

# Nature is climbing the agenda, but corporate biodiversity commitments remain rare





## Key takeaways:

- Pledges to protect biodiversity and natural capital are increasing but remain rare: less than 20% of S&P 500 companies have made commitments, according to the 2021 S&P Global Corporate Sustainability Assessment.
- Corporate promises to address biodiversity and ecosystem loss need to extend through the full supply chain where materials and inputs are sourced.
- Most of the corporate world still lacks commitments to ending deforestation despite it being more easily measured than other natural capital risks.

Companies are making only modest progress in their commitments to protect biodiversity and nature, an issue that is capturing more attention in the corporate world as 2022 shapes up to be a pivotal year in the broader quest to halt ecosystem destruction across the globe.

Businesses have long harnessed nature's resources without having to pay a full price for the privilege. There is now a growing realization that the real-world cost of exploited natural capital – everything from bees and fish stocks to the carbon-storing capacity of trees – ought to be properly tallied on corporate balance sheets. Such an accounting could spur companies to make and sell goods and services in a way that causes no net loss of natural capital or, better yet, yields a gain – thus helping to restore a small part of the natural world.

The S&P Global 2021 Corporate Sustainability Assessment, or CSA, reveals several key biodiversity trends. While the number of corporate biodiversity commitments has grown, the level remains low, with a handful

of sectors heavily outperforming others. And among companies with a commitment, 40% have not set a target year. That lack of accountability could undermine the pledge, no matter how significant it is.

But there are some positive signs, too. For example, most companies with time-bound targets have promised to meet those goals by 2030, indicating that their corporate boards want to act urgently. Another welcome development is that businesses heavily reliant on agricultural resources – such as food and drink producers – have increasingly extended their biodiversity commitments to their supply chains, where most of the harm originates.

### Recognizing the problem

Terrestrial and marine ecosystems provide essential economic services, from supplying food and medicines to storing carbon and filtering the planet's air and water. More than half of global economic output, about \$44 trillion of economic value generation, is moderately or highly dependent on nature, according to the World Economic Forum.<sup>1</sup>

<sup>1</sup>“Nature Risk Rising: Why the Crisis Engulfing Nature Matters for Business and the Economy,” World Economic Forum, Jan. 19, 2020, <https://www.weforum.org/reports/nature-risk-rising-why-the-crisis-engulfing-nature-matters-for-business-and-the-economy>.



Gautam Naik

Senior Writer  
ESG Thought Leadership  
S&P Global Sustainable1



Joerg Rueedi

Senior ESG Analyst  
S&P Global Sustainable1



Just four big value chains – food, energy, infrastructure and fashion – are responsible for more than 90% of man-made pressure on biodiversity, according to a March 2021 report by Boston Consulting Group.<sup>2</sup> That report also notes that the overall economic value provided by biodiversity is worth more than \$150 trillion annually – about twice the world’s GDP. Destroying natural capital, therefore, is often the same as destroying business capital.

“Biodiversity has moved rapidly up the agenda for corporations and financial institutions,” said Emily McKenzie, technical director of the Taskforce on Nature-related Financial Disclosures, or TNFD, in an interview with S&P Global Sustainable1. “Protecting and restoring nature is increasingly being understood as a commercial imperative based on risk – as opposed to an issue of corporate social responsibility.”

The year 2021 gave that commercial imperative a big push forward, starting with the publication in February of the Dasgupta Review, a 600-page U.K. Treasury report that underscored the growing financial risks corporations face linked to natural degradation.<sup>3</sup> One of its main messages:

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“Just as diversity within a portfolio of financial assets reduces risk and uncertainty, so diversity within a portfolio of natural assets increases Nature’s resilience to shocks, reducing the risks to Nature’s services.”

In March, the United Nations adopted the System of Environmental-Economic Accounting – Ecosystem Accounting. The new statistical framework is intended to help countries measure their natural capital. That was followed by the creation in June 2021 of the TNFD, a framework that will help companies assess and disclose biodiversity risk.<sup>4</sup> In October 2021, at the first phase of a U.N. biodiversity conference in Kunming, China, more than 100 countries also committed to putting biodiversity on a path to recovery by 2030.

