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Business and Nature: Moving Beyond Carbon



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Business and nature - moving beyond carbon



Progressive businesses are taking their engagement with nature far beyond planting trees and looking at how protecting and restoring nature can bring about multiple business benefits.

Scientists are clear that to limit global temperature rise to 1.5°C, companies and governments must both implement science-based emissions reduction targets and scale up investment in nature-based solutions (NBS).

But business awareness of the risks and opportunities related to nature has typically lagged behind understanding of climate change. Research published last year by the CDP found that companies responding to its disclosure surveys are reporting greater risks from climate change than from nature degradation.

Only 15% of companies who saw potential benefits of working with the environment could identify nature-related opportunities compared with 66% for climate; and of those reporting detrimental impacts to their business, only 6.5% reported impacts related to nature, compared with 69% identifying those from climate change.

Similarly, analysis of a number of businesses by the World Business Council for Sustainable Development (WBCSD) found that though nature is emerging as a priority, there is a lack of

standardisation in how businesses assess nature-related topics in relation to their operations.

In addition, though there was action to reduce nature loss, fewer businesses were first considering how to avoid it in the first place. Finally, WBCSD found that while half of businesses assessed have strategies in place for nature and biodiversity, they mostly focussed reporting on stand-alone projects or actions.

Moves are underway to ensure that businesses assess and report on risks and opportunities associated with nature. The Task Force for Nature-based Financial Disclosure (TNFD) is following the recently developed model for disclosure on climate change. It published its first draft framework for consultation in March, which includes guidance on the science of nature, recommendations on disclosure, and guidance on risk and opportunity analysis for companies and financial institutions. The framework will be piloted with members of the World Business Council for Sustainable Development (WBCSD).

Climate benefits

The benefits of nature to business climate strategies are multiple. Nature can both rapidly reduce emissions from land use, such as by stopping deforestation or conserving intact forests, or reducing agricultural emissions. Greenhouse gases present in the atmosphere can be removed through reforestation, ecosystem restoration, and agroforestry; wetland and grassland restoration, and through regeneration of soil.

The We Mean Business Coalition points that many companies have emissions from using nature within their supply chains, which in some sectors can make up 80% or more of the company's emissions profile. Implementing projects to protect or restore nature should therefore be a core component in order to reach internal emission reduction targets, it says.

But in addition to that, the coalition advocates businesses investing in nature beyond their value chain in order to end nature loss by 2030 and reach societal net-zero. They can do this through large-scale protection and restoration of nature and advocating for nature and climate policy that incentivises corporate action, it suggests.

Progressive businesses are seeing the potential for nature to help them meet their climate goals. In fact, nature based solutions have the potential to provide 37% of the mitigation needed to keep global temperature rise below 1.5C by 2030, according to research by The Nature Conservancy (TNC) in 2017. Rasmus Valanko, managing director of systems transformation at the We Mean Business Coalition says: "This represents a huge potential to mitigate climate change in the near term. It's critical that we use that."

The TNC study was a catalyst for the rise in business interest in nature-based solutions, according to Michael Ofosuhen-Wise, Climate and Nature Manager at global private sector coalition Business for Nature. "Nature has been famous for a really long time, for storing carbon in trees, and other major ecosystem services. But the evidence that nature can provide a third of the reductions we need by 2030, while receiving just five per cent of global public mitigation finance, helped drive a lot of attention to the world of nature," he says.

Teresa Hartmann, Lead on Climate and Nature at the World Economic Forum, has seen corporate interest in nature really grow in the past three years. Most companies are coming to nature-based solutions are motivated by its potential for climate change mitigation, due to the growth in net zero commitments, she says.

She sees three distinct trends emerging in terms of business involvement in nature. One is emissions reduction within value chains, particularly for companies in the agricultural, forestry and land use sectors. Secondly, there are companies such as Microsoft that are aiming to reduce their carbon footprint to zero and offset historic emissions, using carbon sinks to absorb all emissions since the company was founded. Lastly, there is the offsetting community, who want to use nature to absorb emissions equal to those they cannot reduce.



Alongside this, business awareness of the need to engage on nature for other reasons, and the benefits of doing so, is rising. "We know that our natural world is in crisis and human activities are destabilising not only our climate, but also destroying nature at a rate that is faster than nature can replenish itself. The science is very clear and we're seeing that translate into what the business community needs to do to address this situation," Ofosuhen-Wise says.

"Many companies now have a clearer understanding that they depend on nature for resources essential for their supply chain and for them to be able to turn a profit. They are communicating around the corporate risks of inaction, and that is driving action," he adds.

