

Should nature's benefits matter to business?

December 11 2013, by Kristi Foster



Overuse and under payment of natural resources is costing businesses the earth – literally.

Global primary economic activities generate unaccounted costs of US\$7.3 trillion per year – equivalent to 13% of global economic output in 2009 – primarily through greenhouse gas emissions, land conversion, pollution, depletion of natural resources, waste and their associated damage and health costs.

If high impact [business](#) sectors – including coal-fired power, cattle ranching and cement production – accounted for the social costs of their environmental damage and unsustainable [natural resource](#) use, they

would they would make an economic loss.

Such is the scale of the hidden multi trillion dollar 'natural capital risk' facing businesses, investors and society.

Natural capital – the stock of capital derived from natural resources such as biodiversity, ecosystems and services they provide – underpins economies globally but is declining at an alarming rate. Business operations that have negative environmental impacts can have high, but often unrecognised costs and risks.

A new briefing paper produced by Fauna & Flora International (FFI), through the Natural Value Initiative, in partnership with KPMG and ACCA (the Association of Chartered Certified Accountants), targets businesses interested in understanding natural capital as a business risk and 'material' issue.



For some high impact sectors, the damage impacts of greenhouse gas emissions and air pollution-related health care would erase business profits if costed.

Credit: Juan Pablo Moreiras/FFI.

Materiality defines the point at which information becomes relevant to the users of corporate reports. Key stakeholders such as investors still largely judge corporate performance on the basis of measures of financial materiality.

The paper, *Identifying natural capital risk and materiality*, shows that materiality definitions are expanding to incorporate environmental and social issues such as natural capital, stakeholder groups such as NGOs and local communities, and longer-term effects on natural capital. With many regulators and sustainability reporting bodies broadening their frameworks to integrate these changes, natural capital issues and risks are more likely to be included by companies in reporting and decision-making.

Corporations, investors, accountancy professionals and governments alike are now recognising that the trend of declining natural capital is tied to a range of risks for business, from greater resource competition, to stiffer regulations, to increasing barriers to finance.

Incorporating natural capital issues in corporate materiality and risk assessments offers a range of benefits and value to companies: from better-informed decision making by an organisation and its stakeholders, to an enhanced and more comprehensive risk management process, to an increased ability to gain competitive advantage.

Some companies are already recognising natural capital as a long-term

risk: Brazilian agribusiness BRF Brasil links the natural capital risk associated with deforestation in the Amazon rainforest to risk in their supply chain, while Tyson Foods Inc. relates natural capital risks to their operations and financial performance.



By incorporating natural capital issues in risk assessments, companies can make informed decisions, better manage risks and gain competitive advantage. Credit: Juan Pablo Moreiras/FFI.

"Responsible investors are increasingly considering natural capital a material business concern and more and more want to see portfolio companies, particularly in high risk sectors, stay alert of how these – otherwise hidden – business risks might implicate their financial performance," said Cecilia Repinski, Director of the Natural Value

Initiative of FFI.

Directed at business leaders, Chief Financial Officers and accounting professionals, the paper is the first in a series of short briefing papers that follow up on the 2012 report *Is natural capital a material issue?* An evaluation of the relevance of biodiversity and ecosystem services to accountancy and the private sector.

More information: Read the full briefing paper:
www.accaglobal.com/content/dam/accaglobal/2013/12/nature-benefits-business-materiality-paper.pdf

Provided by Fauna & Flora International

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