

Sustainable Water Management Expectations towards companies



Objective

The DNB Group's Standard for Responsible Investments shall ensure that DNB does not contribute to human or labour rights violations, corruption, serious environmental harm and other actions which may be perceived to be unethical and/or unsustainable. They shall also ensure that assessments of risks and opportunities arising from Environmental, Social and Governance (ESG) factors are integrated into the investment decision-making process. At DNB Asset Management (DNB AM) we exercise our ownership rights in line with international norms and standards, including the UN Global Compact, UN Guiding Principles on Business and Human Rights, the G20/OECD Principles of Corporate Governance, and the OECD Guidelines for Multinational Enterprises. Our responsible investment approach utilises tools including standard setting, exclusions, active ownership (through engagement and voting), and ESG integration.

Our expectations call for companies to identify, assess and manage their exposure to water-related risks and opportunities, and to ensure a high level of transparency around how such information can be utilised in our company analysis and as an input to investment decision-making.

We work strategically to make a positive impact on the management of water, and are involved in investor collaborations and information sharing, to address this topic. DNB AM is a supporter of CDP's Water Programme and seek to motivate companies to disclose material water data, while pushing for standardisation and harmonisation of reporting on this information in the market.

Definition and scope

Water is an essential input factor in countless processes and operations globally, and industry has a direct role in the management of the Earth's water systems. The impact of water on different sectors varies depending on the sector and industry, with some sector and geographic regions particularly vulnerable to changes in the water availability and water quality. What makes water management by companies especially challenging is that it is a local and/or regional issue, often requiring site-specific approaches for the management of the resources. This is further complicated when you consider that company sites may be impacted by other companies from the same river basin, requiring a collective approach to the management of the resource from all parties involved. These issues increase complexity for the companies when considering water management, particularly for multinational companies when considering across direct operations and supply chains, in a range of international geographies. Additionally, when considering the multitude of factors impacting the quantity and quality of water available, including human, industry, and policy factors - the complexity of the issues is evident.

Our expectations are intended to provide guidance for companies on the topic of water and are directed at all companies in our investment universe with a reliance or impact on water, either directly or through their supply chains. These expectations also inform how we engage with companies and how we assess companies once an issue has occurred. The SASB Materiality Map¹ identifies that water management is likely to be material for companies in the following sectors:

- Extractives and mineral processing
- Food and Beverage
- Infrastructure (power utilities, water utilities)
- Alternative Energy (Biofuels, Pulp and Paper)

¹ <https://materiality.sasb.org/> (accessed 2nd November 2020)

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- Resource transformation (Chemicals, Containers and Packaging)
- Technology (electronics manufacturing, semiconductors).

Failure to consider and adequately manage water-related risks may have physical, regulatory, and or reputational implications, materially challenging companies' profitability through impacts to revenues, expenditure, assets, and/or liabilities. Companies may be excluded from DNB AM's investment universe if they do not adequately manage the risks and opportunities associated with water. Further, these expectations on water are also closely linked to our expectations on Serious Environmental Harm, and where relevant, will apply to same assessment criteria for determining whether a company should be excluded from our investment universe².

These company expectations refer primarily to issues associated with freshwater. We also have our Sustainable Oceans expectations aimed at companies with activities directly linked to the ocean or those with land-based activities that are materially dependent on the ocean or which affect oceans significantly.³

These expectations do not explicitly address the Human Rights element regarding the human right to water and sanitation, although we do identify the importance of companies obtaining a 'licence-to-operate'⁴. Our company expectations on Human Rights apply to companies and are best suited to consider this issue.

Introduction to water

Water is a precious but widely undervalued resource, and the interaction with and impact on companies is multifaceted. Water stress, i.e. the "ability or lack thereof, to meet human and ecological demand for fresh water"⁵, results when there are challenges related to water availability, quality, and accessibility. For companies with water as a key input, any impact on the three aforementioned factors of water stress may materially affect profitability and should therefore be key components of companies' strategy and considerations for management.

Adding to the challenge, the IPCC report 'Climate change and water', highlights that "Observational records and climate projections provide abundant evidence that freshwater resources are vulnerable and have the potential to be strongly impacted by climate change, with wide-ranging consequences for human societies and ecosystems."⁶ This demonstrates the challenges and risks related to climate and water and tightly linked, and therefore companies assessing and managing water-related risks, should also be assessing and managing climate change-related risks.

It is the ambition of DNB AM for all companies within the investment universe with a material reliance on water, to become water stewards. That is, to not only improve water management practices within their operations, but to positively contribute to the sustainable management of shared resources. In line with the goal of **SDG 6** on clean water and sanitation for all, businesses can contribute to achieve these goals by adopting water stewardship strategies and water management into business strategies.

Expectations to companies

We expect to see an increase in water management incorporated into business strategies, risk management and measuring and valuing water impact. This is to ensure companies have awareness of and are managing water-related risks within their operations and supply chain and have awareness of impacts of water use within the operating basins in which their assets are based.

