

# Keeping your head above water

A briefing paper from Two Tomorrows on water scarcity and corporate water management – including tips for addressing the risks and opportunities



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## Introduction

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### **How do you start getting to grips with the increasingly important issue of water management? Two Tomorrows' Vicky McAllister provides a thorough briefing and offers eight tips for addressing the risks and opportunities**

Water and its rise up the corporate agenda is an issue being discussed at length by CR professionals recently. So, is water the new carbon?

Certainly, many research organisations and NGOs have stressed that it is a key corporate risk and one that must be managed effectively. For example, WWF states in the fourth in a series of papers on water called 'Understanding Water Risk'<sup>1</sup>:

*"As businesses seek to secure long-term business prosperity, to maintain competitive advantage and brand differentiation, and to secure stability and choice in supply chains, increasing water scarcity presents physical, financial, regulatory and reputational risk."*

There seems little doubt among environmental experts that water scarcity – with all its consequences – urgently needs to be responded to by corporations, especially those whose direct operations and, importantly, supply chains are water intensive or in water-stressed regions.

Evidence is already emerging that tangible impacts of water scarcity and flooding are being felt by companies (both from a risk and opportunity perspective). For example, Coca-Cola and PepsiCo bottlers lost their operating licences in parts of India due to water shortages<sup>2</sup>. Another example is Anheuser-Busch, whose operations were affected by cost increases arising as a direct result of a drought in the Pacific Northwest<sup>3</sup>. More generally, water bottlers and major soft drink (or soda) firms are facing stiff public opposition to new bottling plants and to buying bottled drinking water altogether<sup>4</sup>.

Despite consensus about the scale and urgency of the problem, there is little evidence of a widespread, robust corporate response.

Ceres, the US-based environmental NGO, recently published research looking at corporate reporting on water-related risk by the 100 largest companies in the world from eight sectors<sup>5</sup>. It found that, although there were some encouraging performance areas, governance and disclosure of the 100 companies was limited and fell short of what investors and other stakeholders require. One particular area all companies fell down on was the water performance of supply chains – no company included information on this in their annual report. This indicates a lack of recognition and understanding of the potential risks posed.

So, where can companies start in addressing water-related risks and opportunities?

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<sup>1</sup> [http://assets.wwf.org.uk/downloads/understanding\\_water\\_risk.pdf](http://assets.wwf.org.uk/downloads/understanding_water_risk.pdf)

<sup>2</sup> Water Scarcity and Climate Change – Ceres and the Pacific Institute – February 2010

<sup>3</sup> <http://www.socialfunds.com/news/article.cgi?sfArticleId=1503>

<sup>4</sup> Water Scarcity and Climate Change – Ceres and the Pacific Institute – February 2010

<sup>5</sup> Murky Waters: Corporate Reporting on Water Risk – Ceres – February 2010

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## 1. Understand the global/local context

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Water resource management is without doubt interlinked with that of climate change: increasingly erratic weather patterns, including drought and flooding, are leading to changes in the water basin and water stress around the world. However, water is a very different business issue to that of climate change. After all, it makes no difference where carbon is emitted – the ramifications are felt around the world. But water is a *local* issue, depending on the river basins and meteorological conditions of particular regions. Using water resources in a water-stressed part of India is very different from using similar amounts of water in, for example, the west of Great Britain.

Before starting on any water-management programme, you need to get to grips with the basics of how water differs from other environmental resources – in particular, your response to water scarcity needs to be managed on a local, case-by-case basis.

## 2. Understand the impact of water on your company

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Every business will have different water impacts, depending on the nature of its operations and supply chain and geographic location. It is therefore essential for you to understand what the high-impact areas are before addressing them. This could entail the following types of assessment:

- What proportion of your company's operations is in water-stressed regions (as categorised by the World Resources Institute)?
- What proportion of your company's suppliers is located in water-stressed regions?
- Which suppliers are considered high risk, and therefore need to be engaged with?
- What data do you have already on water usage and discharge for operations and supply chain?

Ascertaining these starting points will help you to identify potential risks facing your organisation on a regional basis.

Primary agriculture accounts for the majority of water usage globally and therefore 'embodied water use' in your supply chain is likely to be a significant component of your overall footprint.



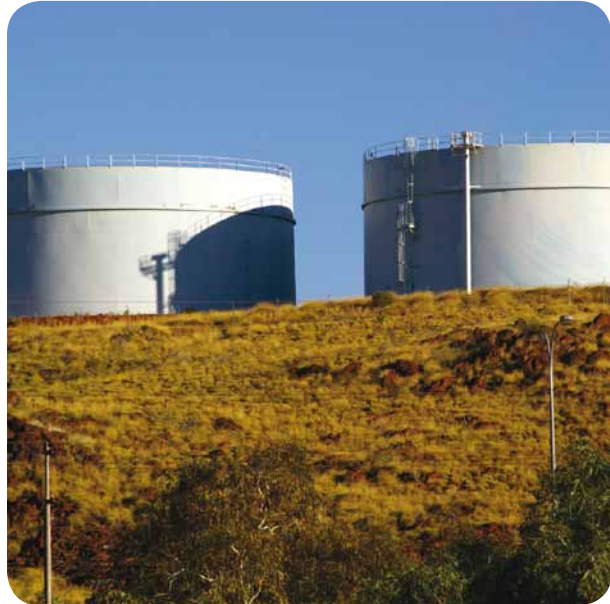
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## 3. Identify water-related risks

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Carrying out the assessment just outlined will help highlight key potential risk areas for your business, depending on the location of operations and the supply chain. There are four main categories of water risk you should consider as identified in the Association of Chartered Certified Accountants (ACCA) discussion paper 'Water: the next carbon?'<sup>6</sup>:

- **Physical risks** – such as flooding, water pollution, security of supply and scarcity. In extreme cases, water-intensive businesses may have to transfer operations to somewhere more water-rich if access to water supplies dwindles significantly.
- **Financial risks** – in water-stressed areas, various monetary risks may arise relating to water tariffs (how much you are charged to withdraw water), pricing mechanisms and competition issues (the less water there is, the more competition there will be for its use and extraction). In extreme cases, plant closure due to water shortage can occur, leading to significant financial damage and job losses.
- **Regulatory risks** – as water scarcity increases in severity around the world, governments are more likely to impose stringent regulatory requirements on business, especially in terms of the availability of water extraction licences and the treatment of water before it is returned to the water mains. Different countries/regions will have different regulatory requirements that will need to be monitored closely to avoid any unpleasant surprises.
- **Reputational risks** – as for other corporate responsibility issues, lack of recognition and management of water as a key issue could lead to reputational damage and 'licence to operate' problems with government and local communities.



Many organisations have already been affected by the types of water-related risks outlined above.

A solid risk-management response requires effective governance. Without a robust, transparent governance structure in place to drive policy and ensure proper management, the process is unlikely to be a success.

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<sup>6</sup> [www.accaglobal.com/documents/WaterFootprinting.pdf](http://www.accaglobal.com/documents/WaterFootprinting.pdf)

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## 4. Engage with stakeholders

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You must work with other stakeholders to devise a strategy and approach for water management. A key part of this is working with government and policymakers who share many of the same issues you do, for example, scarcity, health issues and water quality. If you drive your water-management programme in isolation from government dialogue, the overall impact could be negligible. If one organisation makes a lot of progress in terms of its water management, but does so in isolation from peers and public policymakers, the overall cumulative effect will be minimal.

There are several multi-stakeholder initiatives being set up that are addressing the issue of water and corporate activities. These include the UN CEO Water Mandate, the Water Footprint Network and sector-specific initiatives such as Federation House. These are a way good of learning about the issues and finding out what peers are doing.

## 5. Calculate your water footprint

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Calculating your organisational water footprint is an excellent way of highlighting key risk areas (due to higher consumption) and of 'getting your house in order' in terms of monitoring and managing usage. It is a challenging exercise, which requires in-depth expertise, but new methodologies are emerging. Traditionally, consumer goods companies have led the way (for example, Unilever and SAB Miller) but other sectors are starting to get involved as well.

A water footprint tends to have two components: use of water resources originating from within the company/country of production, and use of water resources related to imported goods and services (in other words, the supply chain).

The Water Footprint Network<sup>7</sup> has recently published its 'Water Footprint Manual', which is free to access and use by corporations wishing to get started. It outlines four key phases of developing a water footprint (from setting goals/scope through to responding to footprint results) and provides detailed guidance for each. This methodology and others are evolving quickly and will not provide a 'one size fits all' approach. You will need therefore to adapt and test to ensure suitability for the business and keep up to date with subsequent developments.



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<sup>7</sup> [www.waterfootprint.org](http://www.waterfootprint.org)

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## 6. Disclose risks, opportunities and performance

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Water footprinting is one element of reporting on water issues. However, you also need to include wider disclosures, both qualitative and quantitative, to demonstrate to stakeholders how you are managing the issue. The Carbon Disclosure Project has recently spawned the Water Disclosure Project, which seeks to increase reporting on water-related risks and opportunities, especially those in water-intensive sectors, to inform investors on their decisions.



The precursor report to its launch, 'CDP Water Disclosure: the case for water disclosure'<sup>8</sup>, states that "investors need to be concerned about water because it is already impacting companies' operations and costs . . . but they lack reliable comparable information on which to base their assessments." Not only that, fuller reporting on water enhances business awareness, assists with development of standard measures and reporting protocols and helps drive cross-sector and stakeholder action. Reporting on water issues has also become a legal issue in certain regions; for example, the Securities Exchange Commission in the US published guidance in January 2010 on how to meet existing disclosure requirements on climate change and related risks, including water.

## 7. Look for opportunities

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Water is often referred to as being a key risk to corporations in terms of operations, geographical locations, licence to operate and costs. However, you should also be considering water-related issues as a potential opportunity. For example, incorporating innovative water management systems into your operational procedures could save significant amounts of money and help strengthen your licence to operate. Being able to advise your customers on water-management technologies may differentiate you from your competitors. Fully understanding freshwater ecosystems will enable you to make better business decisions in terms of product and service development, in turn leading to improved performance.

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<sup>8</sup> [https://www.cdproject.net/en-US/.../CDP\\_Water\\_Disclosure\\_PDF.pdf](https://www.cdproject.net/en-US/.../CDP_Water_Disclosure_PDF.pdf)

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## 8. Don't forget climate change!

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Water management and reporting should be done in conjunction with your climate change programme. Although the approaches to address the two issues are very different, the issues themselves are interlinked and have a direct bearing on one another. For example, moving large volumes of water around or cleaning up waste water can often be energy intensive. An in-depth understanding of how the two themes fit together will help you identify associated risks and opportunities and react to them accordingly. For example, if you are developing scenarios relating to climate change in order to plan for future business decisions and to manage risk, water should be a key part of the research and considerations.



### How Two Tomorrows can help you

Two Tomorrows works with its clients to develop strategic water management practices, which in turn help unlock opportunities and manage key risks for your business. In partnership with Trucost, we are able to help you quickly quantify and evaluate your water footprint and make recommendations for how to drive down your water use, both from direct operations and your value chain. For more information, see [www.twotomorrows.com/water-management/](http://www.twotomorrows.com/water-management/)

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