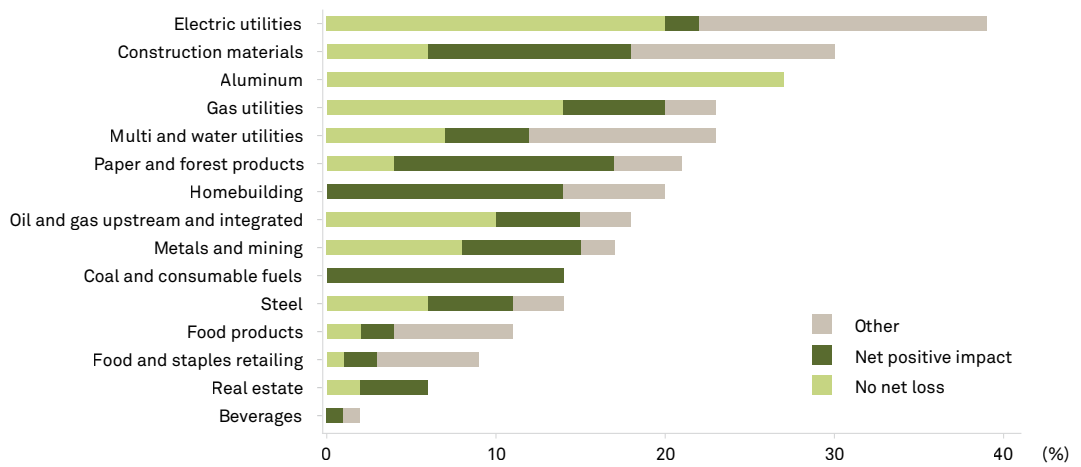
<sup>2</sup> “The Biodiversity Crisis Is a Business Crisis,” Boston Consulting Group, March 2, 2021, <https://www.bcg.com/publications/2021/biodiversity-loss-business-implications-responses>.

<sup>3</sup> “The Economics of Biodiversity: The Dasgupta Review,” HM Treasury, Feb. 2, 2021, <https://www.gov.uk/government/publications/final-report-the-economics-of-biodiversity-the-dasgupta-review>.

<sup>4</sup> “Plight of the bumblebee: Task force takes aim at nature-related financial risk,” S&P Global Sustainable1, June 9, 2021, <https://www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/plight-of-the-bumblebee-task-force-takes-aim-at-nature-related-financial-risk-64893250>.

## Few companies have biodiversity commitments; utilities lead the pack

Percentage of companies per industry making nature-related commitments



Data as of November 2021. No net loss, or NNL, means that damages linked to business activity are offset by at least equivalent gains, avoiding a net loss of biodiversity and ecosystem services. Net positive impact, or NPI, means that corporate actions on biodiversity, such as habitat protection, are greater than the impact from its business activity. A commitment to NPI typically goes further than one to NNL. Examples of “other” commitments include: No deforestation; no peat; no exploitation; the use of certified raw materials, etc. Results based on responses from 1,300 companies.

Source: Corporate Sustainability Assessment 2021, S&P Global Sustainable1.

The momentum grew further at the U.N.’s big COP26 climate conference in November 2021, where asset managers, governments and companies aligned on the use of nature-based tools to tackle climate change. Nearly \$20 billion in public and private funding was pledged to halt deforestation. And there was widening support for blue bonds, which allow ocean-dependent economies to use the proceeds for marine conservation.

emissions and help the world meet climate targets, such as the Paris Agreement goal of limiting global warming to 1.5 degrees Celsius above preindustrial levels. Nature, by contrast, has no easily distilled targets.