This trend is particularly noticeable in sectors that rely very heavily on nature, such as food and textiles. "Those companies are very much looking at nature, not just in terms of reducing negative impacts, but also in terms of increasing positive impacts," says Rasmus Valanko, Managing Director, Systems Transformation at the We Mean Business Coalition.

Martin Turner, Partnerships Manager in Business Development at UK conservation charity the Woodland Trust, which runs a woodland carbon investment scheme, agrees that business interest in nature is evolving. "A couple years ago, we were getting lots of inquiries about carbon, and nature and biodiversity was something that was just bubbling under the surface of corporate agendas. But that awareness of nature depletion in the UK seems to have really grown in the last couple of years, partly to do with the pandemic," he says.

Ecosystem benefits

The definition of nature-based solutions set by the International Union for the Conservation of Nature (IUCN) is regarded as the gold standard. According to this, nature-based solutions are “actions to protect, sustainably manage and restore natural or modified ecosystems that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits”.

In practice, this leads to a huge variety of projects, including conservation, restoration, and/or improved land management across global forests, wetlands, grasslands, and agricultural lands. Though they are often used to increase carbon storage or avoid greenhouse gas emissions, nature-based solutions also hold broad benefits to business outside those that are carbon related.

Helen Finlay, Global Associate Director for Nature Policy at the CDP stresses that companies need to approach projects holistically, and think beyond carbon benefits. “Reducing greenhouse gas emissions is really only one part of addressing the climate crisis. And if a project only addresses carbon capture, then it's not actually a nature-based solution - it needs to hit a number of other environmental and social targets in order to be a good nature based solution,” she says.

More than half the world's GDP is moderately or highly dependent on nature, according to the WEF, so healthy ecosystems will make businesses, their supply chains, and economies generally more resilient.

In addition, industries that rely on nature employ around 1.2 billion people globally, research by the International Labor

Organization found. A further 400 million new jobs could be created by 2030, along with business opportunities of around \$10 trillion, according to the World Economic Forum (WEF).

Investors, consumers and regulators are also all more aware of damage being done to nature, and businesses' part in that, so those that choose to protect and enhance nature will reduce their reputational and material risks.

Businesses investing in nature can improve their access to capital at preferential rates through sustainability-linked loans. For example, the EU taxonomy, which will guide investment in the bloc, defines business activities as “sustainable” if they “substantially contribute” to at least one of climate change adaptation and mitigation, circular economy, water, pollution and biodiversity.

Nature projects can support multiple part of a company's sustainability strategy, such as enhancing livelihoods of indigenous peoples and local communities in rural areas, and biodiversity conservation.

Nature can also benefit economies and societies in general by supporting adaptation to climate change, with recent research from the International Institute for Sustainable Development (IISD) finding that natural infrastructure - such as mangroves, reefs and sand dunes protecting from coastal flooding, and vegetation to cool urban areas - could save up to \$248bn a year globally, costing only about half as much as equivalent built infrastructure, while delivering the same protection.

Valanko has noted that companies wanting to be taken seriously on climate action are investing in nature, but are then seeing their brand strengthened, and better relationships with suppliers, customers and local communities where they operate.



Carbon offsets

Offsetting is likely the most well-known area of corporate investment in nature. This has typically been a controversial area, with environmental and human rights organisations pointing out flaws in previous schemes such as the United Nations' Reducing Emissions from Deforestation and Forest Degradation (REDD) scheme, and corporate offset pledges often labelled as greenwash used as justification to continue burning fossil fuels.

Up to now, the private sector has faced significant policy uncertainty when it comes to investing in nature, including the trading of credits from emissions reduction on international markets through article six of the Paris Agreement.

"With Article six being agreed at COP26, the global rules on international transfer of mitigation outcomes as well as market mechanisms have been set, and the agreement has given clarity to the global rules. That will drive the policy and market signals. The next step is for national governments to set national-level regulations that give business the political certainty to invest in nature, Ofosuhenne-Wise says.

Offsetting is one of the biggest topics in the nature space at the moment, says Hartmann. "That's where we're seeing this momentum, but also most of the questions and most of the controversy around how do you do offsetting well."

Organisations advocating nature-based solutions are all clear that offsetting should not be used as a replacement for emissions reductions, but rather should be developed in parallel. Corporates should first implement a robust emission reduction plan, and use offsetting only for emissions that cannot be dealt with any other way. This principal is baked into corporate climate certification such as the Science Based Targets Initiative (SBTI). Some developers of carbon credit projects, such as the Woodland Trust, only work with corporates who can demonstrate a solid plan to reduce emissions.

