Insight INVESTMENT

HBOS plc

# Consultation document to accompany Insight's presentation to the World Parks Congress, 13 September 2003

## Biodiversity: towards best practice for extractive and utility companies

By Kerry ten Kate, Director, Investor Responsibility, Insight Investment

# Contents

Why is Insight interested in biodiversity? .....3

Insight's biodiversity research project .....4

How serious are the business risks posed by biodiversity to extractive and utility companies and how serious are their impacts on biodiversity? .....4

(a) Seriousness of threat to extractive and utility companies.....4

(b) Seriousness of threat to biodiversity: .....5

What would Insight like to see from extractive and utility companies on biodiversity?.....6

Is special treatment needed for protected areas and other 'sensitive sites'? .....9

How does Insight's vision of best practice on biodiversity compare with corporate performance to date? .....12

Some good news – illustrative examples.....12

But the overall story – to date – is disappointing.....13

What can Insight do as an investor? .....14

# Why is Insight interested in biodiversity?

Human activities are making an increasing impact on the integrity of ecosystems that provide essential resources and services for human well-being and economic activities.[1] In particular, biodiversity[2] is being lost at an unprecedented rate,[3] while global population and consumption are growing[4]. This presents a risk both to business and to society more broadly.

Insight Investment is the asset manager of the Halifax Bank of Scotland Group (HBOS), managing £67.7 billion of assets (as at 30 June 2003) on behalf of some 300 institutional funds and some 2 million retail clients. Insight applies its strong policy on corporate governance and corporate responsibility to all the assets that it manages.[5] We believe that investors have a financial interest and a moral responsibility, as shareholders, to engage with the companies in which they are invested, to encourage them to adopt high standards of corporate responsibility and to show leadership in managing the business risks and opportunities associated with sustainable development. Insight's Investor Responsibility team thus challenges the multinational companies in which our funds are invested to improve their environmental, social and ethical performance, through programmes on specific issues that target companies within the industry sectors affected.

Insight believes that biodiversity is a serious issue for extractive and utility companies. The Heads of State attending the World Summit on Sustainable Development in Johannesburg in August 2002 identified biodiversity as one of five key issues and set a global target of significantly reducing its loss by 2010. Growing resource scarcity, increasing development pressures on biodiversity and escalating public concern pose a strategic threat to extractive and utility companies. These companies may be denied access to resources in new sites in the medium to long term, with corresponding risks to revenues, unless they demonstrate high standards with respect to the conservation of biodiversity. In the short term, companies that do not manage biodiversity effectively are also exposed to business risks: liabilities, damage to reputation and increased operating costs.

By contrast, best practice in the management of biodiversity offers companies advantages such as ease and speed of obtaining permits and licenses, the competitive advantage of favoured status as a partner, positive public relations and motivation among staff and other stakeholders. It is also an important mechanism for companies to contribute to the responsibility, shared with governments and individuals, of achieving equitable and sustainable development.

Since biodiversity raises such important challenges for both sustainable development and long-term shareholder value, it is important for investors to take biodiversity into account in their evaluation of corporate practice. With this in mind, Insight has launched the "Biodiversity and Extractives" programme to work with extractive and utility companies to define standards of best practice with respect to biodiversity and encourage investee companies to comply with these.

Insight recognises that the issues raised in this programme are complex. Society's avowed goals of environmental conservation and resource extraction to feed growing consumer demand are not easy to reconcile. Sustainable development poses significant challenges, both at the level of government policy and corporate strategy, and at the level of individual permits and investment decisions. Many decisions involve apparent trade-offs between development and the conservation of biodiversity. This highlights the need for transparent and democratic governance and decision-making - both by governments and by companies. It also underlines the necessity for proper consultation and effective partnerships.

