures do not always clearly indicate whether policy and strategy refer to international operations (e.g. provision of advice on water infrastructure development in developing countries).

5.3.2 Commentary

Policies – a framework for biodiversity management

We are encouraged to see that some companies have made strong policy commitments on biodiversity, however, a significant proportion of companies within each sector make no such commitments. For some companies this is because they have taken an integrated approach, viewing biodiversity as an issue that falls within the remit of their environmental policies.

Where companies make this claim, and we see clear evidence that they are managing biodiversity, we accept that biodiversity is integrated into broader environmental policy commitments. Indeed, we encourage this as a means of ensuring that biodiversity is considered alongside a range of other sustainable development issues. However, where companies disclose limited biodiversity management activity but state that they consider biodiversity a key impact and component of environmental policy, in the absence of a clear policy stance, we question the extent to which they are truly managing this risk in a consistent and comprehensive manner at all locations where the company is exposed to potential risk.

Biodiversity strategies – driving policy implementation

Strategies on biodiversity are generally poorly developed. Even the best often lack targets and clear links with the company risk profile. Frequently, these documents are not published. We understand the need to maintain competitive advantage, however, as investors, we are looking for evidence that the company has reviewed and understood the major risks to its operations associated with biodiversity. Unless a company communicates some elements of its strategy, we cannot form a view. Similarly, if no strategy exists and it is not clear that the company has gone through a process of risk evaluation and evaluated the potential risks as low, our initial view would be that the company is unaware of the potential risk.

Box 6: Examples of good practice

- Rio Tinto has surveyed biodiversity activities at all locations, formed an internal steering group to develop strategy implementation and is consulting a panel of external stakeholders.
- Shell developed its policy on biodiversity in conjunction with a range of environmental NGOs.
- Anglo American explicitly commits to ‘Demonstrate active stewardship of land and biodiversity within its safety, health and environment policy’, supporting this with a publicly disclosed biodiversity strategy.

For those companies with exposure to biodiversity risk – and we expect all companies within our benchmark group to have some level of exposure – a clear, corporate level strategy is a good way to ensure implementation of policy within the company. It provides a framework for action (rather than *ad hoc*, uncoordinated initiatives at the site level) and for communicating with stakeholders, allows efficiencies to be realised through sharing best practice, channelling resources into priority areas and ensuring sites have the necessary skills in place to address biodiversity issues. Without such a document, it is hard for investors and NGOs, for instance, to be reassured that biodiversity risks and opportunities are adequately managed by the company regardless whether internal documentation and procedures incorporate biodiversity.

Developing a credible policy and strategy framework

The process through which companies have developed their biodiversity policy and strategy is often as important as the policy and strategy statements themselves. Leading companies have undergone a process to develop strong relationships with key environmental NGOs such as IUCN, Fauna and Flora International and BirdLife and involve them in their approach to managing biodiversity. This approach has a range of benefits – it brings biodiversity expertise into the company, raises awareness of the key areas of NGO concern and starts to build the relationships required to deliver biodiversity management initiatives once the policy has been finalised.

Policies to avoid harm and to benefit biodiversity

While thirteen of the companies reviewed have some form of policy commitment on biodiversity in place – explicit or otherwise – the value of these policies in terms of protecting biodiversity value is variable.

There are three areas of particular weakness:

- **Avoidance and minimisation:** Only three companies make statements that collectively commit the company to understanding, avoiding, minimising and mitigating their impact on biodiversity.
- **Offset:** Still fewer make reference to the aim of making a positive contribution and to offsetting unavoidable negative impact on biodiversity. United Utilities, for example, commits to ‘Take a holistic view of [...] regional woodland holdings whereby new planting opportunities which align to current policy can be used to offset the felling of less desirable stands elsewhere’. Rio Tinto makes the following public commitment in its website: to ‘ensure consideration of biodiversity in management and decision making processes by: [...] investigating options to offset any unavoidable adverse effects in project areas by conservation actions elsewhere.’
- **Positive contribution:** Some companies’ policies commit them to ‘protecting’ and ‘enhancing’ biodiversity, but such statements are often unclear and open to interpretation. They could, for example, cover one-off projects involving philanthropic donations that may make contributions to conservation that are trivial compared with the company’s overall impact. Companies committed to best practice in this field are moving towards commitments systematically to leave biodiversity in sites where they operate in at least as good a state as it was in before the operations began. For instance, in April 2000, Lord John Browne, CEO of BP, said ‘We can have a real, measurable and positive impact on the biodiversity of the world. That is a high aspiration – but like our other aspirations we’re determined to show that we can deliver’.

Box 7: What is a ‘biodiversity offset’?

According to the Energy and Biodiversity Initiative, ‘an offset is typically a measure taken to reduce the negative impacts of a project, both primary and secondary, and to help achieve no net loss of biodiversity at a project site. The objective of an offset is that, by the end of a project, the status of biodiversity in a particular area is comparatively as well off overall as before the project began. Use of offsets for this purpose should be the minimum expected standard by which all companies operate. While legal requirements for offsets and compensation vary from country to country, some sites require companies to implement offset and compensation measures if impacts occur. Offset or compensation measures might include placing property into protected status, buying land for new protected areas, enhancing or restoring degraded land or supporting research or capacity-building for protected areas management.’

In the context of this report, ‘offset’ is used to refer to practical conservation activities undertaken with the aim of ‘no net loss’ of biodiversity, to compensate for the unavoidable harm to biodiversity caused by a company’s operations.

Insight is conducting research on biodiversity offsets with IUCN and plans to produce a report later in 2004.

Setting targets

Only four companies committed to developing and implementing targets associated with their commitments on biodiversity and showed evidence that they were developing such

For ‘Conclusions & recommendations’ see p35

targets. On the whole, few targets were disclosed and many of them were measurable or time bound. This raises the question as to how companies will measure the extent to which they are achieving policy and strategy commitments.

5.4 Management and implementation

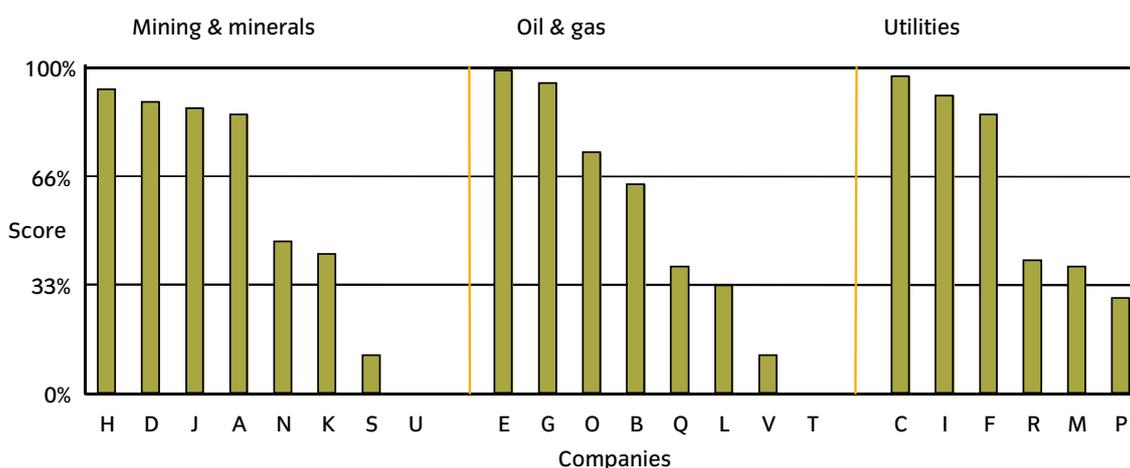
In this section we evaluate the extent to which policy commitments related to biodiversity are implemented through the use of management tools and partnerships. We believe that companies use a range of management tools to address biodiversity risk and integrate it into their decision-making, ranging from those designed to select the initial site for development to those used to manage impacts once development has commenced.

For details of the benchmark components see Appendix 2

5.4.1 Results

It was encouraging to see from Chart 4 below that ten companies surveyed showed significant activity across the board, indicating that they were actively managing the issue.

Chart 4: Management and implementation



A further seven companies showed some degree of integration of biodiversity into their management systems. We were, however, concerned to see that five companies showed little or no evidence of the existence of the management tools that the companies operating according to best practice use to control biodiversity risks. In some cases, companies could be separated into those whose biodiversity work was shaped by corporate-level strategy and those in which it was a 'bottom-up' issue, i.e. driven by site-level activity rather than being placed within a strategy framework. Table 6 overleaf outlines our findings in more detail.