"The most important thing is not that you've finished mitigating before you start offsetting, but that you have a clear, concrete plan - you know exactly what you're doing and you're following that," says Valanko. As a rough guide, companies should aim to use nature to deal with at least ten per cent of their emissions, he believes.

But there are still a lot of bad credits on the market, so corporates must still carry out due diligence on offset schemes to avoid controversy. A plethora of guidance has been developed to help businesses navigate the minefield. These include the Natural Climate Solutions Alliance published guidance in July 2021 to help businesses identify the best suppliers of nature-based carbon credits; and the SBTI has launched guidance to enable companies within the food, agriculture, and forest sectors to set science-based targets that include land-related emissions and removals.

In addition, new guidance is due to be published by the Voluntary Carbon Markets Initiative; while the Greenhouse Gas Protocol is due to also launch guidance on how companies

should account for emissions and removals from land use and land use change.

Valanko is encouraged by the amount of guidance and metrics being developed. "We're in a much better place even than just six months ago in terms of companies having enough information to have the confidence to invest," he says.

However, much work is still needed in terms of the science of measuring the processes that are taking place in these projects, such as how to measure soil carbon, he says. "We expect the uncertainties will be brought down over time for some of these things."



"We're seeing alignment on the idea of high integrity in nature based solutions," says Valanko. Criteria defining a scheme as high integrity include making sure that the credits are independently certified; regularly monitored and verified; that they are "additional" in that they would not have taken place without the project; that there is no "leakage", or increase in emissions elsewhere as a result of the project; and that they are permanent.

Effective public participation with local communities and indigenous people is also crucial, and that they share the financial benefits of the project. Other environmental features such as biodiversity and soil need to also be taken into account to ensure they are not compromised by the project.



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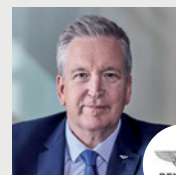
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Collaborating to scale up investments in nature

- The Lowering Emissions by Accelerating Forest Finance (LEAF) Coalition, which aims to finance large-scale tropical forest protection. Regional or national authorities in countries including Brazil, Ecuador, Ghana, Kenya, Nepal and Vietnam have applied to participate in the scheme, while companies can buy credits from projects in these companies, as long as they are signed up to the SBTi, or a similar science-based emissions reduction plan. Corporate participants to far include Amazon, GSK, Nestlé and Blackrock, according to LEAF's website.
- The Natural Climate Solutions Alliance (NSCA) launched the NCS Investment Accelerator, which aims to increase private sector investment in climate mitigation through nature by one gigatonne (Gt) of emission reductions a year by 2025. Its advocates believe that the demand signal this sends to carbon markets will persuade policy makers and project developers to have the confidence to scale investments.

Bank of America, Bayer, Boston Consulting Group, McKinsey and Company and Unilever announced their participation at COP26. Again, companies want to buy credits under the scheme must first meet strict criteria on emissions reduction.

- The Business Alliance to Scale Climate Solutions, set up by Amazon, Disney, Google, Microsoft, Netflix, Salesforce, and Workday, with NGOs the Environmental Defense Fund (EDF), and World Wildlife Fund (WWF-US), the United Nations Environment Programme (UNEP), with global sustainable business organisation BSR acting as secretariat. This alliance is not investing in nature directly, but wants to bring businesses and organisations together to share best practice, research and funding opportunities to encourage working at scale.
- The Sustainable Markets Initiative's Natural Capital Investment Alliance (NCIA) was created last year by the Prince of Wales to serve as a central hub for global corporations and financial institutions who want to scale up their investments in nature based solutions, including through carbon offsets. It hopes to demonstrate the scalability of investment vehicles and opportunities across asset classes. It has 15 members, including Fidelity

International, Impax Asset Management, and Mirova, and plans to mobilise \$10 billion in private capital by the end of this year.

- The US government has launched the Forest Investor Club, a network of public and private financial institutions including Apple, Conservation International, Deutsche Bank, Goldman Sachs and The Nature Conservancy at COP26. The aim is to increase the scale and geographic scope of investment in restoration, conservation, sustainable agriculture and forestry, and green infrastructure.
- Microsoft is working with the Conservation International and World Resources Institute on its Priceless Planet Coalition. This aims plant 100 million trees and regrow forests in geographies representing the greatest need globally. It wants to prioritise areas with the greatest potential for positive impacts on climate, community and biodiversity. Projects have been launched in the Amazon and Atlantic forests in Brazil, the Makuli Nzaui landscape in Kenya, and the Southern Tablelands/Riverina, Western Sydney and Victoria in Australia.