# Insight's biodiversity research project

In order to evaluate the quality of companies' responses on biodiversity and promote more energetic discussion, Insight has established a research project under the "Biodiversity and Extractives" programme. The preliminary conclusions and recommendations described in this document are based on:

- ***Survey:*** an initial, informal survey conducted by Insight of the management of biodiversity by 20 oil & gas, mining & minerals and utility companies in which we are invested. We analysed the companies' publicly available documents against 15 parameters related to biodiversity.
- ***CEO letters:*** Responses to letters sent by Insight to the Chief Executive Officers of 20 oil & gas, mining & minerals and utility companies in which we are invested. These letters concerned biodiversity and set out a number of specific questions on sensitive sites.
- ***Seminar:*** On 24 July 2003, Insight brought together 41 senior managers from the oil & gas, mining & mineral and utility companies, from government, non-governmental organisations, the IFC, industry associations and investment houses in London to discuss biodiversity. In the first part of the meeting, we discussed the principles and standards according to which extractive and utilities companies should operate and how their performance with respect to biodiversity should be measured. In the latter part of the meeting, the participants tackled the particular issue of operations in 'sensitive sites': areas where there are high levels of biodiversity, of endemism (i.e. occurrence limited to a particular locality or region), rarity or fragility of ecosystems and species. A report of the seminar (held according to the Chatham House Rule), together with Insight's conclusions from the meeting, are available separately.
- ***Interviews:*** 21 individual meetings and teleconferences, to date, with the above companies.

# How serious are the business risks posed by biodiversity to extractive and utility companies and how serious are their impacts on biodiversity?

## *(a) Seriousness of threat to extractive and utility companies*

Oil and gas reserves are typically in operation for some 25 years. Mature oil and gas reserves are seeing production declines of 5-10% per annum[1]. The economic life of a mine varies, but mining and mineral companies today often plan for the useful life of a mine to be of the order of twenty years. Access to land to exploit new sites is thus vital to extractive and utility companies.

Companies are acknowledging the significance of the business risk of the potential of public concern about biodiversity resulting in restrictions to land. For instance, in its Social and Environmental Report of 2002, the British Gas Group states "Our exploration and production activities and transmission pipelines have the greatest potential biodiversity impacts. This issue may increasingly influence access to land to develop gas revenues."

Companies are also recognising the opportunity presented by demonstration of best practice on biodiversity, namely that it facilitates faster permit and concession negotiations, producing faster earnings and considerable savings.[6]

In addition to the medium- to long-term strategic threat of restricted access to new sites, biodiversity issues already affect the business bottom line of extractive and utility companies. For instance, concerns about Porcupine caribou, polar bears, muskoxen, and snow geese, and the livelihoods of local communities dependent on them led the US Senate to vote to prevent the opening of the "1002 area" of the Arctic National Wildlife Refuge (ANWR) for oil drilling, representing billions of dollars of potential revenue forgone. In another example, opposition and sabotage from local communities, based partly on concerns about biodiversity and associated livelihoods, meant that Shell's Nigerian operations were able to produce at only 25% of capacity in 1999 and 40% in 2000.[7] After some 15 years of damage to forests and fisheries from the release of tailings into the Fly and Ok Tedi rivers in Papua New Guinea, BHP Billiton settled a class action brought by 30,000 villagers for a sum reputed to be in the order of several hundred thousand Australian dollars.

Concerns about biodiversity, environmental quality and livelihoods have also led banks and export credit agencies to review decisions on whether to grant loans to consortia. 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.[8] 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.[9]

### *(b) Seriousness of threat to biodiversity:*

The significant gaps in scientists' knowledge about biodiversity hampers measurement of the seriousness of its loss. However, according to a recent report by the Royal Society, "The living world around us is disappearing before our eyes."[10] 24% of mammal species and 12% of birds are considered globally threatened.[11] Almost a quarter of the world's mammals may face extinction within 30 years.[12] 11,167 species of plants and animals are at risk of extinction.[13] The known recent extinction rate appears to be some 100 or 200 times higher than the background extinction rate.[14] Some estimates place current extinction rates at up to 1000 times background extinction rates.[15] Over the next 100 years, the extinction rate of vertebrate groups, for instance, could be as high as 15-20%.[16] In addition, between half and one percent of the world's tropical forests are still being lost each year[17] and, since the early 1980s, over one third of all mangroves have been cleared.[18]

