

INDUSTRIAL WATER EFFICIENCY AS ESG FACTOR

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The water efficiency challenge



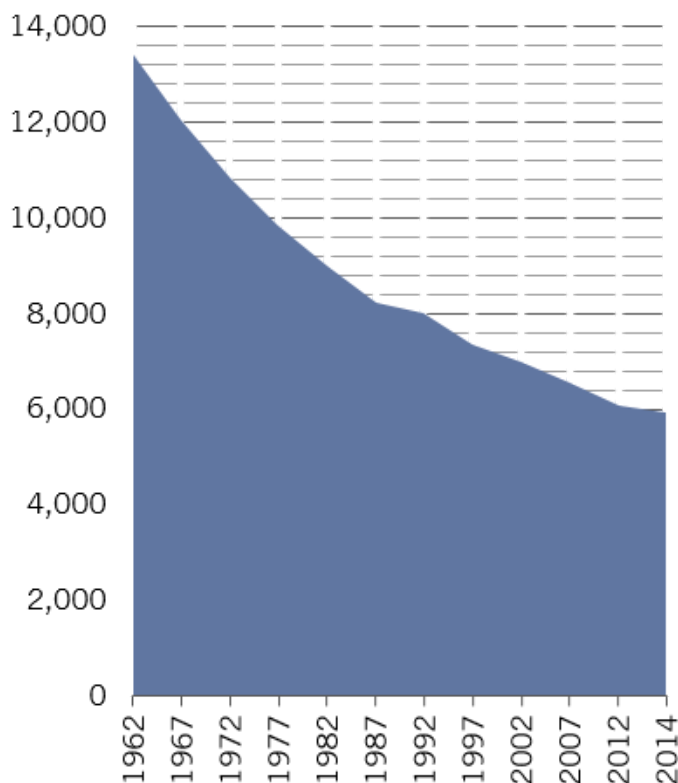
In an era of scarce resources and increased environmental awareness, businesses should do more than reduce their carbon footprint. It's essential they cut their water use, too.

The world is waking up to the need to protect the environment for future generations. Cutting carbon emissions is one step in the right direction – one for which businesses are increasingly being held to account, whether that's by regulators, consumers or shareholders. But it is not the only step we need to take. Water efficiency is another battleground in the fight for sustainability.

Measuring and comparing water use across industries is the first priority. One starting point is the **Planetary Boundaries framework**, a model establishes numerical limits for the nine most damaging environmental phenomena facing the planet, from climate change and freshwater use to biodiversity loss and land use.

Fig. 1 Running out of water

Global renewable fresh water resources per capita (cubic metres)



Source: Our World In Data, World Bank

The framework, developed by the Stockholm Resilience Center, suggests we can sustainably consume up to 4,000 billion cubic metres of freshwater per year – broadly in line with current use levels, according to some estimates. But by 2030, world water demand is forecast to reach 6,900 billion cubic metres, far exceeding accessible and reliable supplies.¹

Around a fifth of all the water used is consumed by industry, which means businesses have a major role to play in rethinking how we use and recycle this

precious resource. For the world to stay within the sustainable boundaries, research shows that businesses should use no more than 52,915 cubic metres of water for every million dollars of revenue they generate.²

Companies that restrict their use in this way are rewarded through cost savings and the reduced risk of exposure to water shocks. They are also more likely to win favour among increasingly environmentally conscious consumers and regulators.

Fair comparison

As with the fight to cut carbon emissions, investors have a key role to play, both by encouraging companies they invest in to embrace water efficiency, and by actively seeking out businesses which have shown particular innovation and progress in this regard.

Ceres, a research and advocacy group focused on sustainability issues, has launched a toolkit to help investors understand water risks and incorporate them in the portfolio allocation process, identifying sectors by high, medium or low exposure to water-related threats. The Boston-based group also suggests that investors make a concerted effort to influence companies' water risk through shareholder engagement.

The United Nations, meanwhile, has created the CEO Water Mandate and, through its Sustainable Development Goals (SDG), is pushing for universal access to safe water and sanitation. Big names such as Coca Cola, Nestlé, Unilever and Siemens been involved with those initiatives. Investors have the opportunity to encourage the companies they invest in to follow suit.

The UN focuses on a metric it calls water use efficiency (WUE) – a measure that calculates the gross value-added economic activity per unit of water consumed by a country, industry or company.

Before WUE scores can be used to inform investment decisions, however, it is essential that they are both comparable and give a true reflection of each company's exposure. For now, this is probably not the case. WUEs range widely even for companies in the same sub-sector, let alone industry.

