



Sustainability and Commodities

Welcome to this edition of WWF's commodity update which features articles on ecosystem services and High Conservation Value habitats. I'm writing this introduction in the same week that WWF will be submitting comments to the International Finance Corporation (IFC) on its proposed new Performance Standards. The draft Standards include a more ambitious expectation in relation to ecosystem services as well as increased prospects in terms of biodiversity conservation. These are complex issues and IFC's commitments are a step in the right direction.

The Performance Standards are of course important in the broader context for the role they play in the compliance "ask" of the Equator Principle Financial Institutions (EPFI). Thus the importance that EPFIs place on biodiversity and ecosystems seems likely to increase also.

One of the key areas where WWF sees particular challenges here relates to the ways in which IFC and EPFIs assess and manage biodiversity and ecosystem risks in commodity supply chain financing (since commodity production and trade are two of the most significant sources of biodiversity loss globally).

The emerging consensus that credible voluntary standards for commodities (RSPO, RTRS, etc.) offer potential solutions is therefore extremely important since it creates a common ask along the supply chain and also within the financial community. A certified product in essence becomes the ticket to both markets and finance, and it can be applied in a cost effective and efficient manner wherever financing is being considered in the supply chain.

By the way – *The Economics of Ecosystems and Biodiversity* (TEEB) report on why business needs to integrate biodiversity and ecosystem service issues in its business models is now available at <http://www.teebweb.org>. It's probably the most important report you will read this year - even more valuable than the commodity update. Enjoy.



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Project Catalyst

Innovative lending to save reefs around the world, by Nick Heath, Program Leader, Water, WWF Australia

Coral reefs are being lost to the world at a rate five times faster than rainforests, often as a result of polluted farm run-off. The good news is that solutions are being pioneered in Australia in a partnership between The Coca-Cola Foundation, WWF and local catchment leaders (Reef Catchments NRM).

'Project Catalyst' has shown that modern technology can significantly improve farm profitability and reduce pollution at the same time. The main challenge facing the project now is scale: investors are needed to help expand the project to save more reefs in Australia and around the world.

The Great Barrier Reef, 'the Reef', has over 500 coral and 1,500 fish species. Yet up to 700 of its reefs are at risk of contamination, mostly from elevated levels of pollution and nutrients (the diversity of coral reefs is dependent on fewer rather than more nutrients). An expert team at Reef Catchments NRM has started working with The Coca-Cola Foundation and WWF to support "on-farm" innovation that reduces nutrient run-off. The results have been stunning, both for the reef and the farmer's bottom line. "Precision application" of chemicals reduced nutrient pollution by 60% and herbicide pollution by 95%, and satellite-controlled machinery reduced the volume of runoff from heavy clay soils by 20% due to improved soil infiltration.

Government economic modelling at both paddock and enterprise scale shows that all farms were financially better off, even those with previously good productivity. The project has proven that the long-term financial gains outweigh the upfront capital costs of the satellite technology on a Net Present Value basis.

Going forward, Project Catalyst offers financial institutions the opportunity to invest and lend innovatively, profitably and sustainably to save reefs around the world. Investment needed is in the form of equipment finance for Global Positioning Systems (aerials and receivers), new tractors and truck haulage attachments, digital soil testing and computing power.

Details of this work have been published (Providing Economic Support to Project Catalyst by Star et. al. 2010) and are available on request from Nick Heath nheath@wwf.org.au



Hardy Reef, Great Barrier Reef, Australia

High Conservation Value (HCV) Assessment

An important tool for financial institutions

Biodiversity and Ecosystem Services (BES) are critical for human and economic development, and the benefits and values that they deliver are now being defined in economic terms. But despite the benefits that BES provide, they are still largely viewed as externalities by most financial institutions, and this lies at the root of the continuing loss of BES globally (for example, according to WWF's Living Planet Index (2008), global biodiversity has declined by nearly 30% over just the past 35 years).