Given the paucity of knowledge of biodiversity and the complexity of the direct and indirect causes leading to its loss, it is difficult to quantify the extent of damage to biodiversity caused by the operations of extractive and utility companies, singly or collectively. However, it is possible not only to point to specific case studies where the operations of such companies either have caused significant damage to biodiversity (such as Ok Tedi, above) or planned activities that threaten to do so (see ANWR, above), but also to broader trends that illustrate the overlap between the location of extractive and utility companies' operations and of high levels or values of biodiversity. Habitat loss (a common outcome in the immediate location of oil and gas and mining and mineral

operations) is the principal factor affecting 83% of threatened mammals and 85% of threatened birds.[19]

According to Conservation International, seventeen countries (of more than 200 on the planet) are home to between 60-70% of the earth's species.[20] 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 "megadiverse" countries, and 50% are operating in four or more. One company is operating in 14 out of the 17. The twenty companies we surveyed are operating in 16 out of the 17 megadiverse countries.

Extractive companies' contribution to the loss and degradation of biodiversity is of two kinds: primary impacts resulting from the direct operations of the company, mainly within the very area in which the operations are taking place and secondary impacts on biodiversity that are often not within companies' sole control, but that are triggered by companies' operations. Primary impacts include reduced forest cover, loss of vegetation and topsoil when clearing land in the vicinity of a mine or when laying a pipeline and any damage to biodiversity resulting from such operations, for instance, from oil spills or noise scaring away animals. Pipelines or access routes introduced into pristine areas are often used by migrants as means to access and settle new land, leading to the loss of biodiversity through the creation of permanent roads and large-scale habitat conversion and unsustainable agriculture. Developments such as oil & gas extraction sites and mines often act as a "honeypot", as economic migrants move to the hub of economic activity in search of jobs, often encouraged by the host government. Companies bear some responsibility for such secondary impacts, since their operations are a necessary but not sufficient cause of the subsequent, cumulative impact on biodiversity. In this respect, they share responsibility primarily with government, but also with other stakeholders such as communities themselves.

## What would Insight like to see from extractive and utility companies on biodiversity?

We believe that it is the responsibility of extractive and utility companies to manage the risks and opportunities associated with biodiversity to protect shareholder value and to contribute to sustainable development, facing up to the challenges outlined at the beginning of this paper. In the coming months, Insight will be refining its views, in consultation with the companies themselves, government and biodiversity experts. Our proposals about what it is reasonable to expect of extraction and utility companies with respect to biodiversity are summarised in Table 1 and the following text, as are the corporate policies, management tools and reports that would reassure us that these issues are being properly managed.

Table 1

| ***Investors want to know that extractive and utility companies:*** | ***Evidence we would like to see:*** |
|---|---|
| Assess business risks and opportunities arising from, and impacts on, biodiversity<br><br>Have committed to managing risks from biodiversity and to its conservation and sustainable use<br><br>Are applying a strategic and targeted approach<br>■ set goals and priorities<br>■ work in partnership with government, communities and others interested<br>■ are committed to continuous improvement<br><br>Deliver commitments in practice | Board-approved policy on biodiversity<br><br>Group-level biodiversity strategy, to implement the policy<br><br>Integrated environmental and social impact assessments<br><br>Site selection tool / early warning system<br><br>Biodiversity provisions in Environmental Management Systems and Assurance processes<br><br>Biodiversity Action Plans<br><br>Partnerships with government, communities and biodiversity experts<br><br>Indicators of performance<br><br>Reports (including disclosure of operations in sensitive sites)<br><br>Resources/training |