The other hurdle is the sheer scale of the problem. Between 1992 and 2014, capital produced per person doubled and human capital per person increased by about 13% globally, according to estimates published in the Dasgupta Review. But over the same period the stock of natural capital per person declined by nearly 40%. Funding is an issue, too. According to the U.K. government, only 3% of global climate finance is currently spent on nature-based solutions.<sup>5</sup>

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Nonetheless, restoring nature – everything from tropical jungles to mangrove forests and coral reefs – won’t be easy. One reason is that the task is nebulous. Companies trying to assess or mitigate their climate change risk can measure CO<sub>2</sub> and methane

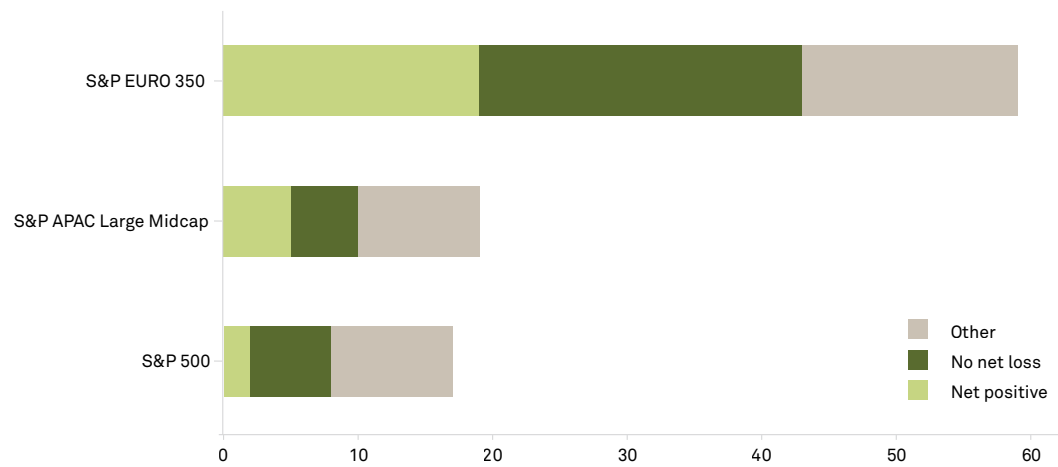
### Progress is building slowly

An analysis of the 2021 CSA data shows that while companies are becoming more aware of the considerable nature-related risks they face, many have only taken baby steps so far to fix the problem.

<sup>5</sup> “Nature: Protecting and restoring nature for the benefit of people and climate,” COP26, November 2021, <https://ukcop26.org/nature/>.

## Big European companies well ahead of US and Asia-Pacific peers on biodiversity

Percentage of companies in three regional S&P indices making nature-related commitments



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The CSA asked companies to report on whether they had set any of three types of biodiversity commitments: No net loss, which means that damages linked to business activity are offset by at least equivalent gains; net positive impact, which means that actions on biodiversity, such as habitat protection, are greater than the impact from its business activity; and other pledges such as no deforestation or using certified raw materials.

Overall, the CSA data shows that only a small percentage of companies had adopted biodiversity commitments, although there is a slight uptick in 2021 compared to 2020 results. Electric utilities had the highest share of overall commitments with 40% of companies, as well as the largest share of no-net-loss commitments. The next-best performing industries were materials and energy. This likely reflects environmental impact assessments mandated by law.

"That shows there's a lot to do," said McKenzie of TNFD. "40% is far too low

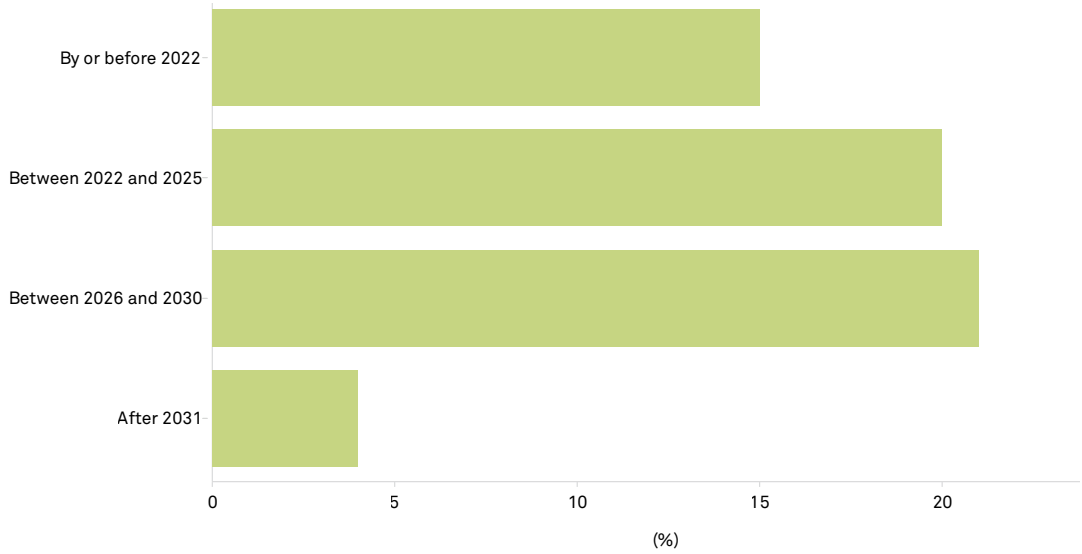
in my view, given the extent of the risk. The commitments need to catch up."