Added value

A clear financing model focussing on carbon has been inherited from the UN's Clean Development Mechanism, but there are other benefits from a carbon offset project that can provide value, such as biodiversity, adaptation and jobs for local people, Valanko points out.

"Those things are very difficult to monetise, but at the same time, we're in a very different place to ten years ago in that companies that want to show climate leadership recognise that there are multiple issues they need to manage, including the just transition, equality, biodiversity and water.

"There's definitely an attempt to balance, but ideally optimise for all of them, and that's where this idea of the high integrity

project comes in because it really tries to balance across those assets, not just carbon," he says.

That does not mean that there will not be trade-offs, he says. "Like with anything in sustainability, it's a balancing act. You can't optimise for everything, but you have to optimise for something."

Hartmann agrees that companies need to think carefully about the broader benefits of whatever offset scheme they invest in. "There's a lot of attention at the moment on carbon removals, and in the nature-based solution space, that primarily means planting new trees.

"I think that there's a lack of awareness around the fact that the co-benefits of a carbon removal scheme are far fewer than those created by carbon avoidance schemes, such as avoided deforestation. If you keep the forest standing, you're preserving an intact ecosystem that you can't just recreate. Businesses need



to think about what they want to achieve alongside carbon benefits, and if you have a big focus on biodiversity and local communities then avoided deforestation is often the better route," she says.

In many cases, it will be up to the project developer to ensure that local people have a say on any offset projects that could affect them, Hartmann says. But an increasing number of long-term partnerships are emerging, where businesses are collaborating directly with project developers on the ground.

This trend is down to a desire by these corporates to ensure projects they are involved in are done properly, and that they fully understand any difficulties and criticisms, she says.

Oforuhene-Wise stresses that companies must avoid taking a top-down approach with local communities, and must use local branches and contacts to engage with people on the ground. "Local leaders might not necessarily be able to engage with the company at a global level, so it's very important that companies are able to meet stakeholders where they are, and understand the impacts of their actions on these local communities and vice versa," he says.

Scaling up

Whatever mix of climate and nature benefits projects aimed at, they need to be scaled up at landscape, regional or national levels, to enable not only more significant improvements to nature across ecosystems and landscapes, but to also pull in finance from institutional investors, such as pension funds. Global funding necessary to ensure that nature loss is stopped in its tracks is between US\$103 billion and US\$895 billion a year, according to several recent estimates.

Institutional investors are interested in investing in nature, but are struggling to find investable projects of a certain scale, according to Tushita Ranchan, Trustee of the Green Purposes Company. "Most of the projects that have been financed today are relatively small compared to the size of these funds. That means that there's large amounts of money waiting to be invested, it's just a question of finding large enough deals, and metrics where they can then evaluate the outcomes of some of these projects."

"Institutional investors have very large financial resources to dedicate to putting together some of these early transactions and an early pipeline," she says. Such organisations also have bigger resources than corporates with which to carry out the necessary due diligence on projects, she points out.

Valanko says that companies can support the financing of nature-based solutions by demonstrating strong demand for involvement in the projects, for example, through the NCSA Investment Accelerator (see box).

"Companies can sign early stage and long-term offtake agreements from project developers or jurisdictions to enhance the stability and long-term outlook for nature-based solutions activities, while providing additional certainty to capital providers.

"Offtake agreements played a significant role in de-risking projects and getting adequate capital allocated to renewable energy, and is a missing component from nature-based solutions," he says.

Hartmann notes a new trend for companies are creating long-term offtake agreements with project providers, which ensures the developer has visibility on future demand, and at the same time, the corporate has visibility of the supply that is coming online, and how this can meet its criteria for investment.

This can overcome previous problems that have held projects back from achieving scale, she says. "Nature projects can take several years before they are ready to issue credits, and with low carbon prices, it's been very difficult for some of our developers to access project finance," Hartmann says.

Investors are now recognising upcoming market trends, she says. "We're all seeing demand rise really rapidly and investors are buying vast pieces of land and starting to develop their own projects," she says.

However, Hartmann believes that barriers to projects being carried out at scale are not necessarily about availability of capital. "We've been working on the question of how you move from project approaches to landscape approaches, so you don't just have one tiny little project in the middle of a forest.

"This is not necessarily related to engaging institutional investors, but is more about engaging local policymakers and then getting larger groups of project developers and buyers together on the ground," she says.

The desire of many organisations and businesses to improve nature at scale is evident in the number of collaborations in this area, most of which have been launched in the past year [see box].

Individual companies are also showing leadership on large-scale nature projects. An early example, is multinational packaging and paper group Mondi, which owns or manages plantation forests and around 15,000ha of wetland in South Africa. More than 20 years ago, it identified that water use by its forestry operations could threaten water quantity and quality in the area. In response, it has worked with conservation agencies to rehabilitate degraded wetlands in the country.