Table 6: Management and implementation – results commentary

<p>All sectors</p> <ul style="list-style-type: none"> ■ The use of site selection tools was limited and only present in the leading companies. Nine had tools in place and a further four are developing them. ■ Ten of the twenty-two companies stated they had fully integrated biodiversity into impact assessments, a further nine were working to develop them. This was not easily distinguished from publicly available information. ■ Integration into site level management plans was equally advanced, with eleven companies showing widespread activity and a further eight demonstrating partial activity. Some companies used the term 'biodiversity action plans', but many simply referred to the integration of biodiversity within existing site management plans. ■ Sixteen companies had developed a number of partnerships, but it was frequently difficult to determine how these partnerships linked to corporate strategy and local/ national biodiversity priorities. Eleven of these showed this link. ■ Few companies (six out of the sixteen with partnerships) appeared to measure the success of their partnerships. ■ Nine of the twenty-two companies had detailed training and awareness raising programmes in place for their staff, some run jointly with environmental NGOs, the remainder had limited or no training. 	<p>Mining & minerals</p> <ul style="list-style-type: none"> ■ The performance with regards to management is significantly more variable within the mining sector than the other two sectors. ■ 50% of the companies show relatively weak management and implementation.
	<p>Oil & Gas</p> <ul style="list-style-type: none"> ■ Two companies in this sector have used secondments to and from environmental NGOs to building internal capacity to deliver biodiversity management solutions and strengthen partnerships. ■ The majority of companies that are actively managing biodiversity impact in this sector show well developed tools and processes. ■ 50% of the companies show relatively weak management and implementation.
	<p>Utilities</p> <ul style="list-style-type: none"> ■ There is a relatively high level of activity across the sector, although the gap between the leaders and trailing companies is significant. ■ Leaders within this sector refer more frequently to the local and national biodiversity context surrounding their activities and partnerships. ■ Evaluation of the outcome of partnerships appears more advanced generally within this sector with some companies using stakeholder inclusive monitoring of the success of ongoing partnerships. ■ The role of regulating bodies such as English Nature is emphasised, linked to the largely UK focus of operations within this sector.

5.4.1 Commentary

It is encouraging that almost half the companies showed management systems and tools which address biodiversity risks. It is, however, of concern that five companies disclose little or no specific activities to manage biodiversity impact. We recognise that in some of these companies this result may link to a lack of disclosure on the issue, however, failing to communicate activities to manage risk could lead to the assumption by investors that those risks are not being managed effectively.

Factoring biodiversity risks into pre-investment decisions

Developing a tool that is sufficiently robust to enable the identification of sites of high biodiversity importance remains an area for further development. Only a limited number of companies have formalised tools in place. However, a number of companies showed

strengths in this area. United Utilities, for example, has a constraints database in place which holds details of all significant designations related to natural and built heritage in the company's operating area. This is used at the formulation stage of all projects involving ground disturbance, building alteration, repair or construction and will be applied to major capital engineering programmes, operating programmes, maintenance works and the general management of the Company's assets.³⁵ Northumbrian Water, Shell and BP show similarly well developed systems.

Factoring biodiversity into environmental and social impact assessments

The most well developed management tools were environmental and social impact assessments (ESIA), which, in many cases, incorporated biodiversity considerations. Leading companies had specific guidance in place on how to integrate biodiversity considerations into the impact assessment process or were in the process of developing them. Incorporation of clear biodiversity criteria within the impact assessment process is essential to ensure full appreciation of the risks and potential opportunities associated with biodiversity. Leading companies worked with local communities and environmental NGOs to ensure that the ESIA process was robust from a biodiversity perspective. It is concerning that a number of companies show no evidence that their impact assessment incorporates biodiversity considerations.

Managing biodiversity at site level

We are disappointed to see a lack of integration of biodiversity into site management plans, with only half of the companies surveyed showing widespread activity. It is essential for companies to address biodiversity within site management plans or as part of a biodiversity action plan at all sites where biodiversity is identified as a key risk. In many cases, companies had simply not undertaken this site-level risk evaluation process.

By contrast, a number of the companies in our survey have worked with key stakeholders to identify priority sites based on their potential impact on areas of high biodiversity value. BP and Severn Trent reported particularly clearly on the extent to which they had developed biodiversity action plans for their operations. Some companies have also developed guidance or frameworks for biodiversity management at the site level in order to promote a consistent approach throughout the organisation. For example, Shell has developed standardised guidance for site and business managers. Similarly, RMC has produced a best practice guidance document for its UK operations that outlines where RMC's biodiversity work contributes to UK regional, county and local BAPS.³⁶

The partnership approach to managing biodiversity risks and impacts

It is encouraging to see that the majority of companies have some form of partnership in place intended to reduce their impacts on biodiversity either at a site level or internationally. As investors, we are looking for evidence that these partnerships link directly to and support corporate strategy and priorities and also address local and national biodiversity priorities. Evidence of this was patchy, perhaps as a result of the way in which partnership activity was communicated within public documentation. As a result, it is difficult to see how such partnerships are delivering on strategy in a number of cases.

One example of a strong partnership is that between RMC and Birdlife. They use a Memorandum of Understanding, in which the partners agree to work together at local, national and international levels, to define the scope and nature of the partnership. They see this relationship as a way of strengthening their ability to achieve their aims both by

collaborating on practical nature conservation, and by working together on longer term issues.³⁷

Measuring the success of such partnerships is particularly difficult. Less than half of companies report outcomes against objectives in a formalised way. Indeed BP stated that 'A major issue for BP is how to quantify outcomes from biodiversity projects'.³⁸ Some companies, such as Northumbrian Water, used stakeholder-inclusive reviews of their partnerships programmes to evaluate their success.

Box 8: What makes a successful partnership?

Given the complexity of the issues at stake in managing biodiversity and the common need for specialist expertise that is often not available within companies, partners can play a key role in helping companies identify their biodiversity related risks and devise an appropriate strategy to address them. They can also help build trust and understanding between the conservation and corporate communities.

Creating an effective partnership is not an easy process, requiring involvement of the partners in setting vision and goals, establishing clear links between the partnership outcomes and corporate biodiversity policy. Ensuring this links to local, national and regional biodiversity priorities helps ensure the most valuable contribution. Measuring and communicating the outcomes of the partnerships to key stakeholders is also important.

Ensuring the right competencies are in place

Ensuring that a company has appropriate levels of awareness and competencies related to biodiversity is essential to ensure effective management of the issue. There were a number of examples of good practice in this area. For example, Shell includes biodiversity within formalised training for health, safety and environmental staff and within a management primer for sustainable development.³⁹ Northumbrian Water developed a training programme in conjunction with the Wildlife Trust that they use to share expertise and experience and to enhance the skills base and capacity of each organisation.⁴⁰

For 'Conclusions & recommendations' see p35

5.5 Monitoring, reporting and assurance

With any business issue, not only must management systems be in place, but management needs to be confident and able to demonstrate that these systems are being implemented effectively. This section evaluates the extent to which the companies describe processes to ensure that policy commitments and management systems related to biodiversity are implemented.

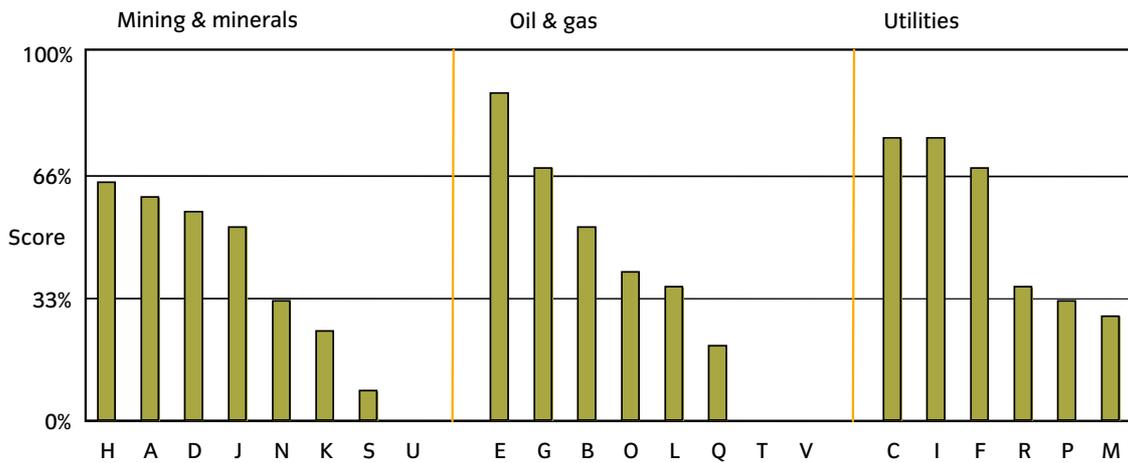
For details of the benchmark components see Appendix 2

The fundamental questions underlying this section were: Given that systems are in place to manage biodiversity risk, are these systems checked to ensure they are being implemented? And is the company communicating effectively on their activities to the investment community? Failure to do either will expose the company to potential risk.