How do some of the biggest public companies fare on biodiversity commitments? Among companies in the three major regional S&P indices that report their biodiversity commitments, European businesses are well in the lead, with about 60% of companies committing to biodiversity protection, compared to only 15% to 20% of companies in the S&P 500 and S&P APAC Large Midcap indices.

But having a commitment isn't enough; a company should also specify when it intends to fulfil its goal. In this regard, progress is slow. Among companies with biodiversity commitments, 40% have not set a target year, the CSA data shows. This is significant because a commitment that lacks a time-bound plan could let a company avoid making progress toward its pledge with any urgency.

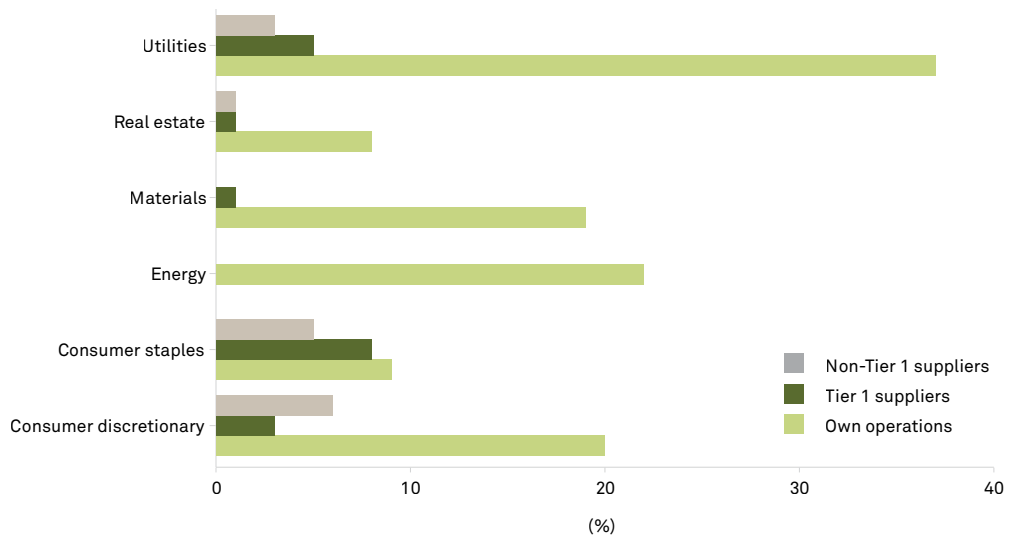
## Most companies promise biodiversity action by 2030

Percentage of companies with a nature-related commitment and a publicly reported target year



Data as of November 2021. Results based on responses from 126 companies that have indicated a target year. Source: Corporate Sustainability Assessment 2021, S&P Global Sustainable1.

## Consumer sector extends biodiversity commitments to supply chain



Data as of November 2021. Tier 1 suppliers directly supply goods, materials or services (including intellectual property or patents) to the company. Non-Tier 1 suppliers provide products and services to the supplier at the next level in the chain (i.e. Tier 2 or lower). Results based on responses from 1,300 companies. Source: Corporate Sustainability Assessment 2021, S&P Global Sustainable1.