Mondi has now broadened this work from wetlands conservation to promoting freshwater stewardship beyond the boundaries of its own plantations to include the agricultural sector and small forest growers. Working with WWF, it is aiming to improve the

resilience of rivers, wetlands, and ecological networks at a landscape scale in strategic water source areas.

The work has also had benefits for biodiversity, notably the return of wetland birds such as white-faced ducks and endangered crowned cranes, while wetland plant species sprouted.

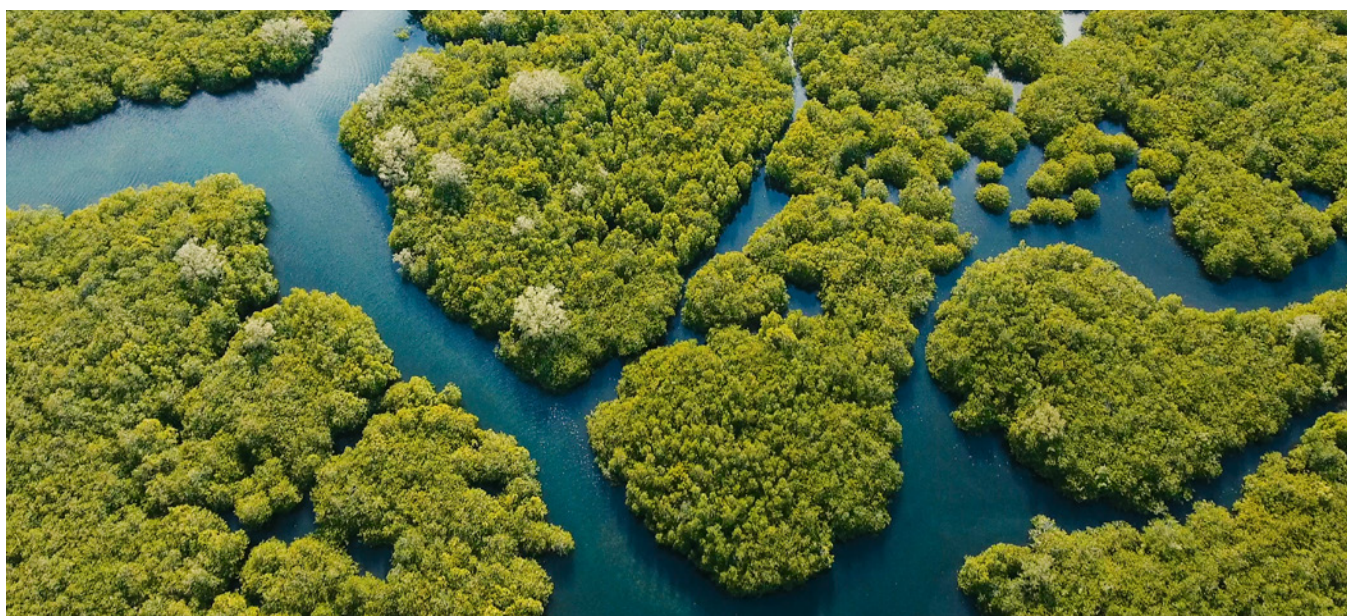
Amazon has a \$100 million fund to restore and conserve forests, wetlands, and grasslands around the world to avoid or remove carbon emissions. Projects under the "Right Now Climate Fund" include the planting of 22 million trees across 14 metropolitan areas in Italy. As well as removing carbon, the trees will help cities become more resilient to climate change such as by cooling surrounding areas, increase urban biodiversity, and improve air quality.

The online retailer is also working with The Nature Conservancy in Brazil to restore native rainforests to boost carbon storage, which will also create a more sustainable source of income for thousands of local farmers in the state of Pará.

Unilever's nature strategy includes the creation of a €1 billion fund to protect and regenerate 1.5 million hectares of land, forests and oceans by 2030. It is training farmers and smallholders on regenerative agriculture, starting with a number of pilot projects, and then rolling out to all its suppliers.

It is aiming to have a deforestation-free supply chain in palm oil, paper and board, tea, soy and cocoa by 2023, using technology to help it understand what is happening to forests globally in order to prevent deforestation before it happens.

Overall, Finlay is optimistic that business involvement in nature is going in the right direction: "There is growing recognition of the importance of addressing the climate crisis and the ecological crisis simultaneously, and that this needs to be done in a holistic and joined up fashion. There's a lot more to be done, but there's positive signs of increased momentum and evolving understanding on this topic."





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