A 'package' of measures will help companies to manage biodiversity. Naturally, companies themselves are best placed to define what is necessary and most apposite to their circumstances. An investor can only communicate the aspects that appear to reflect best practice. With this in mind, Insight's view as to the elements of the package, with an initial outline of desirable contents is as follows:

***Board-approved policy on biodiversity:*** Companies should adopt a biodiversity policy:

- stating the importance of biodiversity and the business case;
- setting out the company's commitment to:
  - Be aware of its impact on biodiversity and associated livelihoods. (Some companies require business units to conduct biodiversity assessments.)
  - Avoid harm to biodiversity, to extent possible
  - Minimise and mitigate impact
  - Make a positive contribution to the conservation of biodiversity (preferably, offsetting unavoidable harm so that corporate operations result in net biodiversity benefit)
  - Integrate biodiversity into decision-making and management (and possibly describing management tools ranging from biodiversity strategy to environmental impact assessments and biodiversity action plans, as described below).

- Consult and work in partnership with government, communities and other stakeholders. (Preferably, 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.

***Group-level biodiversity strategy:*** work with staff within different areas of expertise and responsibility in the company, as well as external experts and key stakeholders, to develop a strategy on biodiversity for the group. This will enable the policy to be implemented.

- Good strategies articulate a company's vision and goals with respect to biodiversity. (These may be included in the policy.)
- They also set out the different elements related to achieving these goals (eg steps needed at the group and business levels; research, education and awareness; conservation projects; external relationships and partnerships). These should be prioritised and targets developed for each.

***Partnership:*** As alluded to above, the relationship between environment, development and biodiversity is complex. Government determines the economic and conservation policy that provides the context for extractive and utility companies' operations and also regulates individual planning decisions. Communities influence the efficiency and license to operate of companies. Input from expert groups such as NGOs may also help define best practice. Hence consultation and partnership is essential for defining quality biodiversity policies that will have the consent and support of those needed for their implementation. Partnerships in which companies, governments and stakeholders plan within a regional sustainable development context are most likely to succeed.

***Environmental and social impact assessments (ESIA):*** Integrated environmental, social and, as appropriate, health assessments for any new capital project and any substantial modification of existing projects. These should be triggered as early as possible in the project lifecycle and be conducted iteratively, as needed. (NB, in addition to assessments triggered by major developments, some companies require business units to conduct biodiversity assessments.)

***Early warning system/ Site selection:*** an internal system to help staff identify significant biodiversity issues and sensitive sites as early as possibly in the project cycle and map them against existing and planned operations. And a decision-making framework to enable consideration of risks of operating in areas of significant biodiversity.

***Management Systems and Assurance processes:*** mechanisms for picking up, and ensuring implementation through environmental management systems' of issues highlighted in the ESIA. Assurance processes such that business units commit to and deliver upon corporate policy on biodiversity.

***Biodiversity Action Plans:*** Site-level, national or regional action plans on the conservation and sustainable use of 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[21]

***Indicators of performance on biodiversity:*** companies should establish a mixture of process indicators (e.g. whether policies and management systems described in this document have been

put in place) and, despite the challenges inherent in establishing these, indicators designed to measure biodiversity conservation outcomes.

***Reporting:*** Companies should report how they manage biodiversity. This includes clear communication of their policies and strategies on biodiversity. Also, information on progress in achieving the indicators of performance. Companies should also specifically disclose the number and nature of sensitive sites in which they operate, and how these operations are being managed.

***Resources/training:*** The specific skills needed for planning and implementation of biodiversity policies and strategies are likely to require training of personnel. The financial and institutional resources will also need to be committed to design and implement biodiversity policies and strategies. Guidance manuals and Codes of Practice may assist staff.