One positive that emerged from the CSA findings is that of those companies that have set time-bound targets, most plan to meet those goals by 2030. In the context of tackling a complex issue like biodiversity, a decade can be considered near-term. A 2030 goal is also much sooner than the corporate commitments to hitting net zero by 2050 that are becoming more common.

Another measure of the strength of any biodiversity commitment is how far into a supply chain it extends. A company that wants to reduce the biodiversity impact of its own operations is typically tackling low-hanging fruit. The much harder job – and this is especially true for consumer companies – is tackling biodiversity throughout the far reaches of upstream suppliers. For example, a U.S. burger franchise should address the impact on nature degradation not only in its own processing factories, but also in distant places like the Amazon where its beef suppliers could be burning down vast tracks of jungle to grow soy and raise cattle.

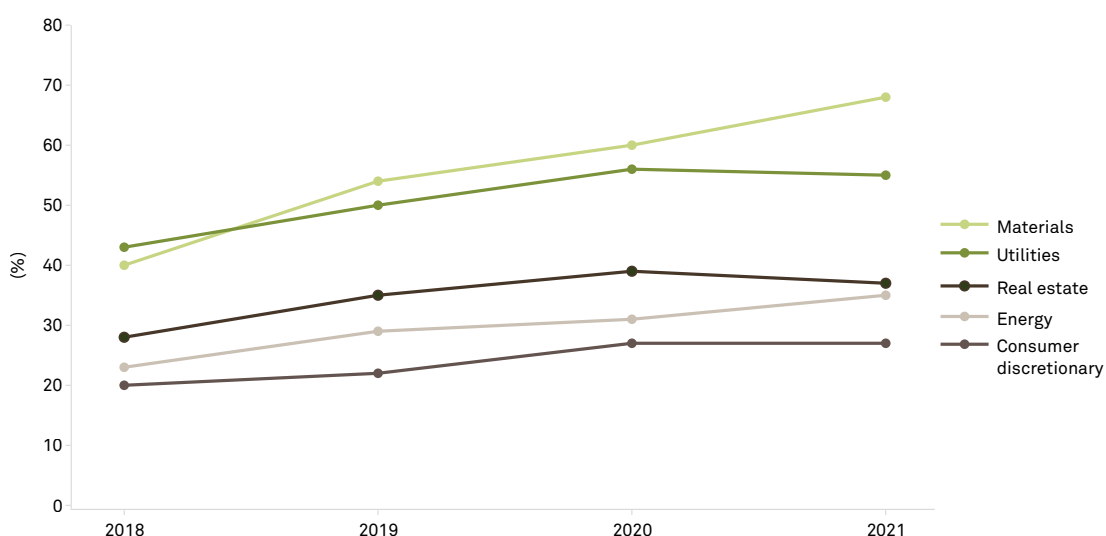
The CSA assesses the scope of biodiversity commitments and whether they also extend to Tier 1 suppliers, or those directly feeding into a company's operations, and to non-Tier 1 suppliers, who are farther up the chain. The data shows that most companies set commitments only for their own operations. Of those companies indicating the scope of their commitments in the consumer staples sector, for example, a larger share of them requires their Tier 1 and non-Tier 1 suppliers to adhere to their commitments. That's not surprising, since food and drink companies are exposed to a sizable natural-capital risk in the form of the raw agricultural commodities they rely on.

Energy companies, by contrast, generally only apply these commitments to their own operations. This likely reflects the fact that, unlike with consumer companies, the impact to energy companies is mainly at the level of their own operations and their supply chain is limited in size.



## Materials sector leads the way in assessing production sites exposed to biodiversity risk

Percentage of companies by sector that have assessed their biodiversity exposure in terms of number of sites and land area



Data as of November 2021. Results based on responses from 327 companies. Only includes companies that assessed their exposure in all four years.  
Source: Corporate Sustainability Assessment 2021, S&P Global Sustainable1.

In a global economy, large companies often buy or make goods in distant locales, where the exposure to biodiversity risk could be significant. How many companies analyze biodiversity exposure for their production sites?