5.51 Results

The results of our survey are given in Chart 5 overleaf. As expected for an emerging issue, companies performed less well in this section. This also reflects the fact that the issue was previously one of local rather than strategic interest and as a result has been communicated through media other than the environment/ corporate responsibility reports.

Chart 5: Monitoring, reporting and assurance



Well developed assurance processes tend to be an indicator of a relatively mature management system and as a result this component of a management system is developed once the company is confident regarding the policy and strategy statements. As the issue matures and management systems become further embedded in business operations, we expect to see an improvement in the scores within this section. Further details of the results are summarised in Table 7 overleaf.

Table 7: Monitoring, reporting and assurance – results commentary

<p>All sectors</p> <ul style="list-style-type: none"> ■ Six companies showed no evidence of biodiversity being incorporated in their internal and external assurance processes, four showed comprehensive integration and a further twelve partial. ■ Of the twelve companies that verified their externally reported information, nine clearly incorporated biodiversity related information. ■ Only one company (BP) reports in any detail on sensitive sites potentially impacted by its operations. Four companies stated to us that they are aware of how their activities impact on sensitive sites, but do not state this publicly. 	<p>Mining & minerals</p> <ul style="list-style-type: none"> ■ Leading companies have developed questions around biodiversity within their internal audit protocols in conjunction with environmental NGOs and can demonstrate integration of biodiversity within their externally accredited environmental management systems. They are also working with NGOs to map the location of their operations against location of sensitive sites. ■ Information disclosed ranges from very limited disclosures to details on policy, strategy, results of biodiversity surveys and biodiversity partnerships. Disclosures on sensitive sites are made but are not presented alongside a description of activities to manage them.
	<p>Oil & Gas</p> <ul style="list-style-type: none"> ■ The profile of leading companies is very similar to the leaders within the mining sector. ■ Several companies are tracking the development of the Energy and Biodiversity Initiative and using the process set out by the EBI to develop key performance indicators.
	<p>Utilities</p> <ul style="list-style-type: none"> ■ Northumbrian Water, Severn Trent and United Utilities reported indicators that reflected guidance from Water UK biodiversity. Some assessed the condition of Sites of Special Scientific Interest through partnerships with English Nature & Countryside Council for Wales and/ or report against the Department of Environment, Food and Rural affairs England biodiversity strategy indicators.

5.52 Commentary

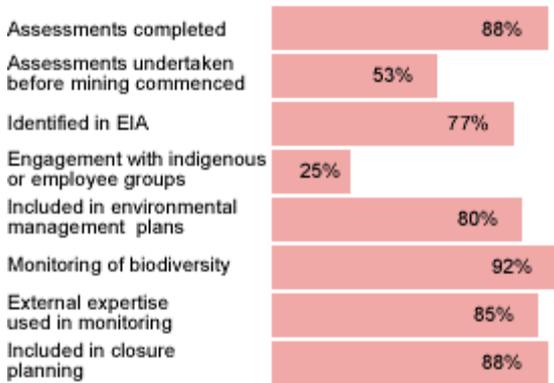
Ensuring management system implementation

Consistent implementation of management systems throughout their global operations is a key risk area in large multinational companies with complex organisational structures. While we do not expect the risk profile of all sites to require management of this issue, for those where biodiversity is deemed a significant risk, we expect to see that the company is monitoring the implementation of appropriate management plans.

Companies leading the way in this area are able to demonstrate that they had integrated biodiversity into internal and external audit protocols including the ISO14001 audit structure. In some cases companies are working with environmental NGOs to develop appropriate biodiversity audit protocols or seeking external assurance from NGOs such as the Wildlife Trust over their management of biodiversity. This may be in the form of site level audits or of stakeholder reviews of strategy and partnership programmes – such as that currently being undertaken by Northumbrian Water.

Table 8: Rio Tinto's Biodiversity Survey 2001

Biodiversity survey 2001
(% of operations)



Some companies such as Rio Tinto and BP are able to provide a clear view of the extent of awareness around biodiversity issues through use of questionnaires to survey all operations. The output of this process is disclosed on both BP and Rio Tinto's website. The Rio Tinto example, based on a survey designed with input from Birdlife International, Fauna and Flora International and UNEP-WCMC, to which 100% of Rio Tinto's businesses responded, is given above.⁴¹

Third party report verification

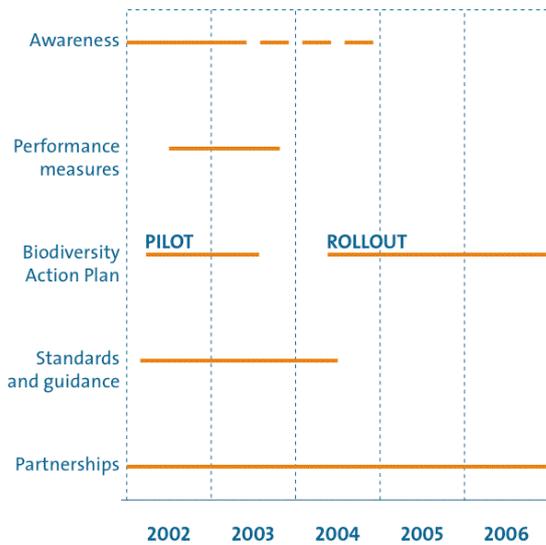
We examined the extent to which third party report verification includes information reported on biodiversity. This provides an indication that the information are a fair reflection of company activity on the issue. In many cases, whilst a verification statement was present, it was not clear whether biodiversity was considered to be part of this. This contrasted with the situation in some companies, where each web page is marked as verified by the auditors, clearly indicating that the disclosures were a fair reflection of company activities. Very few verifiers commented on the level of disclosure around biodiversity. A notable exception is the recent assurance statement from the Corporate Citizenship Company on Centrica's Corporate Responsibility Report,⁴² which highlights the need for further activity on biodiversity following recent changes to the company's portfolio. We were pleased to see a company publishing information that highlighted the importance of biodiversity management.

As a result, while verifiers provide assurance that what is being stated is correct, the information they are verifying may be inadequate to give a clear picture of risk to the company. The fact that biodiversity is an emerging issue raises the questions whether the verifiers have the appropriate competencies to be able to judge whether this particular risk is being managed and argues for a move to stakeholder-inclusive assurance that uses the views of key stakeholders to define report content.

Reporting – the weakest link

A number of companies are doing excellent work communicating their activities around biodiversity management and are working with industry initiatives to develop acceptable standards of reporting such as the Global Reporting Initiative (GRI)⁴³ and Energy and Biodiversity Initiative. However, no company is yet in a position to provide a complete picture of how they are managing this issue through publicly available information and very few communicate timebound targets that link clearly to strategy and risks. This reflects the fact that developing appropriate indicators and targets in this area is extremely difficult.

Table 9: BG Group's Biodiversity Strategic Plan



One of the clearest examples of disclosure on strategy came from BG in its 2001 Social and Environment Report⁴⁴ – although this was difficult to locate on their website. Other companies that showed strong reporting of strategy include BP, Shell, Anglo American, Rio Tinto, United Utilities, Severn Trent and Northumbrian Water.

The other area of reporting in which companies' response was extremely variable was in the disclosures around biodiversity management tools such as integration of biodiversity into site selection, impact assessments and site management plans.

A number of companies report the locations of certain sensitive sites that could potentially be affected by their operations. Many such disclosures did not indicate, however, whether the list was complete, how management had identified such sites, nor the extent to which the risks around them were being managed. The most clearly presented was that of BP who outline all operations that impact on IUCN protect areas categories I-VI, they also highlight joint ventures that could impact on such areas. Shell has also committed to make similar disclosures. Of particular concern were those seven companies that made no disclosures around sensitive sites and the four companies that indicated that they had performed a review of such sites and identified no risks but did not disclose this publicly.

For 'Conclusions & recommendations' see p35

Half of the companies surveyed are reporting limited or no specific information on their activities to manage biodiversity impacts, while others within their sector show a high level of activity. As investors, we are seeking evidence that the business risks associated with impacts on biodiversity are being managed. While direct engagement with companies will reveal additional information about their management practices, performance will frequently be judged on publicly disclosed information and companies are encouraged to link their disclosures much more strongly to policy, strategy and key risk areas.