The specific expectations are as follows:

- Governance
 - Management of water-related risks and opportunities should be a key responsibility of the Board
 - Water-related risks and opportunities should be clearly identified and assessed in the company's management of these efforts (at Board and executive management level)
 - Companies should consider incorporating management of water issues into executive remuneration and incentive programmes

² https://www.dnb.no/portalfont/nedlast/en/about-us/corporate-responsibility/2020/Serious_Environmental_Harm__2020.pdf

³ https://www.dnb.no/portalfont/nedlast/no/om-oss/samfunnsansvar/2020/Oceans_Expectations_002.pdf

⁴ <https://www.ohchr.org/Documents/Publications/FactSheet35en.pdf>

⁵ <https://ceowatermandate.org/terminology/detailed-definitions/>

⁶ <https://www.ipcc.ch/site/assets/uploads/2018/03/climate-change-water-en.pdf>

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- Strategy
 - Companies should integrate material water management risks and opportunities into strategies, policies, procurement and risk management practices.
 - Companies should publicly disclose their water management policy/strategy and may consider third-party evaluation of this.
 - Companies should adopt industry best practice regarding water management, and where relevant, invest in research to improve processes to maximise water efficiency and improve discharged water quality.
 - Companies should have an awareness of the impact of operations on the water basins used by their assets, and ensure they have a social license-to-operate⁷. This can include considerations for local communities and other actors utilising the water source, and any current, future or potential environmental impacts.
 - When investment planning, companies should not initiate new operations in water stressed regions without an adequate water management plan. Companies should take a long-term perspective on changing water usage by the company and other stakeholders within the basin, including considerations for changing regulations and water conditions. As part of this planning, companies may consider using a shadow water price.

- Risk management
 - Companies should consider their risk management processes for identifying and assessing material water-related risks in their direct operations and supply chain explaining how materiality determinations have been made.
 - Companies should consider their processes for managing water-related risks, including how they make decisions to mitigate, transfer, accept or control those risks, and how water-related risks are prioritised (also in relation to other risks).
 - Companies should consider how water-related risks are integrated into their overall risk management, including processes for identifying, assessing, and managing risks.
 - Companies should engage with suppliers, requiring action and reporting regarding water management. This will help to incentivise sustainable water practices.

- Metrics and Targets
 - Measure and monitor water withdrawals, discharges, quality, consumption across operations and disclose this information on asset level. A risk-based approach to measurement and monitoring, focusing on regions of high-water stress, may be the most effective approach until such time as company-wide reporting becomes standard practice.
 - Set ambitious targets to reduce impacts on water availability and quality at an asset level. These should be both short and long term and consider the sustainable limits of the basins upon which companies rely. Progress relative to these targets should be disclosed as a part of annual reporting.
 - Publicly report standardised information on water use and water risk as part of annual reporting and to regulators, in line with recognised reporting frameworks and standards such as CDP Water and GRI^{8, 10}. Where relevant, this should also extend to the supply chain.

- Transparency
 - Companies should have oversight over, and be transparent on, water lobbying practices and other activities, including membership to industry organisations, working to influence regulators and policy development. There should be consistency between companies' public positioning on water and their lobbying activities.

⁷ https://link.springer.com/referenceworkentry/10.1007%2F978-3-642-28036-8_77

Important norms and standards relevant for water

International standards and initiatives	Description
CDP Water Security	CDP provides a water security disclosure framework and disclosure platform for use by companies. It is intended to provide companies with insights into current and future water risks. The disclosure framework is closely linked to the CEO Water Mandate commitment areas, and is aligned with the GRI's water framework ⁸
CEO Water Mandate	A collaboration between the UN GC, The Swedish Government, civil society, and a group of companies with the aim of developing strategies and solutions to contribute positively to the emerging global water crisis. Is a voluntary commitment, with the aim of advancing water stewardship. There are six key commitment areas, which those signing on are required to report on annually: Direct operations, Supply chain and watershed management, Collective action, Public policy, Community engagement, Transparency. ⁹
Global Reporting Initiative Water (GRI Water)	The GRI provides an internationally recognised corporate disclosure framework for water and effluent. The 'GRI 303: Water and Effluents' is an important standard by which companies can disclose their approach to the management of water-related impacts. ¹⁰
Principles for Responsible Investment (PRI)	The PRI provides a platform for collaborative engagements, through which opportunities exist for collaboration on corporate engagement on issues related to water. They have also produced a range of materials for investors regarding water. ¹¹
Sustainable Development Goal (SDG) 6 Clean Water and Sanitation	One of 17 goals established by the UN in 2015 with the aim to ensure availability and sustainable management of water and sanitation for all. ¹²
United Nations Water (UN Water)	The topic of water is not managed by any single UN body, but rather is linked to more than 30 different UN bodies. UN Water coordinates the efforts of UN entities and international organisations working on water. ¹³
United Nations Global Compact (UN GC)	Water and sanitation are key focus areas of the UN GC. Companies should consider principles 7, 8 and 9 when making considerations for water. The CEO Water Mandate is the primary mechanism through which action of water is undertaken (see reference above), although the principles themselves are key considerations. ¹⁴

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⁸ <https://www.cdp.net/en/water>

⁹ <https://ceowatermandate.org/about/what-is-the-mandate/>

¹⁰ <https://www.globalreporting.org/standards/media/1909/gri-303-water-and-effluents-2018.pdf>

¹¹ <https://www.unpri.org/sustainability-issues/environmental-social-and-governance-issues/environmental-issues/water>

¹² <https://sdgcompass.org/sdgs/sdg-6/>

¹³ <https://www.unwater.org/about-unwater/>

¹⁴ <https://www.unglobalcompact.org/what-is-gc>