## Is special treatment needed for protected areas and other 'sensitive sites'?

For the reasons outlined above, extractive and utility companies should demonstrate best practice in the management of biodiversity wherever they operate. However, special care is needed in so-called 'sensitive sites', ie sites with significant biodiversity value, by virtue of high levels of biodiversity, endemism, rarity, vulnerability, threat or particularly important associated social or cultural values. Not only is the biodiversity there of particular importance, but there is a high risk of damage to reputation and thus shareholder value of companies managing biodiversity poorly in such sites, particularly in the event of an accident.

In June 2003, Insight wrote to the Chief Executive Officers of 20 oil & gas, mining & minerals and utilities companies, asking for information on their approach to biodiversity and operating in sensitive sites. The questions we asked included:

- Do you have a Board-approved policy on biodiversity and specifically on operating in sensitive sites?
- Do you recognise that you may need to take special steps to manage your impact on sensitive sites?
- How do you define sensitive sites?
- What approach do you take to operating in sensitive sites? For instance, are there any categories of sites in which you would categorically not operate? Or do you work on the basis of a presumption against operating in certain categories of sensitive area? What is the basis for your decisions as to whether to operate in such sites?
- What standards do you apply when operating in sensitive sites and can you identify the reasons and management steps that are specifically needed, or deserve more emphasis, in such locations?
- Are you involved in sectoral initiatives such as the Energy and Biodiversity Initiative and the Biodiversity Task Force of the International Council on Mining and Metals and how do you plan to implement the results?

Only two companies (BP and BG Group) have a Board-approved policy on operating in sensitive sites. Three companies stated that they were not operating in sensitive sites but only one of these set out what it understood by the term.

The majority of companies did not define 'sensitive sites', but illustrated what they understood by the term through examples. Typical responses included categories legally designated at the international level (e.g. Ramsar sites, World Heritage Sites, Man and Biosphere Reserves), at the the national level (e.g. the UN list of protected areas; Sites of Special Scientific Interest in the UK) and sites identified by NGOs (e.g. Conservation International's hotspots and WWF ecoregions).

***Mapping/planning tools:*** 4 companies mention the use of GIS-based tools (either proprietary software used within the company or data obtained through consultancy agreements) to map existing or planned extractive or utility operations or plans against sensitive sites. These are variously referred to as, for instance, "conservation planning GIS", "Emergency Warning Systems", "Constraints Database". Shell has adopted the site-selection framework developed by the Energy and Biodiversity Initiative. Given anecdotal information from companies and those working in protected areas, it is difficult to be confident that all companies are aware of the overlap between their operations and sensitive sites.

***Disclosure:*** 4 companies give some indication of the number and/or nature of the sensitive sites in which they operate. Shell, too, has recently committed to report publicly on its activities in IUCN category I-IV protected areas. 3 companies operate a presumption against operating sensitive sites and 4 stated that they would be prepared to decline opportunities to operate in certain cases because of risks associated with sensitivity. It is rare for companies to cite biodiversity sensitivity alone. Cultural and political sensitivity also often cited in conjunction with biodiversity.

***No go/where to go:*** The CEO of Anglo American first stated to us in June that the company would not operate in World Heritage Sites. In August, the other members of the International Council on Mining and Metals (including Rio Tinto and BHP Billiton) and Shell followed suit. Several companies explained that the decision as to whether to operate in any sensitive site would be made case-by-case, based on risk assessments.

***Special steps***: It was a common view that most sites are sensitive in some way, yet 11 of the 18 responding companies recognise the need for special steps when considering and undertaking operations in sensitive sites. They described some of these steps, including:

- Consultation and close liaison with government agencies and other interested parties from earliest stages and throughout operations. (NB But only three companies mentioned that their action plans or biodiversity activities are guided by the host country's national biodiversity strategy and action plan.)
- Screening programmes and Early Warning Systems (using GIS databases and site-selection decision trees) to identify sensitive sites and factor biodiversity into the decision-making process.
- Integrated social and environmental impact assessments (ESIAs) during planning and development of activities
- Revised capital works consultation processes
- Biodiversity surveys and baseline assessments
- Environmental Management Systems that deliver on the issues identified in the ESIA and are flexible enough to adapt to changes that emerge during subsequent planning and operations