Figure 1 - Why Biodiversity and Ecosystem Services Matter to Financial Institutions

Failure to assess and manage these issues creates:

- Reputational risk
- Liabilities and regulatory compliance risk
- Investment risks associated with loss of production/business interruption (particularly related to water supply and quality)

Understanding BES can create business opportunities:

- Client retention and repeat business (particularly for institutions that can help clients understand and navigate these issues in their business)
- New products and services (particularly associated with REDD+ and related markets for biodiversity banking)
- Differentiation and Branding year.

UNEP FI recently sponsored an important report on the reasons why the finance sector needs to incorporate BES more effectively and consistently in its lending and investment decisions (Figure 1). Yet despite this, it has still proven extremely difficult for most financial institutions to incorporate effective BES assessment in their business. Those institutions that are looking at new opportunities in food and fiber commodities (and also those now focusing on emerging markets) need to consider BES risks and opportunities very carefully to avoid some of the adverse consequences identified in Figure 1.

One way of achieving this is through the concept of High Conservation Value (HCV) Assessment which is emerging as a useful tool for identifying ecological and social values that need to be conserved in transactions. It requires companies that have impacts on natural habitats to determine the importance of these in relation to 6 criteria (Figure 2).

HCV was introduced by the Forest Stewardship Council as a requirement for timber companies seeking forest certification and has now expanded to value chain management and investment in a range of food, fiber and biofuel commodities including palm oil (Roundtable on Sustainable Palm Oil), soy (Roundtable for Responsible Soy), sugar/ethanol (Better Sugarcane Initiative) and other biofuels (Roundtable on Sustainable Biofuels).

A range of financial institutions are also now using the concept to determine environmental policy compliance, and significantly the IFC is using HCV in its Performance Standards – and therefore there are requirements for the Equator Principles Financial Institutions.

The tools that have emerged to support HCV Assessment are becoming increasingly robust (though it must be recognized that these are still evolving and will continue to do so in the near and medium term) and are now seen as credible and effective mechanisms for assessing and managing BES in corporate and financial sectors.

The consistent use of HCV by both communities is important since it reduces transaction costs, simplifies business needs and assumptions (in as much as financiers and value chains are both requiring the same performance by producers) and increases clarity in terms of the BES 'ask'.

WWF is considering the development of HCV tools and capacity building materials for the finance sector. More details can be obtained from internationalfinance@wwfus.org

Figure 2 - Summary of HCV Definitions and Criteria

HCV1. Areas containing globally, regionally or nationally significant concentrations of biodiversity values For example, the presence of globally threatened birds.

HCV2. Globally, regionally or nationally significant landscapes where populations of most if not all naturally occurring species are evident. For example, a flooded grasslands and gallery forests with healthy populations of typical species.

HCV3. Areas that are in or contain rare, threatened or endangered ecosystems.

HCV4. Areas that provide basic ecosystem services in critical situations (e.g., watershed protection, erosion control). For example, forests on steep slopes with avalanche risks above a town.

HCV5. Areas fundamental to meeting basic needs of local communities (e.g., subsistence, health). For example, hunting or foraging areas for forest dwelling.

HCV6. Areas critical because of their cultural significance For example, sacred burial grounds.

See www.hcvnetwork.org

Global Conference on Sustainable Beef

The **Global Conference on Sustainable Beef** is a forum organized by key beef industry stakeholders including Cargill, Intervet Schering-Plough Animal Health, JBS, McDonald's, and WWF, to share information about better management practices in beef production.

Hosted in Denver, Colorado, U.S., November 1-3, 2010, the conference will focus primarily on establishing a dialogue to further improve industry sustainability while beginning to identify the key environmental, economic and social impacts (positive and negative) in the sector. Participants will also share better management practices for continuous improvement in these areas.

Anticipated outcomes from the meeting include increased alignment around the key impacts of beef production and the establishment of a platform for a multi-stakeholder process to develop global voluntary, market-based standards for the industry. Learn more www.SustainableLivestock.com

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