Box 9: Reporting guidance on biodiversity

A number of industry based initiatives provide guidance for reporting on biodiversity impacts. For example, the EU recently produced guidance on sustainable development indicators for the minerals industry.⁴⁵ This suggested that companies report on 'total surface land area returned to beneficial use /new surface land area put into use for minerals' on a company level and 'Number of Natura 2000 sites in which a company operates extraction activities (or which are adjacent to extraction sites)' on a member state level. In the UK, Water UK recommended reporting on the percentage of priority species and habitats identified on water operators' properties with biodiversity action plans in place.⁴⁶

The Energy and Biodiversity Initiative focused around the oil and gas industry describes the process by which such indicators can be developed, providing detailed guidance on how companies can identify appropriate indicators.⁴⁷

In April 2004, the Global Reporting Initiative (GRI) published the working document of the Mining and Metals Supplement.⁴⁸ The biodiversity aspect of the set of environmental indicators includes:

- For mining: Total amount of land owned, leased and managed
 1. Total land disturbed and not yet rehabilitated (opening balance)
 2. Total amount of land newly disturbed within the reporting period
 3. Total amount of land newly rehabilitated within the reporting period to agreed upon end use
 4. Total land disturbed and not yet rehabilitated (closing balance)
- Description of policies and procedures to incorporate biodiversity impacts into site/operations planning
- Number/percentage of sites identified as requiring biodiversity management plans with updated plans in place
- Impacts of activities and operations on protected and sensitive areas

In its broader guidance for all business sectors, GRI suggests that all companies identifying biodiversity as an issue should report on the following core indicators:

- Location and size of land owned, leased or managed in biodiversity rich habitats
- A description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, freshwater, and marine environments

A number of non-core indicators are also suggested:

- Amount of impermeable surface as a percentage of land purchased or leased
- Total amount of land owned, leased or managed for production activities or extractive use
- Impacts of activities and operations on protected and sensitive areas
- Changes to natural habitats resulting from activities and operations and percentage of habitat protected or restored
- Objectives, programmes, and targets for protecting and restoring native ecosystems and species in degraded areas
- Number of IUCN Red List species with habitats in areas affected by operations and Business units currently operating or planning operations in or around protected or sensitive areas

The value of these indicators has been questioned for their lack of sensitivity as measures of performance improvement. However, the development of biodiversity indicators is difficult and the GRI indicators offer a useful starting point in developing metrics to monitor and manage the impact of companies' management of biodiversity.

6. Conclusions and recommendations

This section sets out our conclusions from the benchmarking study and outlines a series of recommendations that we encourage companies to follow in their approach to managing biodiversity related risks and identifying opportunities. Recommendations are given for basic and best practice management of biodiversity, which are summarised in Table 2 on page 6. These are defined as follows:

- **Basic management:** This sets out the minimum actions required for companies within these sectors to understand and identify major biodiversity related risks and to demonstrate that they are starting to manage them. We encourage all the companies surveyed to meet the basic standards described in Table 2 on page 6. as soon as they are able.
- **Best practice:** Companies that meet the basic standards described above are likely still to be exposed to a level of risk and are better placed to take advantage of related business opportunities if they can demonstrate best practice, also outlined in Table 2 on page 6. Ultimately all companies that commit to operate as a responsible corporate citizen and which are exposed to biodiversity risk should aspire to the key elements of best practice that would be found in a company with a strategic, comprehensive approach to managing the risks and opportunities posed by biodiversity.

A number of leading practices and emerging issues are outlined below.

Box 10: Special treatment or integration?

Throughout our analysis, we were faced with a dilemma: how to tell whether biodiversity risks were being addressed adequately when little or no specific reference was made to biodiversity in publicly available documentation.

In common with many new issues facing management, when biodiversity is first identified by a company as of importance, it is often explicitly labelled as an issue for management. Ultimately the issue is fully integrated into routine procedures and becomes a reporting and management norm, at which point it may cease to be visible.⁴⁹

Several companies we surveyed stated that biodiversity is fully integrated into their sustainable development policies and they therefore do not have separate policies and procedures for it. One mining company, for example, made no reference to biodiversity within its environmental policy and strategy statements and generally reports limited activity on this issue in comparison to peers. However, a review of some of its internal documentation supported the company's assertion that biodiversity was a key part of its environmental management programme. We were therefore able to satisfy ourselves that the company is aware of the issue and managing it. Other commentators, however, may simply judge the company on the basis of publicly available information and conclude the risk may not be managed.

We encourage the integration of biodiversity into existing management systems but believe that a strong risk management strategy will communicate a clear position on all key issues and be able to demonstrate that these are managed effectively on an integrated basis.

6.1 Governance

6.1.1 Conclusions

- Clear assignment of responsibilities for managing a company's impact on biodiversity – or indeed any major sustainable development issue – is a prerequisite for driving performance improvements. While leading companies acknowledge this, assigning responsibility for managing biodiversity and incorporating biodiversity within internal risk or environmental committees, four companies in our study showed no evidence of this. In this situation, it is hard for us, as investors, to form a view as to whether a company is managing its biodiversity risks effectively.
- The ability to state the business case for managing biodiversity clearly in addition to understanding the impact – both direct and indirect – of the company on its environment is a strong indicator to us, as investors, that the company understands the risks posed by the company's impact on biodiversity and is well positioned to manage them. While eleven companies indicated that biodiversity was part of their risk evaluation process, few companies disclosed information which suggested they considered biodiversity in terms of business risk, focusing instead on the impacts of the business on biodiversity.
- Four companies in our study make a commitment to recognise existing World Heritage Sites as 'no go' areas.⁵⁰ This indicates emerging corporate understanding of the issue. However, much of the world's biodiversity – particularly in relation to the marine environment – lies outside protected areas. Companies without risk assessment procedures that enable them to routinely assess the biodiversity value of all sites in which the company currently or proposes to operate could potentially be exposed to reputational and operational risk.

6.1.2 Recommendations

We suggest that, **as a minimum**, companies should demonstrate awareness of the location of their operations in relation to legally designated areas and areas already known for their high biodiversity value, and periodically perform a high-level evaluation of their key risks. This will not capture the risks associated with all potentially sensitive sites, as much of the world's biodiversity is found outside these areas. However, it is an easily accessible starting point for companies to reach an informed view of the most obvious risks associated with these issues.

To adopt a **best practice approach**, companies:

- Review all assets and operations to determine levels of biodiversity risks, impacts and opportunities. This should make reference to local, national and international biodiversity priorities and goals, national biodiversity strategies and action plans and will involve establishing strong relationships with key stakeholders, using them to inform company policy, strategy and risk management programmes. This review goes beyond gaining an understanding of the potential impact of operations on legally designated areas and areas known for their high biodiversity value and asks the question 'how is the company impacting on biodiversity?' It acknowledges that much of the world's biodiversity is not yet charted and exists outside legally designated areas in sites that may not yet be recognised as sensitive.⁵¹
- Integrate biodiversity into key decision making processes and governance structures including:
 - Risk management at site and corporate level
 - Business planning and strategy

- Capital investment decisions
- Environmental impact assessment
- Site management plans
- Reporting processes
- Internal and external assurance processes.

6.2 Policy and strategy

6.2.1 Conclusions

- A number of companies focus on site level management of biodiversity impacts with no reference to biodiversity in policy or strategy documents. To stakeholders, this signals an awareness of the issue at some locations, but may be insufficient to reassure them that the company has gone through a consistent and rigorous process of evaluating all their operations and identified those which have significant biodiversity risk exposures or concluded that biodiversity risk is negligible.
- A clear policy and strategy that is publicly disclosed, formed in consultation with key stakeholders and experts, and sits alongside disclosures on site level activity is a clear signal of the existence of a robust management framework for the issue.
- It is encouraging to see that over half of the companies had some form of policy or strategy commitment in place. Of these, two are in the form of a specific biodiversity policy or guidance.
- However, many policy and strategy commitments lacked the detail required to form a robust framework to drive performance improvement. Commitments to ‘protect’ and ‘enhance’ biodiversity, could, for example, cover one-off projects involving philanthropic donations to conservation projects that are trivial compared with the company’s overall impact. Furthermore, few companies committed to specific goals and targets on biodiversity.
- Companies should make a clear, sequential corporate commitment that they will seek to avoid harm to biodiversity, and to minimise, mitigate and offset unavoidable harm caused to biodiversity by their activities. Leading companies will also adopt clear strategies and targets for implementing these commitments through practical conservation activities at the site-level. Without this, biodiversity will continue to decline as a result of business impacts.
- The ‘no net loss’ or ‘net benefit’ approach recognises that in some cases loss of biodiversity will be an unavoidable and inevitable result of meeting other sustainable development needs, but a clear policy and its systematic application, for example through offsetting activities, can deliver development and biodiversity benefits.

Box 11: Consortia and host government agreements: do companies' biodiversity (and environmental) policies apply?

Many of the larger operations of extractive and utility companies – and often those giving rise to the greatest biodiversity risks – are developed by consortia, or joint ventures, rather than by individual companies. One of the companies – the 'operating company' – will lead the project. In these situations, costs and revenue-sharing agreements reflect both ownership and responsibility stakes.

In such a joint venture, the operating company generally defines the environmental, social and ethical standards for the project, frequently influenced by the values, priorities and standards of the other consortium members. Consequently, any policy commitments of the consortium and the management systems and tools it applies on biodiversity will likely differ from those to which the member companies adhere in their own operations and which they communicate in their corporate policies and reports. It is rare for the companies involved in consortia to communicate to investors and the public the policies, standards and management approaches adopted by the consortium, let alone how these differ from the individual members' policies.