- Biodiversity Action Plans
- Compliance with specific biodiversity and environmental legislation in host countries.
- Mitigation measures to ensure operations cause the least harm possible.
- Waste minimisation and spill avoidance/zero emissions plans.
- Significant modification of proposed works, where necessary, to ensure minimum loss of habitat etc.
- Rehabilitation, compensation and ecological enhancement

Several companies made the point that many of these steps are similar to those used to manage impact on biodiversity everywhere, but pointed out that in sensitive sites, an early start to consultation is important and additional time and resources are likely to be needed for stakeholder liaison, the hiring of ecological specialists, environmental management and supervision, general management and alternative development techniques. Such investment of time and resources can, as British Gas put it, ensure the best possible knowledge of risks and opportunities when making investment and design decisions.

The CEO of Anglo American summarised the company's approach as follows: "Our approach to operating in sensitive sites would begin with ensuring that we had identified all such sensitive areas using available information. This would be augmented by biodiversity surveys at an appropriate stage of any project development and appropriate precautionary and remedial actions would be built into any proposed development plan. The second step would be a detailed assessment of risks both to biodiversity and to reputation as well as the identification of opportunities for community, regional and national development and, in some cases, opportunities for biodiversity enhancement. In this process, we would work in partnership with experts from the biodiversity and social development communities."

Insight welcomes the use by companies of these 'special steps' and was greatly encouraged by the recent announcements by the members of the International Council on Mining and Metals and by Shell. 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.[22] And on 27 August, Shell's CEO committed not to explore for, or develop, oil and gas resources within natural World Heritage Sites.[23]

However, the 172 natural and mixed sites included in the World Heritage List cover only 13% of the world's protected areas.[24] This is just a small subset of the over 102,000 protected areas that now exist, covering some 12.7% of the earth's surface.[25] In addition, much important biodiversity lies outside protected areas altogether.

For these reasons, Insight will continue to work with our investee companies to achieve best practice in the management of biodiversity overall, as described in Table 1.

# How does Insight's vision of best practice on biodiversity compare with corporate performance to date?

## *Some good news – illustrative examples*

There are encouraging examples of aspects of good practice on biodiversity in many of the extractive and utility companies on which we have conducted initial investigations.

- Anglo American has a board-approved policy statement requiring active stewardship of biodiversity. This is supported by a set of strategic guidelines and a requirement that all the companies' businesses that have a significant or potentially significant impact on biodiversity must develop and implement Biodiversity Action Plans.
- Rio Tinto is developing its package of measures on biodiversity. Its Head of Communication and Sustainable Development informed Insight that, "by the end of 2003, two [expert groups] will have produced a position statement on biodiversity, guidelines on biodiversity assessment, community consultation and management planning and will have reviewed our internal decision-making processes to ensure biodiversity is explicitly considered at all appropriate points."
- Shell has adopted a Biodiversity Standard, checks business units' compliance with this through an assurance process, and has adopted the site-selection tool developed by the Energy and Biodiversity Initiative. In addition, Shell's CEO recently committed the company to preparing Biodiversity Action Plans wherever impact assessments suggest there are high levels of biodiversity and to reporting on its operations in IUCN protected area categories I-IV.
- BP has developed a company-wide biodiversity strategy, has gained experience in Biodiversity Action Plans and in endeavouring to work within the context of regional sustainable development planning, has a board-approved position on working in sensitive sites and discloses where it operates in them.
- British Gas presents a clear business case for addressing biodiversity and has a board-approved position with respect to its work in protected areas and sensitive sites.
- Severn Trent's water company has completed over 1,700 ecological assessments on its landholdings. Where operations are likely to have a significant environmental impact, action plans and targets are developed. 77% of total operations are covered by BAPS. These are guided by the UK National Biodiversity Action Plan.
- United Utilities operates a comprehensive "constraints database" that identifies the location of sensitive sites to help the company plan.
- Northumbrian Water launched its company-wide Biodiversity Strategy in 1996 and is now undertaking a 5-year review.
- RMC and BirdLife International's 2002 partnership enables them to exchange skills and information on shared priorities.

