

THE CAMBRIDGE NATURAL CAPITAL PROGRAMME

Phase one summary report



UNIVERSITY OF
CAMBRIDGE
PROGRAMME FOR
SUSTAINABILITY LEADERSHIP

Introduction

The Cambridge Natural Capital Programme is a major three year programme of business-led enquiry, action and influence to address the impact of ecosystems and natural capital damage on business and wider society. It brings together a cross-sectoral group of leading companies with global reach to explore the practical actions and policy that can deal with long-term risks to business, customers and wider society from the destruction of the natural resource base on which our global economy relies.

Phase 1 of the programme, between September 2010 and May 2011, explored four themes that programme members identified as critical for delivering progress. The themes were explored through Collaboratories (cross-sectoral action-based working groups) which examined the fundamental system shifts that are required in order to achieve a world that is economically, ecologically and socially sustainable.

The four themes are:

- Developing a boardroom narrative
- Examining long-term business risks and opportunities
- Mainstreaming natural capital investment
- Building resilient value chains.

During Phase 2 from July 2011, the Programme will develop a set of innovative and practical recommendations for the corporate sector, and give a leadership voice to the business community that creates a compelling case for companies, consumers and policy makers to respond to this critical challenge.

This summary provides a short introduction and overview of the reports which have been produced to document each of the four themes and includes the key action points and recommendations for each area.

Acknowledgments

CPSL would like to thank our Lead Partners and all the collaboratory members for

providing the insights, observations and resources that made this work possible.



Understanding and managing the business risks and opportunities

The growing pressures on ecosystem services and natural capital will generate a range of future risks and opportunities for businesses. The degradation of ecosystems and the 'free' services they provide can create significant risks which affect every aspect of business performance. Conversely, successful management of ecosystem services and natural capital can create a range of opportunities.

This report examines government and NGO response. It looks at the range of initiatives that are under consideration including the introduction of policies, regulation and mandatory standards, certification,

international trade policy and credit systems. It stresses the need for cross sector collaboration and introduces the scoping and scenario toolkit which has been created to help companies understand their dependency on the ecosystems that underpin their businesses.

Businesses with well developed strategies and capabilities in relation to ecosystems and natural capital have a critical role to play in showing leadership and influencing their peer group and value chains. For these lead companies, benefits will definitely accrue in the form of improved competitive positioning, additional shareholder value, public acknowledgement, reputation building and enhanced brand value.

Action overview

1. Using the risk inventory and scenario planning tools

The risk inventory and scenario planning tools together with insights from the Collaboratory work will deepen understanding of the business risks and opportunities associated with ecosystem services and natural capital. Corporate capability should be enhanced in order to address natural capital issues and future strategy should encompass a company's response to likely risks and opportunities.

2. Identifying impact and dependency on ecosystems services

Companies should more clearly identify their impact and dependency on the ecosystems services which benefit their businesses. The company needs to decide who to collaborate with, who needs to be influenced and how to develop a business case for intervention.

3. Exchanging information and shared learning

Collaboratory members should continue to exchange information and share learning, particularly in the use of the risk inventory and scenario planning tools. They may also like to explore ways of integrating ecosystem services and natural capital into current environmental management systems such as ISO 14001.

4. Ongoing Support from CPSL

CPSL will offer ongoing support in the form of workshop facilitation for companies and business sector groups wishing to use the scoping and scenario toolkit and also provide research into the likely policy instruments and other government options that could emerge in each of the four scenarios.

Building a leadership narrative for business

Early research on the debate in relation to views and action on natural capital among private sector organisations revealed the lack of a clear, statement of the business case for the more structured actions necessary to address the far reaching implications of the degradation of the natural capital.

In order to shape a suitable cross-sectoral business response, there was a need for a clearer narrative and lexicon which would describe the scale and nature of the challenge, embracing everything from

deforestation to freshwater resources, from soil conservation and degradation of biodiversity and ecosystem services. This report outlines the consultation process which culminated in the development of a narrative for a wide multi-sector business audience and a specific CEO briefing document both of which are included in the report. These narratives will be now be further developed for specific Board Members such as Marketing Directors, Finance Directors and Non-Executive Directors, as well as for investors.

Action overview

1. Developing specific narratives

Collaboratory members recognised the need to convey the complexity of ecosystems and natural capital and the impact of its degradation on business to a wide audience within their companies and to other stakeholders. This required a range of diverse narratives for various purposes. Building on the CEO narrative from the first phase, it is proposed that narratives be developed for specific Board Members such as Marketing Directors, Finance Directors and Non-Executive Directors. An investor narrative is also needed and will draw on the contributions from senior decision makers from the investment community to the Market Risks Collaboratory phase one report.

2. A new Cambridge Natural Capital Leaders Platform

The first phase has provided a solid foundation narrative for action. There is now a clear opportunity for business leaders to work with CPSL to deepen their

engagement with the natural capital agenda. This should include a stronger emphasis on ways to move toward more significant action.

A new Natural Capital Leaders Platform will develop a basis for future actions that more clearly reflect the scale and nature of the challenge ahead. One focal point that offers the potential for effective collaboration and high level influence is the preparations for the meeting that will mark the 20th anniversary of the Rio de Janeiro Earth Summit in Brazil in 2012. A series of events and discussions are proposed to enable a clear and strong business voice to shape core agenda items from Governments – namely the development of credible strategies to conserve natural capital.

Building resilient value chains

The irreversible depletion of our natural resource base represents a profound market failure. Sustainability is now a critical value chain issue, and the report examines how to embed a natural capital based approach within the principles of value chain management.