NGOs have criticised companies operating in joint ventures because, in addition to the lack of clarity about policies and standards adopted by the consortium, the agreements between the consortium and the host government where it is to operate (often termed 'host government agreements' or 'production sharing agreements'), frequently allow the companies to derogate from national environmental legal standards and may absolve them from paying local taxes.

Companies are exposed to risk arising from (a) the lack of clarity on the policies and standards operated by consortia (b) potential disparity between the standards adhered to by the consortium and those its members communicate to the public as individual companies, and (c) the perception that some host government agreements allow companies to operate at standards below those established in national law, and certainly distinct from best practice.

Insight is aware of these risks and is engaging with companies involved in the Baku-Tbilisi-Ceyhan (BTC) pipeline project and in the Sakhalin projects.

The benchmark does not address the issue of consortia specifically. Insight Investment recommends that companies in such consortia should:

- Ensure the consortium adopts best practice environmental and social policies and management systems
- Specifically address biodiversity within these, when the consortium's operations gives rise to significant biodiversity risks and impacts
- State publicly which policies and standards apply in consortium situations
- Support and comply with the host government's environmental and social legislation and not seek to derogate from these standards in agreements with host government

6.2.2 Recommendations

We encourage those companies that have yet to tackle this issue in depth to, **as a minimum**, devise a policy and/or strategy on the management of biodiversity risk. This should commit to managing biodiversity impacts at locations where the company's risk assessment shows that the company is or has the potential to be exposed to risks or reveals significant opportunities.

Companies who wish to demonstrate **best practice** should consider:

- Developing a Board-approved, publicly available policy on biodiversity (or reference to biodiversity in board-approved environment or sustainable development policy supported by more detailed policy guidance to staff). This policy should incorporate

statements on the importance of biodiversity and the business case and the company's commitment to:

- Understand its impact on biodiversity and the impact of biodiversity risks on the company
- Seek to avoid harm to biodiversity and where possible minimise and mitigate impact
- Make a positive contribution to the conservation of biodiversity (preferably, offsetting unavoidable harm so that overall activities result in net biodiversity benefit)
- Integrate biodiversity into decision-making and management
- Consult and work in partnership with government, communities and other stakeholders
- Contribute to national biodiversity, and sustainable development goals and priorities, such as those articulated in National Biodiversity Strategies and Action Plans and National Strategies on Sustainable Development)
- Continuous improvement and target setting
- Developing a group-level biodiversity strategy in conjunction with NGO partners that acts as a framework for implementing policy commitments. Good strategies articulate a company's vision and goals with respect to biodiversity, prioritising them and assigning objectives and targets.
- Consulting with key stakeholders in order to
 - Strengthen relationships and build trust with external stakeholders
 - Capture key areas of risk and opportunity
 - Focus activity on areas where a high return on resources invested is possible – from an operational and a biodiversity perspective
 - Access expertise on biodiversity
 - Understand existing site level activities, priorities and level of engagement

Simpler policy and strategy frameworks may be appropriate if the level of risk associated with biodiversity is deemed to be low, however, the process by which management has reached this conclusion must be transparent.

6.3 Management and implementation

6.3.1 Conclusions

Nine of the companies in our study demonstrated that biodiversity was factored into a number of key management tools such as environmental and social impact assessments, site management plans, site selection tools and training programmes. However, we were concerned that five disclosed little or no activity to assess and manage biodiversity related risks.

- Leading companies have formalised tools that map their business operations against areas of high biodiversity value and incorporate clear biodiversity criteria within their environmental and social impact assessment processes. These tools are used to evaluate potential impacts on biodiversity at each stage of the project development process, anticipate problems and take steps to avoid them.
- Only half of the companies in our study surveyed show widespread integration of biodiversity into site management plans. Activity ranged from isolated biodiversity related projects to development and roll out of biodiversity action plans based on corporate level evaluation of exposure to biodiversity related risks developed in

conjunction with environmental NGOs. While the latter is commendable, the former gives us greater comfort as investors that the risks related to this issue are being managed.

- Many companies (sixteen of the eleven companies surveyed) implement biodiversity activities at site level through the use of partnerships with environmental NGOs. The most effective partnerships have defined goals set out in memoranda of understanding, clear links to corporate priorities and local, regional or national biodiversity priorities and have clearly defined measures of success. Such partnerships have the potential not only to deliver site level biodiversity programmes, but also inform overall corporate strategy and increase the level of trust with NGOs.

6.3.2 Recommendations

We suggest that companies **as a minimum** should:

- Consider biodiversity explicitly in the context of Environmental and Social Impact Assessments.
- Incorporate biodiversity impacts identified through the ESIA process within site level management plans.
- Identify key stakeholders to assist company to design and deliver policy, strategy and site biodiversity management plans for high risk sites.

We suggest that a **best practice approach** would be to:

- Develop early warning systems or site selection tools, (recommended by the Energy and Biodiversity Initiative⁵²) which can be used to identify significant biodiversity issues and sensitive sites as early as possible in the project cycle and map them against existing and planned operations.
- Develop guidance for the incorporation of biodiversity within environmental and social impact assessments for any new capital project and substantial modification of existing projects.
- Develop biodiversity action plans or site management plans that demonstrably include biodiversity considered at all sites where there is a significant impact on or risk to biodiversity. These should be developed in consultation with external experts, preferably from the host country and aligned to the extent possible to the host government's national priorities for biodiversity, typically set out in its National Biodiversity Strategy and Action Plan.⁵³
- Develop ongoing partnerships with communities, government and environmental NGOs which have mutually agreed objectives and goals, clear links to local, regional and national biodiversity priorities but which also link to the corporate policy and strategy for the management of biodiversity. Furthermore, companies should periodically evaluate the performance of these partnerships to ensure they are delivering real benefits and meeting the stated objectives of all partners.
- Implement training and awareness activities to ensure personnel have the capacity to deliver on biodiversity objectives.

We believe that the above tools are most effective when driven by a strong corporate policy and strategy on biodiversity.

6.4 Monitoring, reporting and assurance

- Half of the companies surveyed report little or no information on their activities to manage biodiversity risks, while others within their sector show detailed disclosures and are working with industry initiatives to develop acceptable standards of reporting.

Shareholders need such information to reach an informed view of the extent to which companies are managing this risk appropriately.

- Even the companies most advanced in considering this issue are struggling to identify appropriate performance indicators for biodiversity management. No company yet provides a complete picture of how it is managing this issue through publicly available information. This remains a challenge going forward. Nonetheless, many companies could significantly improve their reporting by disclosing more fully the actions undertaken to understand and manage biodiversity such as the existence of appropriate risk management frameworks, strategy, targets, potential impacts on sensitive sites and action taken to mitigate them. With time we expect companies to establish key performance indicators to allow them to monitor progress, using these as a basis to drive performance improvement. See Box 9 for further discussion on key performance indicators.
- Assurance processes over biodiversity management systems are still developing with only four companies showing significant activity. Consistent implementation of management systems throughout their global operations is a key risk area in large multinational companies with complex organisational structures. For those sites where biodiversity risks or potential impacts are considered significant, we expect to see that the company is monitoring the implementation of appropriate management plans. The fact that the issue is an emerging one raises the question whether verifiers and certifiers have the appropriate skills to be able to judge whether this particular risk is being managed. It also argues for a move to stakeholder inclusive assurance.

6.4.1 Recommendations

We suggest that those companies that have yet to tackle this issue in depth should, **as a minimum** report the outcome of their high level evaluation of biodiversity risks and resulting policy commitments and site level management activities.

Those who have a more developed approach, have identified their exposure to biodiversity risks and wish to adopt a **best practice approach** should ensure that internal and external assurance processes address the process for managing biodiversity related risks.

We encourage them also to develop and report publicly on site and corporate level key performance indicators that cover both biodiversity management process and performance. This could include disclosures on:

- Policy and strategy commitments on biodiversity and stance with regard to sensitive sites
- Commitment to understand and manage risks associated with sensitive sites
- The process by which management have evaluated their operations to determine potential impact on biodiversity and associated risks
- The results of this process detailing the location of sensitive sites and management activities to prevent damage, or if no such sites are identified, that this is the case
- Mechanisms to ensure that the above are implemented including internal and external assurance processes and third party verification of externally reported information. We do not expect separate mechanisms to be developed for biodiversity, rather that existing mechanisms are expanded to include the issue.

Overall conclusion

Our results are split into the three sectors – mining & minerals, oil & gas and utilities – to ensure they are comparable. Companies can be divided into three categories as set out below.