In addition to these examples of steps on biodiversity taken by individual companies, two sectoral initiatives deserve recognition. The Energy and Biodiversity Initiative (EBI)[26], recently published its report, "Integrating Biodiversity into Oil and Gas Development", and a set of associated guides, discussion papers, and resources. The International Council of Mining and Metals is publishing a report on best practice principles and reporting criteria and preparing a scoping paper aimed at developing integrated and transparent approaches to land-use planning, biodiversity conservation and mining, including 'no-go' areas. [27]

## *But the overall story – to date – is disappointing*

Despite these encouraging steps, our preliminary research suggests that none of the companies identified above – and indeed none of the twenty companies we surveyed – have adequately clarified their commitments on biodiversity, and none has a complete comprehensive and transparent management system on biodiversity in place. For companies that claim environmental leadership, this is a particular concern, and raises broader questions about the quality of their sustainable development strategies.

For instance, in their correspondence with us, many companies assert the importance of biodiversity, but are not able to demonstrate this with any mention of biodiversity in their public documents. To the best of our knowledge:

- Only 2 of the 20 companies we surveyed (Anglo American and Shell) have biodiversity policies. Rio Tinto is developing one. Insight welcomes the leadership positions of these companies on this issue. We also note that there is room for improvement in available biodiversity policies.
- Occasionally, companies touch on biodiversity in broader environmental or sustainable development policies. For instance, RMC has a goal related to conservation of habitats in its environment policy and one objective of Severn Trent's Policy on Environment, Corporate Social Responsibility and Sustainable Development is to promote biodiversity.
- 10 companies responding to our letter to CEOs referred us to corporate policies on the environment or sustainable development, but these make no reference to biodiversity.
- In one typical response, a company asserted "Biodiversity is a very important part of our business", yet: "[Company] does not have a specific policy on biodiversity and operating in sensitive sites". Its sole reassurance in terms of environmental policy was "Our environmental policy recognises our responsibility to operate with proper regard to the environment" and "We will only operate where it is legal and lawful for us to do so". Frankly, this is insufficient to give an investor confidence that biodiversity risks and opportunities are being adequately managed.
- Only 4 companies – or parts of companies – (Anglo American, BP, Northumbrian Water and Severn Trent Water) have corporate biodiversity strategies. We believe four other companies are developing such strategies. They are often not published or disclosed and often simply set out lists of objectives. They do not contain targets, and appear to generally lack supporting "how to" strategy elements or action plans.

### Progress on management appears to be equally patchy:

- 11 companies make no reference to Biodiversity Action Plans for any of their sites. 7 companies refer to one or more BAPS, but only 3 (Anglo American, BP and now Shell) apparently commit to put in place Biodiversity Action Plans for all sites with significant impact or where there are high levels of biodiversity.
- There is inadequate disclosure on companies' approach to sensitive sites and where they are operating in them.
- Companies do not set themselves clear indicators for their performance on biodiversity and reporting is haphazard.

# What can Insight do as an investor?

Insight believes that investors have a financial interest and a moral responsibility, to engage with the extractive and utility companies in which they are invested, to encourage them to adopt high standards on biodiversity. It is not the role of an investor such as Insight to act as consultant or technical expert in establishing biodiversity management systems. Rather, we aim to work with companies to identify principles of corporate responsibility in the field of biodiversity, to identify appropriate standards of performance and, as a shareholder, to hold companies accountable for their performance.

