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CONFERENCE REPORTS

ABA TELECONFERENCE–WATER-RELATED RISKS AND OPPORTUNITIES: CORPORATE DISCLOSURE AND ANALYSIS OF AN EMERGING BUSINESS CONCERN

Teleconference September 12, 2012

The American Bar Association, Section of Environment, Energy, & Resources hosted a teleconference discussing the corporate trend of increased awareness of water-related risks. Investors and consumers have called for greater corporate disclosure of water risks and improved corporate supply-chain and operational water management due to increasing water scarcity. The ABA assembled three panelists to participate in this discussion.

Berkley Adrio, Senior Associate at Ceres, a nonprofit organization dedicated to maintaining a sustainable global environment through the promotion of smart business practices and planning, was the first panelist to speak. Adrio explained that Ceres organizes coalitions of investors, companies, and public interest groups interested in encouraging corporate disclosure of business practices that have an effect on the environment, specifically with regard to water. Adrio began by reminding attendees that global demand for water will soon surpass the available supply. Ceres estimates that by 2030, up to forty percent of the demand for water will be unmet due to its limited availability. A 2012 World Economic Forum Global Risks Report also indicates that such unmet demand is highly likely to have a substantial impact on consumers, agriculture, business, and industry.

Shareholders, due to this imminent water deficiency, are calling for more environmental accountability by companies that, by virtue of being highly dependent on water, have incurred a certain amount of "water risk." Companies are beginning to respond to this call for environmental accountability through increased disclosure of corporate water risk and, occasionally, a plan to mitigate this risk.

Several instruments for assessing water risk are now available. For example, Bloomberg introduced Water Insight, a new product that allows companies to identify where their water risks are located and how policy decisions can affect their investments from both a demand and supply perspective. Standard & Poor's has also begun to incorporate the amount of water risk that a company carries into its rating methodologies for certain sectors. Adrio explained that the United States Securities and Exchange Commission has also recognized the need for increased disclosure. In 2010, the SEC began requiring companies to include risks emanating from climate change, including water availability, in their SEC filings.

A 2012 report by Ceres entitled "Clearing the Waters: A Review of Corporate Water Risk Disclosure in SEC Filings," revealed that corporate disclosure of water-related risks have increased overall, especially in regard to physical and litigious risks. Sectors with a high rate of water risk disclosure include the beverage, electric power, food, home construction, and mining. The report also found increased disclosure of plans designed to mitigate water risk. However, the report noted that corporate disclosures concerning water use, supply chain risk, and performance goals are weak and could use improvement. Adrio ended her presentation with Ceres's recommendations for the future: corporations should begin to provide investors with more than just baseline disclosure and work toward supplementing their reports with quantitative data. Finally, Adrio recommended that more companies begin presenting investors with viable plans to mitigate present water risks.

Marcus Norton, Head of Investor Initiatives & Water at the Carbon Disclosure Project ("CDP") was next to present. Norton agreed with Adrio that the amount of water risk-related information currently provided to investors is insufficient. Several companies are already feeling the negative financial impacts of being in water-dependent industries. Norton provided an example of one well-known international clothing retailer that saw its 2012 first quarter profits plummet after cotton prices increased dramatically due to water shortages.

In 2011, CDP conducted a report on global corporate water disclosure. With a focus on companies heavily dependant on water resources, CDP gathered information from 315 global companies regarding their approach to water resources. To solicit responses, CDP distributed a three-part questionnaire to each company. The first part concerned the company's water management and governance, specifically its policies about water use and the personnel responsible for maintaining oversight of water use. The second part addressed the company's water-related risks as well as opportunities. It inquired about any mitigating strategies that the company had developed in response to such risks and opportunities. The final part of the questionnaire asked about the company's accounting of its water use, including its dependence on water resources and the effect of such dependence on its supply-side chains.

CDP's report detailed three main findings. First, CDP found that water-dependant companies carry a significant amount of associated risk. From the perspective of business operations, most respondents cited "water scarcity" as a water-related risk. Nevertheless, many respondents did report any opportunities for growth and increased financial returns from the development of cost effective utilization of water resources. Second, the CDP report found that companies are recognizing climate change itself as a risk deserving of consideration in decision-making and future planning. However, companies have not reflected similar concerns about water risk and management, specifically. The third finding by CDP pertained to corporate understanding of the risk present in supply chains. For example, while 90% of respondents in the energy sector accurately assess potential water-related risks in their direct operations, only 52% of respondents in the same sector accurately assessed potential water-related risks in their supply chain.

Gregory J. Koch was the final panelist to speak during the teleconference. A Managing Director of Coca-Cola's Corporate Sustainability Office, Koch discussed Coca-Cola's Global Water Stewardship Program. The only panelist from a for-profit company, Koch brought a unique perspective on contemporary real-world issues facing many water-dependant corporations. Koch explained that the water risks facing Coca-Cola's product manufacturing locations all over the word are largely location-specific.

All of Coca-Cola's manufacturing plants face some water risk. Koch explained that most of Coca-Cola's products command water as a necessary ingredient. This dependency necessarily opens the corporation to at least some level of risk. Factors such as (i) the physical availability of surface or groundwater; (ii) the existence and condition of infrastructure; (iii) climate change; (iv) competing uses by other companies; and (v) regulatory limits placed on water withdrawal, either increase or decrease the supply of water available to Coca-Cola's supply chain, effectively increasing or decreasing the level of risk incurred.

Coca-Cola carries risk in other areas of their business separate from supply operations. For example, Coca-Cola is aware that it carries risk with regard to its reputation and social responsibilities, which indicates increased community awareness, media coverage, demand for corporate disclosure, and demand for responsible business practices. Koch then noted another area of risk: resource sustainability. As forty percent of Coca-Cola's total water risk, the ability to sustain its water supplies presents the greatest water risk for the company. Growing worldwide use of water, combined with inadequate government action and policy, has a devastating effect on the both the quantity and quality of the water supply in many of the countries in which Coca-Cola operates.

In response to this growing crisis, Coca-Cola has developed a four-part strategic framework. The four focus areas are: plant performance, watershed protection, building sustainable communities, and global awareness and action. Koch detailed Coca-Cola's plans for watershed protection; plans that focus on both water quantity and quality. Coca-Cola implements this plan through practices like sustainable agricultural land use, storm water management, recapturing leakage from water systems, wastewater treatment, water reuse, and rainwater harvesting.

Koch also addressed building sustainable communities, describing an approach that focuses on local communities that supply water to Coca-Cola's manufacturing plants. To date, 386 community water programs in ninety-four countries are replenishing thirty-five percent of the water that Coca-Cola currently withdraws. Additionally, there is corporate support for improving local access to water and water sanitation, and increasing awareness of smart water practices.

Koch closed with an explanation of Coca-Cola's use of Aqua Gauge, an analytical tool for companies to measure company water risk by comparing its current water management policies against those employed by similar companies. Developed by Ceres, this tool allows each company to evaluate where its own water management policies need improvement. While Coca-Cola performs well in the areas of data gathering, watershed and wastewater standards, board oversight, and engagement with NGOs and community interest groups, it could improve practices regarding risk assessment of its supply chain, product design, and working with suppliers to address water use concerns.