In the short to medium term, we encourage all companies within our benchmark to commit and establish plans for meeting the basic recommendations for the management of biodiversity risks set out in Table 1 below. In the medium term, we encourage them to meet

the best practice recommendations. As part of our ongoing engagement, we will be suggesting specific steps that we feel each company could take to be confident that it is operating according to best practice and in a manner appropriate for its risk exposure. For those companies that demonstrate what is, *de facto*, best practice in today's operating environment, we encourage them to ensure that they have in place comprehensive, strategic approaches to managing biodiversity risks and opportunities, that can evolve in line with the changing international policy and operational environments, and as the company's understanding of its impacts on biodiversity develops.

Table 1: How do the companies perform?

	Description	Mining & Minerals	Oil & Gas	Utilities
Companies engaged and actively managing	<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 	Anglo American BHP Billiton Rio Tinto RMC	BG Group BP Shell	Northumbrian Water + Severn Trent United Utilities
Companies aware and mobilising	<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 passing reference within policy documents No explicit supporting biodiversity strategy or guidance for staff 	Lonmin+ Xstrata+	Cairn Energy* Premier Oil+ Venture*	Centrica Kelda+ National Grid Transco
Companies in early stages	<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 No explicit policy or management stance on biodiversity 	Antofagasta+ Aquarius Platinum*	Soco* Tullow*	
Notes	* Companies with an annual turnover that is less than £100 million + Companies with an annual turnover between £100 million and £1,000 million (source Hoovers.com)			

Finally, we recommend that companies demonstrate to their stakeholders leading-edge results in applied biodiversity conservation. In order to maintain public trust and license to operate, extractive and utility companies will increasingly need to address society's perception that they contribute to the loss of biodiversity and the expectation that companies will make a positive contribution to conservation, beyond basic risk management. In April 2000, Lord John Browne, CEO of BP, said 'We can have a real, measurable and positive impact on the biodiversity of the world. That is a high aspiration – but, like our other aspirations, we're determined to show that we can deliver'. We encourage leading companies to clarify and communicate the basis, goals, targets and key performance indicators upon which they plan to turn such visions into reality. We suggest that commitments to offset harm to biodiversity at the site level, through practical conservation measures in partnership with appropriate organisations, is a good way to start. We are conducting further research on this topic and invite participation from interested companies and other organisations.

A number of companies have made great strides in developing processes to manage biodiversity-related risks and opportunities. Many more are aware of the issues and are mobilising resources to address them. We congratulate these companies and urge those that have yet to tackle these issues in depth to review their approach to them, as it is our belief that building shareholder and natural value are not mutually exclusive and are, in fact, interdependent.

Appendix 1: Methodology

The information in this appendix provides additional information to that in Section 3 on page 14. The benchmark is designed to evaluate companies on the basis of the core components of a strong system for managing biodiversity risk. We focused on the process that companies should have in place to ensure that they can identify, understand and manage the risks associated with their impacts on biodiversity. The key elements covered are:

- **Governance:** this section evaluates the extent to which responsibilities are assigned for managing biodiversity related risks, whether the risk identification and management framework incorporated biodiversity issues – an element of which is dialogue with key stakeholders – and the extent to which these are factored into core decision-making processes.
- **Policy and strategy:** this section asks the questions ‘Does the company have a clear policy statement on biodiversity and is this supported by a strategy which is designed in such a way to drive performance improvements throughout the business?’
- **Management and implementation:** this section focuses on the extent to which the company has the mechanisms in place to ensure that biodiversity policy and strategy are implemented. Such mechanisms include tools for site selection, environmental impact assessments and site management plans which incorporate biodiversity, training and awareness raising on biodiversity issues and the existence of strong partnerships with conservation organisations that drive local and corporate level performance improvements, that include positive contributions to biodiversity conservation.
- **Monitoring, reporting and assurance:** this section evaluates the mechanisms companies have in place to ensure that the policy, strategy and management systems are being implemented effectively and the extent to which publicly reported information communicates a fair picture of the company’s efforts to manage biodiversity related risks.

Within each section, the benchmark assigns different marks for various levels of calibre and comprehensiveness of a company’s approach to each issue, based on common criteria described in the benchmark. The detailed framework is given in Appendix 2 on page 47.

Addressing sensitive sites

Recognising the complexity of the issue of sensitive sites, consideration of the management requirements for operations in sensitive sites are addressed in each of the four categories of issues in the Insight biodiversity benchmark, which includes consideration of:

- Policy commitments to understand and manage impacts on sensitive sites.
- Mechanisms to identify sensitive sites impacted by operations during the pre-investment stage, during environmental impact assessment and implementation of site management plans and their links to site and group level risk management.
- Commitments to report on operations in, adjacent or containing sensitive sites and associated management activities.

Designing the benchmark

In developing the structure and content of the benchmark, we drew on the following:

- Internationally recognised management system standards such as ISO14001.
- Evaluation structures laid out by various investment indices such as FTSE4Good and Dow Jones Sustainability Indices.
- Guidance published by the Energy and Biodiversity initiative.⁵⁴

- Work done by the Advisory Committee on Business and the Environment.⁵⁵
- The results to date of company consultations, seminars and research in Insight's 'Extractives and biodiversity' engagement programme.⁵⁶

In addition, we consulted a number of companies on the design of the benchmark to ensure that it was a practical representation of best practice.

The four elements of the benchmark are interdependent and the optimal approach is to having an adequate level of activity within each element. Having a clear policy and strategy helps drive change through the business but will not be effective without appropriate governance structures to assign responsibilities and focus effort. Similarly, devising a good policy and strategy lacks credibility without the tools and competencies to implement them and then test that implementation. However, recognising that some of these elements play a greater role in risk management than others, we gave greater weight to the existence of management tools and partnerships that would ensure policy and strategy were implemented and to the reviewing and reporting of progress as a means of checking progress.

We weighted the sections as follows: governance structures - 15% of total score allocation; policy and strategy - 20%; management and implementation - 40%; and monitoring, reporting and assurance - 25%.

Publicly available and supplementary information

In December 2003, we analysed the information related to management of biodiversity that each company had published, together with information gathered from our engagement programme to date, in the context of the benchmark's structure and marking system.

Recognising that there is frequently a gap between activities that companies disclose in publicly available documents and the full range of activities they are actually conducting, we sent each company the draft benchmark analysis inviting them to ensure it was a fair and accurate reflection of their activities. We asked for evidence to support any statements they chose to provide about the existence of biodiversity policies and management systems that were not in the public domain. All such information was received by 13 February 2004 and each company's analysis and score revised appropriately. Some companies may have released additional material into the public domain since that date and this is not included within this assessment.

Robustness of the benchmark

There are many possible ways of evaluating performance on biodiversity. This is just one approach that aims to reflect elements of current best practice. The benchmark is an attempt to provide a flexible but rigorous method to help investors and companies assess their performance but it inevitably has many limitations:

- **Demanding for respondents:** In the attempt to avoid 'questionnaire fatigue', we conducted the research ourselves based on information the companies had already put in the public domain. However, the benchmark is detailed and checking the information and gathering more to send us would have been time consuming for respondents.
- **Objectivity:** By describing criteria for different scores in the benchmark framework and routinely applying these to each company, we have aimed for objectivity, but assigning scores on particular issues inevitably demands a degree of interpretation.
- **Limited resources to assess risk exposure:** We are aware of the nature of each company's business and which countries each company is operating in. In some cases, we have information on the nature of biodiversity at specific sites. However, it was not possible to do a site-by-site assessment of all the companies' exposure to biodiversity risk, thus the benchmark examines whether companies have assessed this risk exposure for themselves.

- **Limited resources to verify implementation:** Given scope of many companies' operations, it was impossible for us to check consistency of implementation. The results rely heavily on companies' own assertions and reviewing data on a sample basis, although extra marks were given for verified information.
- **Management or performance?** Given the challenge of measuring whether companies' policies and management systems bring about specific changes in the levels and distribution of biodiversity, the benchmark focuses on the management systems rather than performance. One aspect of a strong management system, however, is a targeted strategy and performance indicators. The challenge of defining indicators is discussed in page 32 and Box 9 page 34 .
- **Flexibility:** We endeavoured to design the benchmark to be flexible enough to respond to different approaches to the management of biodiversity and to different scales of operation by companies by recognising and awarding credit for different approaches that achieve the same result. However, there are limits to which any benchmarking exercise can accommodate the range of different circumstances faced by companies. The particular issue of smaller companies is discussed in Box 2 page 17.
- **Integration:** It is preferable for biodiversity to be integrated into existing management systems but difficult to tell whether the issue is adequately addressed when no specific mention is made of it. This issue is addressed in Box 10.
- **Transparency:** We have endeavoured to be transparent by informing companies of our intention to benchmark them, involving some companies in the design of the benchmark, sending all of them the initial results with an explanation of the basis of the benchmark, and offering them the opportunity to correct and supplement the information we used. However, we have not spent as much time working with some companies included more recently in our programme and with those whose London offices do not have environmental specialists.