The CSA examined a subset of 327 companies that had assessed their exposure to critical biodiversity by number of sites and land area, continuously over the 2018 to 2021 period. The picture that emerges is mixed. Materials and utilities, which often operate in remote areas and often conduct environmental impact studies as a prerequisite for getting licenses, lead the way in doing such analyses. The real estate, energy and consumer staples sectors are far behind.

Among companies with commitments, only a small proportion say they have reported on the metrics they use to establish and measure progress toward targets, which would suggest that the problem of declining natural capital has yet to be incorporated as a

major risk factor. One major obstacle to wider adoption is the lack of a simple, universal metric for biodiversity like the CO<sub>2</sub>-equivalent metric used for emissions reduction targets. The European Commission's Finance and Biodiversity Community has identified several metrics currently in use – such as mean species abundance, or MSA, which compares the number of native species in an area to the estimated number in an undisturbed state – though none have been widely adopted.<sup>6</sup>

But there are signs that some sectors are trying to get to grips with the issue: most companies with biodiversity commitments in the construction materials and paper and forests products industries, as well as a third of companies in the metals and mining sector, assess their sites not just on a wider spatial level, but also at the level of species and/or habitats. That suggests these companies understand the biodiversity state of their sites in considerable detail.

<sup>6</sup> "Guide on biodiversity measurement approaches," European Commission Finance and Biodiversity Community, October 2021, [https://www.financeforbiodiversity.org/wp-content/uploads/Finance-for-Biodiversity\\_Guide-on-biodiversity-measurement-approaches.pdf](https://www.financeforbiodiversity.org/wp-content/uploads/Finance-for-Biodiversity_Guide-on-biodiversity-measurement-approaches.pdf).

At COP26, Canada, Brazil, Russia, Indonesia and other countries that together encompass 85% of the world's forests agreed to reverse forest loss and land degradation by 2030.

### Grappling with deforestation

One area of nature-related risk that is more measurable and therefore easier for corporations to address is deforestation – a new topic for the 2021 CSA. However, according to assessment results, none of the six major sectors assessed had more than 25% of companies with deforestation commitments. Among the group, consumer discretionary, consumer staples and utilities companies made the most headway in deforestation pledges, while the energy, materials and real estate sectors lagged significantly.

In terms of how far up the supply chain the 2021 deforestation commitments reached, about 15% of companies in the consumer staples sector said their pledges extended to their Tier 1 suppliers in addition to their own operations. By contrast, the consumer discretionary, utilities, energy, materials and real estate sectors were each at the 3% mark or lower.

There is growing support to ramp up anti-deforestation efforts. At COP26, Canada, Brazil, Russia, Indonesia and other countries that together encompass 85% of the world's forests agreed to reverse forest loss and land degradation by 2030. The pledge was supported by \$12 billion of public finance from a dozen countries, including the U.K.<sup>7</sup>

Private investors promised a further \$7.2 billion. More than 30 financial institutions with over \$8.7 trillion of global assets also said they would phase out deforestation from their commodity portfolios by 2025.

The commitments target products that are closely linked to deforestation, including beef, soy, palm oil, pulp and paper.

The year 2022 will also be pivotal in the effort to redress some of nature's broader imbalances resulting from human and business activity. One of the major events will be the second phase of the U.N.'s biodiversity conference in Kunming, China known as COP15. The plan is for delegates to come up with a set of renewed biodiversity targets for the next 10 years.

And many eyes will track the progress of asset managers, financial institutions, companies and governments that announced a host of ambitious nature-related pledges at COP26, and any more commitments made in the months leading up to the Kunming conference.

"You can set the rules of the game, but you need to make sure they are verified," said McKenzie of TNFD. "And there should be consequences for companies and financial institutions if those risks are not managed." ■

#### Contributors



Moritz Brugger

Associate ESG Analyst  
S&P Global Sustainable1



Gina Santos

Senior Manager  
ESG Research  
S&P Global Sustainable1

<sup>7</sup> "At COP26, governments and businesses turned a new leaf on protecting nature to halt climate change," S&P Global Sustainable1, Nov. 17, 2021, <https://www.spglobal.com/esg/insights/at-cop26-governments-and-businesses-turned-a-new-leaf-on-protecting-nature-to-halt-climate-change>.