The report identifies the roles of the major players in the value chain: procurement, public policy, the consumer and research. It sets out the first steps in 're-tuning' the current network of unsustainable value

chains, mapping out ten critical issues that the world needs to address, dividing these into 'Focus issues', which the value chain can directly address, and 'broader issues' such as land use. Case studies from leading companies are used to illustrate types of interventions in current use. For each issue, the report proposes the step change required by society and 'next step actions' for business, government and research.

Action overview

1. Operate within the finite limits of supply

Ensure that all those involved with value networks understand the critical importance of operating within the limits of the Earth's natural capital. Put in place strategies and procedures to make this happen, collaborate to find new solutions and create a critical mass that can deliver these solutions to scale.

Identify the ecosystems on which specific products rely, and only take from these ecosystems what they can produce sustainably, sharing this natural capital across stakeholders including local communities.

Lead a debate on how consumption can fit within environmental limits and reach a consensus on the key elements of a sustainable lifestyle.

2. Reflect the right value on externalities in the product price

Advocate bold policy measures by governments to value natural capital and sustain it long-term.

Establish how to set the right price on externalities, what this would mean for

product prices, and the policy measures that business needs from government to support this move.

3. Change the way we view value chains

Look beyond a single product sector to take a supply-constrained approach that encourages collaboration among those that rely on the same ecosystem for their products and services.

Use language that positions natural capital more centrally within the supply network to encourage a better understanding of the flows and dependencies between the natural systems on which these networks depend.

4. Build a portfolio of effective interventions

Share evidence of interventions that most effectively build resilient value networks, and particularly those that create changes in practice for a wider spectrum of producers. Recommend how to simplify and coordinate value chain interventions.

Take a proactive approach in advocating the policy measures and institutional infrastructure needed to deliver a consistent improvement in product standards and the management of resilient supply networks.

5. Edit consumer choice

Design and manufacture sustainable products that consumers to use these in a sustainable way, and phase out unsustainable products with determination and rigour.

Be vocal in calling for public procurement to drive significant change in the sustainability of products and their supply network

6. Draft and implement operating principles

Draft a set of operating principles for value chains in relation to natural capital and establish a process for having these principles widely accepted.

7. Support the best use of land

Play a leadership role in supporting government to take a transparent, inclusive approach to land use decisions.

Understand the balance between the role of local governments in deciding the best use of land and the role of procurement standards in assisting public policies to become a reality.

Identify, measure and manage the land use footprint of their business in order to reduce the company's exposure to land-related risk and risks to the sustainability of its supply networks.



Image courtesy of Nestlé

Exploring the mainstreaming of natural capital investment

With over US\$80 trillion of global assets under management, the institutional investment community has a strong reliance and impact on natural capital through their investments. Despite this great influence, the investment community's perspectives on this issue are not well known. Most investment stakeholders are unfamiliar with the concept of natural capital. As it is not currently valued in conventional terms it is largely invisible within financial markets. Major barriers to integrating natural capital into investment decision-making operate at all levels in the economic and social system. The current profusion of chiefly disclosure-based

initiatives tend to be disjointed and ineffective in mainstreaming natural capital imperatives. In addition to the challenge of incorporating natural capital into investment decisions, there is also a distinct lack of investable opportunities in the natural capital market

Through interviews with senior decision-makers from the investment chain, this study sought insights on potential actions to mainstream natural capital in investment decisions. The aim was to mobilise change and create an integrated strategy for action which addresses current market inefficiencies and failures.

Actions

Within the market

1. Develop a broader investor education to address the current low levels of awareness and understanding of natural capital in the investment community.
2. Develop useful metrics that can feed into an integrated reporting format and in turn promote the valuation of natural capital.
3. Embed natural capital performance criteria in investment contracts and loans.
4. Manage reputational, and increasingly operational, risk by recognising and managing natural capital.
5. The natural capital concept must align itself with the core business interest of resource security, which is related to water, food, energy, and climate change.
6. Proposed initiatives should be targeted at key decision makers at CEO / Chairman / Board level who can effectively integrate natural capital into business.

7. Business and investors should collaborate to encourage the development of investments that meet institutional investment criteria.

Beyond the market

1. International and regional policies are likely to be translated into national regulatory directives within the next few years for investors to follow.
2. Mandatory regulation with sector-specific sub-directive will help to create an even playing field within the market. Incorporating natural capital into national economic indicators is also recommended. Effort should be focused on making the business case to governments.
3. The 2010 TEEB study highlighted the global economic importance of natural capital. This now needs to be integrated into the investment community.

4. A stewardship code for the investment community reflecting key international and national policy ambitions. Investors should regard themselves as caretakers of their considerable resources for the benefit of all underpinned by responsible management of natural capital.

5. Fragmented initiatives around natural capital need to be unified, or interlinked to increase their effectiveness.

6. Institutional investors' fiduciary duty and due diligence may increasingly direct them

to recognise and manage natural capital, in line with their responsibility to sustain investment performance and invest in a diversified portfolio of asset classes.

7. In addition to the work completed by TEEB, natural capital initiatives could follow the example of fields such as energy and undertake scenario planning to help communicate natural capital's increasing importance to investors.

The University of Cambridge Programme for Sustainability Leadership (CPSL)

works with business, government and civil society to build leaders' capacity to meet the needs of society and address critical global challenges. Our seminars and leadership groups and our partnerships with those who make or influence decisions are designed to transform public and private sector policies and practices and build greater understanding of our interdependence with one another and the natural world. Our network of alumni brings together the most influential leaders from across the world who share an interest in and a commitment to creating a sustainable future.

CPSL is an institution within Cambridge University's School of Technology. We work in close collaboration with individual academics and many other departments of the University. HRH The Prince of Wales is our patron and we are also a member of The Prince's Charities, a group of not-for-profit organisations of which His Royal Highness is President.



CPSL is grateful for the support of its Strategic Partners:

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