Appendix 2: Benchmark framework

Governance

- **Responsibilities:** Responsibility for biodiversity performance is assigned at all levels.
- **Risk management:** Biodiversity risks have been factored into risk evaluation for normal business operation and changes in operations. The company has made a commitment to understand and manage its impact on sensitive sites. Management acknowledges the business risks associated with operating in sensitive sites and demonstrates that they have reviewed their own operations as a result of this knowledge and identified key areas of risk and impact e.g. protected areas.
- **Stakeholder engagement:** Engagement undertaken to inform understanding of biodiversity issues and impacts and possible responses at local and global level.
- **Integration:** Biodiversity risks and opportunities are integrated at key decision making points. including investment decision making, the assurance process, operational management, business planning and risk evaluation.

Policy and strategy

- **Policy:** The company makes a policy commitment to understand and manage biodiversity risks.
- **Strategy:** A strategy is in place which sets out the company's key impacts, activities and objectives with the intention of acting as a framework to drive biodiversity performance.

Insight Investment has identified the following characteristics of a strong policy/strategy document. Commitments to work in partnership and dialogue; to understand, avoid, minimise and mitigate impact; to offset unavoidable impact on biodiversity and/ or make a positive contribution to biodiversity; to integrate biodiversity into core business processes; to develop objectives and targets and report; and to continuous improvement. Also, reference to legal framework relevant to biodiversity, e.g. the Convention on Biological Diversity.

Management and implementation

- **Site selection tool:** A process has been developed to ensure that biodiversity is factored into initial decisions on siting of new locations or activities. Potential tools include the use of geographic information systems or databases of sensitive sites. This would be used well before the decision to proceed with an investment and, in combination with the ESIA, may result in a decision not to proceed.
- **Environmental and social impact assessments (ESIA):** We sought evidence that biodiversity was integrated within tools used for ESIA and these were being implemented in all locations.

- **Site level biodiversity management:** Biodiversity is managed either through integration of the issue into site management plans or through the development of Biodiversity Action Plans for all sensitive sites.
- **Partnerships:** Local, national and international partnerships are essential to manage biodiversity impacts and risk. Effective partnerships demonstrate the following characteristics: Partners are involved in setting the partnership vision and goals; partnerships are designed to support corporate biodiversity policy, strategy and biodiversity action plans/ site management plans; partnerships help meet the objectives of other partners and support national/ community biodiversity priorities; and the partnership has measurable outcomes that are monitored and reported.
- **Competencies and employee awareness:** Key staff competency are ensured by recruitment or training e.g. focused training on impact assessment, negotiation with communities. Mechanisms are in place to raise awareness of employees in key positions on issues relating to biodiversity.

Monitoring, reporting and assurance

- **Internal audits:** Internal reviews are conducted on the extent to which biodiversity risks are being managed at all levels of the business. They should incorporate consideration of management activities and supporting information systems.
- **External independent audits:** Independent external reviews are conducted on the extent to which biodiversity risks are being managed at all levels of the business. They should incorporate consideration of management activities and supporting information systems
- **Third party report verification:** A third party verifies the company's externally reported information regarding biodiversity management.
- **Key performance indicators:** The company reports on its programmes to evaluate risks around biodiversity and, if these risks prove significant, discloses its approach to managing biodiversity impact, indicating progress against strategy.
- **Sensitive sites:** The company demonstrates that it has reviewed its own operations to determine level of risk relating to sensitive sites, discloses key risk areas and action to manage them.

Glossary of Acronyms and Terms

Benchmark:	A framework created by Insight to analyse the comparative performance of extractive and utility companies on the management of biodiversity risks and impacts. It covers twenty-seven issues under twelve headings across the four main elements of governance structures, policy & strategy, management & implementation and assurance & reporting. See Appendix 2.
Biodiversity:	'Biological diversity' means the variability among living organisms from all sources including, <i>inter alia</i> , terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems . (Article 2, Convention on Biological Diversity)
Biodiversity impacts:	Harmful effects on biodiversity through activities that threaten the abundance, location and viability of biodiversity caused directly (e.g. through habitat loss) or indirectly (e.g. through anthropogenic climate change) by human activities. This report focuses on impacts that may be caused by the operations of extractive and utility companies. Companies' operations may lead to more significant secondary impacts to which other causes, such as government policy and further habitat conversion by people in the area, also contribute. Impact is sometimes also referred to as 'footprint'.
Biodiversity risk:	We use this term to refer to two categories of business risk that extractive and utility companies may face unless they demonstrate high standards with respect to the conservation of biodiversity, and the corresponding business opportunities associated with good practice. The first is the risk that they may face difficulties accessing resources in new sites and capital for new investments, likely through competitive disadvantage relative to others with better practice. The second category of business risk is loss of revenues through incurring liabilities, damage to reputation and increased operating costs. The risks to biodiversity from companies' operations (see ' biodiversity impacts '), and more broadly the risks to society from the current unprecedented global loss of biodiversity to which companies' operations contribute are of great importance, but are not what we mean by the term 'biodiversity risk' as used in this report. See Section 2.
CBD:	Convention on Biological Diversity. See www.biodiv.org .
Ecosystem:	The complex of a community of organisms and its environment functioning as an ecological unit.
EBI:	The Energy and Biodiversity Initiative. A partnership of four oil & gas companies and five NGOs. See www.theebi.org .
Governance:	The process or set of processes by which a company's board and management regulate and control the company's activities, including the identification, evaluation and management of risk. This report focuses on governance structures for managing biodiversity risk and the company's impact on biodiversity.
ICMM:	International Council on Mining & Metals. See www.icmm.com
IUCN:	The World Conservation Union. See www.iucn.org
Natural value:	The combined use and existence values of biodiversity, including direct and indirect uses such as the provision of ecosystem services and raw materials for food, healthcare and many other uses, as well as the inherent cultural, spiritual and aesthetic values of biodiversity to society.
NBSAPS:	National Biodiversity Strategies and Action Plans. See http://www.biodiv.org/world/reports.aspx?t=nbsaps and http://www.undp.org/bpsp/nbsap_links/nbsap_links.htm
NGO:	Non-governmental organisation.

Offset:	Practical conservation activities undertaken with the aim of ‘no net loss’ of biodiversity in order to ‘offset’ – or compensate for – unavoidable harm to biodiversity caused by a company’s operations. Offset refers to conservation activities undertaken once all attempts have been made to avoid and minimise damage to biodiversity.
Policy:	We define policy as a high level aspirational commitment, setting out a company’s position on a particular issue.
Sensitive sites:	There is no definition of ‘sensitive sites’, but the term is often understood to mean sites of high biodiversity value, by virtue of high levels of biodiversity, endemism, rarity, vulnerability, threat or particularly important associated social or cultural values. This is discussed in more detail in Box 1 on page 12.
Stakeholder:	A person or group that has an investment, share, or interest – a ‘stake’ – in the issue at hand or who will be affected by decisions on the issue or can affect corporate performance. Stakeholders in the context of this report are those affected by and/or able to influence an extractive or utility company’s biodiversity risks and impacts. They would typically include local communities, employees, suppliers and shareholders.
Strategy:	A planned course of action intended to best achieve adopted goals, which may be described in a policy. In the context of this report, we use ‘strategy’ to refer to a document defining the company’s vision for desired outcomes on a given issue in the medium term, outlining goals, prioritising them and assigning targets.
UNEP-WCMC:	United Nations Environment Programme World Conservation Monitoring Centre. http://www.unep-wcmc.org/ .

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- The Convention on Biological Diversity <http://www.biodiv.org>
- The Energy and Biodiversity Initiative (EBI). 2003. Integrating Biodiversity Conservation into Oil and Gas development.
- The Energy and Biodiversity Initiative produces a comprehensive list of sources of guidance <http://www.theebi.org/pdfs/sources.pdf>
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Endnotes

¹ As at February 2004.

² <http://www.icmm.com/news/158ICMMPressRelase-nogoareas-20August03.pdf> and http://www.shell.com/home/Framework?siteId=media-en&FC1=&FC2=&FC3=%2Fglobal%2Fnews_and_library%2Fpress_releases%2F2003%2Fcommitment_no_t_to_operate_in_world_heritage_sites_26082003.html&FC4=&FC5=

³ E.g. Ramsar sites, World Heritage Sites and Man and Biosphere Reserves, areas in the UN list of protected areas and areas that conservation organisations have identified as of particular significance for biodiversity. The latter include WWF Global 200 Ecoregions, Conservation International 'Hotspots', BirdLife 'Endemic Bird Areas', WRI 'Forest Frontiers', IUCN's Centres of Plant Diversity and The Nature Conservancy's Last Great Places. See Box 1 (What are sensitive sites?)