Take brewing, a big water user. Overall, the industry produces some 1.9 billion hectolitres of beer a year,³ and – from crop cultivation to consumption – uses at least 60 times as much water in the process.⁴

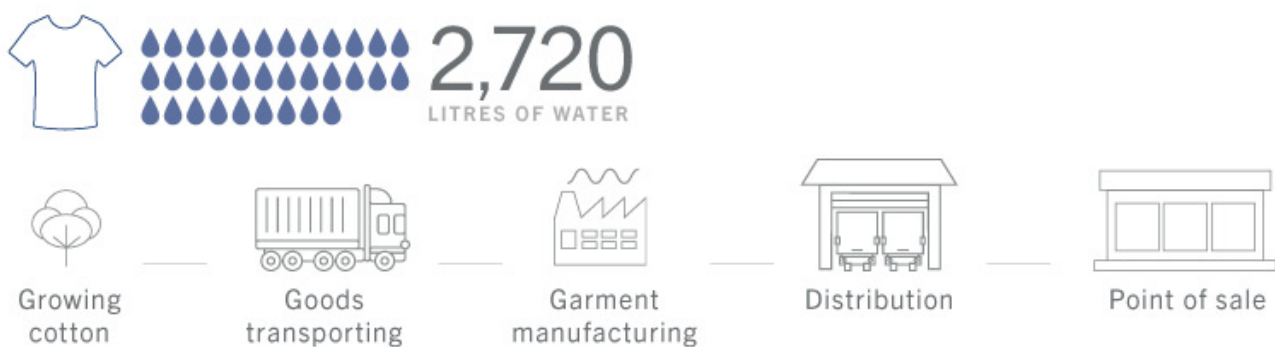
Yet within the industry there are huge variations in water consumption from one brewer to another. One international brewer, for example, has

reported a WUE score of USD1,850 of gross value-added economic activity per cubic metre of water consumed, while its rival only manages USD270.

The issue is that while the better-scoring brewer is clearly further advanced on the water efficiency path, it is at present hard to do a fair comparison as the calculations can vary widely.

Fig. 2 The full story

Global average water use in production of a t-shirt and the stages involved



Source: UNESCO-IHE Institute for Water Education, Pictet Asset Management.

For the data to be meaningful, companies must consider their water use across the whole production chain – something which many currently do not do. A typical clothing retailer, for example, will use relatively little water. That ignores the fact that the cotton, from which the garments are made, is very water intensive to produce. Looking at the operation in isolation of its supply chain and products usage downplays the role the company can have in global water efficiency (in this case by raising the issue with their suppliers). It also downplays the extent to which it could be negatively effected in case of a water shock.

What makes the issue even more complicated is the fact that water is a local problem – large reserves in one country cannot effectively be transferred to deal with a drought in another. The location of a company,

therefore, can strongly affect the likelihood of it being subjected to water risk and the degree to which it sees water efficiency as a priority.

Investors can help establish standards and promote accountability. It is in our interests to do so – businesses which do not embrace water efficiency face increased risks not just from water shortages, but also from changes in regulation and from increasing environmental consciousness among consumers. Much as the carbon footprint is today becoming a consideration in the construction of portfolio construction, water use can in future be an important input.

Circular approach

Being water efficient means not only means using less, but also reusing more. Some of the world's leading industries are already adopting a circular economy approach, treating waste water as a resource rather than as something to be disposed of. As our society – from politicians to consumers – becomes more aware of environmental challenges, companies that are in a position to demonstrate a circular approach to water use will benefit from improved perception and reduced reputational risk.

Some industries clearly use more water than others, and thus have more scope to push through change and to benefit. Companies involved in food production are obvious candidates. In some regions, too, there is greater impetus for change than in others due to local water conditions. However, the problem is a broad one – everyone uses water and, in an increasingly interdependent and interconnected world, virtually all major businesses are exposed to water scarcity risk at some point in their operations. Investors with deep insight into water use and efficiency thus have the potential to identify hidden risks and opportunities.

Good environmental management is a useful metaphor for a soundly run business. That is true for carbon emissions, and it is also true for water efficiency.

[1] 2030 Water Resources Group, "Charting Our Water Future"

[2] "Towards defining an environmental investment universe within planetary boundaries", C.Butz et al, 2018

[3] Barth Report Hops 2018-9

[4] "Water Futures", WWF, SABMiller, GTZ, 2010

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