From our initial analysis and engagement with companies we conclude:

- Some extractive and utility companies have considerable expertise on biodiversity.
- However, commitments and performance are, at best, patchy, leaving companies exposed.
- Biodiversity presents, at minimum, an important communications challenge for companies. Much practical work by companies on biodiversity is not communicated. Common, informal good practice is often not codified.
- Where such experience and internal practices exist, companies would benefit from clarifying them and making them public. Benefits include more rapid acquisition of permits, preferred partner status, and efficient operations because of stakeholder support.
- Where good practice is not in place or cannot be demonstrated, companies are exposed to business risks such as difficulties accessing land and resources, reputational damage and delays, costs and inefficiencies caused by disaffected stakeholders and employees.

Investors have an important role in the governance structure of companies, not least because of their involvement in appointing Board directors. It is therefore appropriate that we hold company boards accountable for their performance. Insight intends to continue its work in this field by:

- Undertaking and publishing a benchmarking study of extractive and utility companies' management of biodiversity issues;
- Engaging with companies to encourage them to adopt best practice;
- Investigating the share price relevance of the risks and opportunities associated with biodiversity; and
- Collaborating with other investors.

We would be glad to receive feedback and any corrections of inadvertent inaccuracies on this consultation document to guide our future work: kerry.tenkate@insightinvestment.com

## ENDNOTES

1. World Summit On Sustainable Development Plan Of Implementation para 23.
2. Biological diversity means the variability among living organisms from all sources (including terrestrial, marine and other aquatic ecosystems). It also covers the ecological complexes of which the organisms are part, and includes diversity within species, between species and of ecosystems. Biodiversity supports soil fertility, water purity, regulates climate and provides 75% of the world's population with medicinal plants. It is being lost at an unprecedented rate.
3. Global Environment Outlook, 2002. Biodiversity Overview. www.unep.org/geo/geo3/english/pdfs/chapter2-4_biodiversity.pdf. and Global Biodiversity Outlook, 2001.
4. Global Environment Outlook, 2002 Socio-economic background www.unep.org/geo/geo3/english/
5. http://www.insightinvestment.com/Corporate/responsibility/investor_responsibility_home.asp
6. Goldman Sachs – 16 June 2003 – Global Energy: 50 projects to change the world
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.
8. Shell report 2000.
9. Marianne Brun-Rovet, Financial Times, 7 August 2003.
10. Nick Godt, Global Ethics Monitor, 11 August 2003.
11. Royal Society Measuring biodiversity for Conservation May 2003 – Summary report available full report not posted as of 21-7-03
12. Global Biodiversity Outlook (2001). Global Environmental Outlook 3 (2002). Hilton-Taylor *et al.* 2002
13. Podger, 2002.
14. Ibid; Mitchell (2002).
15. Global Biodiversity Outlook (2001). Page 71.
16. See http://www.well.com/user/davidu/extinction.html. See also Gary Strieker, CNN August 23, 2002 Posted: 11:43 AM EDT (1543 GMT) http://www.cnn.com/2002/TECH/science/08/23/green.century.mass.extinction/index.html
17. Mace, 1995.
18. FAO 2001; Achard *et al* 2002.
19. Valiela *et al* 2001.
20. Hilton-Taylor, 2000; BirdLife International 2000.
21. http://garnet.acns.fsu.edu/~phensel/intlenv.html
22. See http://www.biodiv.org/world/reports.asp?t=intro and http://www.undp.org/bpsp/nbsap_links/NBSAPs%20Status_March01.pdf
23. http://www.icmm.com/news/158ICMMPressRelase-nogoareas-20August03.pdf
24. 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=
25. http://portal.unesco.org/culture/en/ev.php@URL_ID=11912&URL_DO=DO_TOPIC&URL_SECTION=201.html
26. Personal communication with Dr Gemma Smith, UNEP-WCMC, 20 June 2003.
27. www.TheEBI.org/products.html.
28. http://www.icmm.com/html/biodiversity.php