⁴ This includes, but is not limited to legally designated areas and areas already known to be of high biodiversity value.

⁵ http://www.insightinvestment.com/Corporate/responsibility/investor_responsibility_home.asp

⁶ As at February 2004.

⁷ World Summit On Sustainable Development Plan Of Implementation para 23.

⁸ See, for instance, http://www.insightinvestment.com/documents/ir_biodiversity.pdf; Also, ISIS 2004. And the Netherlands Social Investors Forum, VBDO, is undertaking a project to explore how companies can manage biodiversity and what investors can expect of them in practice. Once case study, for example, will explore how Unilever can reduce the impact on biodiversity through its soy production in Brazil. See www.vbdo.nl or contact Piet.Sprengers@vbdo.nl.

⁷ Personal communication between Kerry ten Kate and representatives of mining companies during the ICMM/IUCN workshop, Gland, 7-9 July, 2003. The same point has emerged in some of Insight's meetings with oil & gas, mining & mineral and utility companies.

¹⁰ Under the draft EU Environmental Liabilities Directive, operators will be responsible to pay the costs associated with the implementation of the measures necessary to prevent or remediate environmental damage resulting from their operations.

¹¹ Miranda, M. et al. 2003. And ten Kate, K. 2003

¹² http://www.theebi.org/pdfs/ebi_report.pdf

¹³ The World Resources Institute has found that three-quarters of active mines and exploratory sites overlap with areas of high conservation value and areas of watershed stress. The WRI study used the InfoMine database and overlaid these with WWF 'Global 200 Ecoregions', Conservation International 'Hotspots', BirdLife 'Endemic Bird Areas' and WRI 'Forest Frontiers' as indicators for ecological value. It found that over a quarter of the world's active mines and exploration sites overlap with or are within a 10km radius of a strictly protected area and nearly one third of all these sites are within areas of intact ecosystems of high conservation value. See Miranda, M. et al. 2003.

¹⁴ According to Conservation International, seventeen countries (of more than 200 on the planet) are home to between 60-70% of the earth's species. In 2003, Insight reviewed the location of operations of 20 of the oil & gas, mining and minerals and utilities companies in which it is invested and found that 85% are operating in at least one of these 'megadiversity' countries, and 50% are operating in four or more. One company was operating in fourteen of the seventeen countries. Between them, the companies analysed were operating in 16 out of the 17 megadiversity countries.

¹⁵ Goldman Sachs has found that over 70% of the reserves and production from 120 oil and gas projects under development are in non-OECD countries, compared with 21% in 1970. Goldman Sachs, 2004. See also Goldman Sachs 2003.

¹⁶ See www.theebi.org

¹⁷ Environmental impact legislation and national laws to implement the Convention on Biological Diversity are being introduced or improved in many developing countries. In collaboration with the International Association for Impact Assessment (IAIA) and other relevant organizations, guidelines are being developed under the Convention on Biological Diversity to assist Parties in incorporating biodiversity-related issues into Environmental Impact Assessment and Strategic environmental assessment (SEA) legislation and procedures. Convention on Biological Diversity website <http://www.biodiv.org/programmes/socio-eco/impact/>

- ¹⁸ For instance, on 6 Aug 2003, the Inter-American Development Bank and US Export-Import Bank delayed their decisions on whether to grant \$135m and \$200m respectively for the Camisea project amid controversy about its environmental and social impact (Marianne Brun-Rovet, Financial Times, 7 August 2003.) In August 2003, project managers of the Baku-Tbilisi-Ceyhan (BTC) pipeline admitted that loans to finance construction would come through later than expected, in part because of lenders' concerns about the pipeline's environmental impact (Nick Godt, Global Ethics Monitor, 11 August 2003).
- ¹⁹ Personal communication with IFC staff attending workshop to develop a guide for IFC clients on biodiversity. IUCN, Gland, 2 April 2004.
- ²⁰ <http://www.equator-principles.com/principles.shtml>
- ²¹ See http://www.wcmc.org.uk/data/database/un_combo.html
- ²² Bryant et al. (1997)
- ²³ Reports of all the components of the Biodiversity and Extractives programme are posted on http://www.insightinvestment.com/documents/ir_biodiversity.pdf. In addition, Insight Investment's policy on biodiversity can be found at http://www.insightinvestment.com/documents/ir_biodiversity.pdf.
- ²⁴ See footnote 14 and ten Kate (2003).
- ²⁵ ten Kate (2003).
- ²⁶ Integrating Biodiversity Conservation into Oil and Gas development. The Energy and Biodiversity Initiative (2003)
- ²⁷ <http://www.icmm.com/news/158ICMMPressRelase-nogoareas-20August03.pdf> and http://www.shell.com/home/Framework?siteId=media-en&FC1=&FC2=&FC3=%2Fglobal%2Fnews_and_library%2Fpress_releases%2F2003%2Fcommitment_no_t_to_operate_in_world_heritage_sites_26082003.html&FC4=&FC5=
- ²⁸ Rodrigues et al. (2004)
- ²⁹ Driver et al. (2003): 'A major lesson from conservation planning in South Africa is that, in order to achieve a living landscape, we usually require some form of conservation management across more than half of the landscape'.
- ³⁰ Response from BG to Insight Investment's letter to the CEO (2003)
- ³¹ Meeting with Premier Oil (February 2004)
- ³² <http://www.icmm.com/news/158ICMMPressRelase-nogoareas-20August03.pdf>
- ³³ see press release dated 26 August 2003 on <http://www.shell.com>
- ³⁴ See <http://www.bp.com/sectiongenericarticle.do?categoryId=2011422&contentId=2016668>
- ³⁵ United Utilities Green Portfolio Commitments http://www.unitedutilities.com/pdf/green_portfolio.pdf
- ³⁶ RMC response to Insight Investment's evaluation (2004)
- ³⁷ Spurring Partner, Green Futures (Sept/Oct 2003)
- ³⁸ BP response to Insight Investment's draft benchmark evaluation (2004)
- ³⁹ Contributing to Sustainable Development, A management primer Shell (2001)
- ⁴⁰ <http://www.nwl.co.uk/content/default.asp?channel=5&top=41&header=111> Northumbrian Water website (December 2003)
- ⁴¹ Rio Tinto website (04 March 2004) http://www.riotinto.co.uk/library/microsites/SocEnv2002/content/world/perform/137_biod_oview.html
- ⁴² Centrica Corporate Responsibility web based report, assurance statement from Corporate Citizenship Company (12 February 2004) http://www.centrica.co.uk/index.asp?section=What_we_stand_for&area=Corporate_responsibility
- ⁴³ Sustainability Reporting Guidelines. Global Reporting Initiative (2002) <http://www.globalreporting.org/guidelines/2002/contents.asp>
- ⁴⁴ BG Social and Environment Report 2001 http://www.bg-group.com/socenv/2001_socenv_pdf.htm (2001)
- ⁴⁵ European Commission (2004)
- ⁴⁶ Water UK (2001) <http://admin.evolvingmedia.co.uk/users/files/1FinalReport0102.PDF>

⁴⁷ See <http://www.theebi.org/pdfs/indicators.pdf>

⁴⁸ GRI-ICMM (2004)

⁴⁹ Personal communication with Dr Assheton Stewart Carter, April 2004.

⁵⁰ <http://www.icmm.com/news/158ICMMPressRelease-nogoareas-20August03.pdf> and http://www.shell.com/home/Framework?siteId=media-en&FC1=&FC2=&FC3=%2Fglobal%2Fnews_and_library%2Fpress_releases%2F2003%2Fcommitment_not_to_operate_in_world_heritage_sites_26082003.html&FC4=&FC5=

⁵¹ According to EBI (2003), 'If a region of interest has neither been legally designated for protection nor identified as having high biodiversity values by another party, it is still important to be aware of the value of biodiversity in the area. In all new projects, regardless of whether or not they are in areas that have been recognised as having high biodiversity value, an ESIA process that includes biodiversity should be conducted, to assess the nature, type and likely magnitude of potential primary and secondary impacts on biodiversity. This will help to determine the ability of the ecosystem, habitat or species to recover, local values and roles of biodiversity; and the significance of the area's biodiversity. The process will also allow the company to take steps to manage potential impacts, identify what the residual impacts might be and determine what the necessary mitigation or compensatory measures might be.'

EBI also refers to 'Conservation Priority Areas Not Currently Under Protection' and <http://www.theebi.org/pdfs/selection.pdf>

⁵² EBI (2003)

⁵³ See <http://www.biodiv.org/world/reports.aspx?t=nbsdaps> and http://www.undp.org/bpsp/nbsap_links/nbsap_links.htm

⁵⁴ EBI (2003)

⁵⁵ ACBE (2000)

⁵⁶ ten Kate(2003)

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