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ESG Measures – Global

Controversy risk assessment: a focus on biodiversity

Summary

We expect the spotlight on the materiality and impact of biodiversity risk management to intensify in 2021 and beyond. The focus of policymakers, investors and civil society on ecosystem degradation and systemic risks is increasing. This is the second in a series of reports aiming to provide an overview on the materiality of biodiversity for investors and companies, supporting the need for appropriate integration of biodiversity into risk assessment frameworks. The first report, [Integrating biodiversity into a risk assessment framework](#), focusses on the impacts, dependencies and governance of biodiversity-related risks.

Biodiversity controversies are captured within our Controversy Risk Assessment database.¹ Data and analytics compiled by V.E, part of Moody's ESG Solutions, captured 337 individual biodiversity allegations between December 2016 and April 2021. This represents 7% of the 5,097 controversies analysed over the same period. Geographically, they have been most frequently observed in the US (90 cases), Indonesia (60) and Malaysia (30).

The three sectors most impacted by biodiversity-related controversies are Mining & Metals, Food and Energy. Combined they account for 53% of total cases registered. Extraction activities can often occur in sensitive ecosystems, leading to controversies related to environmental accidents. The food sector is exposed to illegal land clearance or marine pollution. Finally, energy companies typically face biodiversity-related controversies from damages to local ecosystems from oil spills and oil and gas leaks.

Companies' recognition and remediation of biodiversity-related controversies is mixed. 93% of cases are categorised with a "high" or "significant" level of severity in our database. In 43% of biodiversity-related controversy cases, companies have not provided a response to allegations. Moreover, companies were assessed to have taken a "remediative" or "proactive" response to controversies in only in 19% of cases which is slightly higher than the Universe average (13.9%). Nevertheless, we would expect the response of companies to such controversies to improve as biodiversity exposure and risk management moves up the investor and regulatory agenda.

¹ Controversy risk assessment data and analytics are compiled by V.E, a part of Moody's ESG Solutions.

Moody's ESG Solutions

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Our craft begins with superior-quality data and analytical rigor: by combining over 30 years in ESG expertise with our best-in-class risk analysis, our expert team delivers fully customizable and flexible solutions to companies, banks, insurers, governments, as well as asset managers and asset owners that meet individual needs on a global scale.

For more information, visit esg.moody's.io.

Moody's ESG Solutions provides insights and analyses on ESG themes and multi-stakeholder performance, climate-related risks and opportunities and global sustainable finance trends.

The spotlight on biodiversity materiality and impact will intensify in 2021 and beyond

The global COVID-19 pandemic and climate crisis have brought systemic risks, including ecosystem vulnerability and biodiversity loss, into sharper focus. Indeed, researchers are drawing links between ecosystem degradation and global pandemics due to resource use, land use change, climate change, exploitation of wildlife, and other factors.² Conversely, the preservation of natural capital can also help bolster resilience against physical and transition risks associated with climate change.

International organisations have highlighted the critical role of nature conservation within the 2030 Agenda for Sustainable Development. While SDG 14 (Life Below Water) and SDG 15 (Life on Land) are the most prominent examples, the Principles for Responsible Investment estimates that more than 80% of the Sustainable Development Goals are reliant on biodiversity for successful delivery.³ As a result, governments across the globe are placing greater emphasis on biodiversity protection and investment in nature-based solutions in their environmental and climate commitments and policies.

Corporate reporting on biodiversity is also expected to improve over the next few years driven by both standardisation of voluntary disclosure and increasing regulation. The pending formation of the Task Force on Nature-related Financial Disclosures in 2021 points to more standardised corporate reporting and greater investor engagement on biodiversity in the future.⁴ In the EU, meanwhile, the Sustainable Finance Disclosure Regulation will require asset managers to disclose on the share of investments in companies within highly-exposed sectors with sites or operations located in or near to biodiversity sensitive areas.⁵

Given the increasing focus of policymakers, investors and civil society, we expect the spotlight on the materiality and impact of biodiversity risk management to intensify in 2021 and beyond. Leveraging data from our Controversy Risk Assessments database, this report aims to provide an overview on why biodiversity represents a material factor for investors and the sectors most exposed to related controversies.

Our Controversy Risk Assessments supports investors in monitoring and analysing companies' involvement in ESG controversies and in understanding where gaps may exist between public ESG commitments, and operational practice. They can also reveal where companies are exposed to reputational, operational and legal risks – often outside the scope of traditional risk mapping activities. Launched in 2015, our controversy database counts over 20,000 cases logged and analysed across a broad range of ESG issues, including those related to biodiversity.

² [Biodiversity loss and COVID-10 pandemic: The role of bats in the origin and the spreading of the disease.](#), Plato, S. et al. Biochem Biophys Res Commun., January 29 2021

³ [Investor Action on Biodiversity: Discussion Paper](#), Principles for Responsible Investment, September 2020.

⁴ <https://tnfd.info/>.

⁵ https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en.

Biodiversity controversies are captured within our Controversy Risk Assessment database

We compile data on two specific types of biodiversity-related controversy within our database; a company's impact on biodiversity and the exploitation of sensitive ecosystems.

We captured 337 individual biodiversity allegations between December 2016 and April 2021. This represents roughly 7% of the 5,097 controversies analysed over the same period. Table 1 provides a breakdown of cases by sector and number of companies involved.

In addition, approximately 60% of controversies originate from four countries. By geographical distribution, biodiversity controversies have been most frequently observed in the US (90 cases), Indonesia (60), Malaysia (30) and Australia (24).

Table 1 Number of biodiversity-related controversies by sector since December 2016

SECTOR	NUMBER OF CASES	% OF BIODIVERSITY CASES	NUMBER OF COMPANIES
Mining & Metals	71	21.1	36
Food	67	19.9	26
Energy	40	11.9	27
Electric & Gas Utilities	15	4.5	13
Chemicals	14	4.2	9
Oil Equipment & Services	12	3.6	10
Home Construction	12	3.6	6
Diversified Banks	10	3	10

Note: Launched in 2015 The Controversy Risk Assessment Database captures over 20,000 cases logged and analysed across a broad range of ESG issues.

Sources: Moody's ESG Solutions Group

The three sectors most impacted by biodiversity-related controversies are Mining & Metals, Food and Energy

We have recorded 178 individual cases within the Mining and Metals, Food and Energy sectors, representing a combined 53% of total registered controversies. We outline some of our key observations in these sectors below.

Mining & Metals: A significant number of controversies within our database concern the extraction activities of mining and metals companies. Such controversies frequently occur in sensitive ecosystems or in areas where the rights of indigenous people have allegedly been infringed. Other controversies are associated with environmental accidents and the resultant impact on local biodiversity, such as dam failures, wastewater spills and overconsumption of water resources. Companies may also face criticism for their post-operation rehabilitation plans.

As an example of remedial actions implemented following a controversy, U.S mining company Newmont reported to V.E that its affiliate Nevada Gold Mines collaborates "with 22 federal and state regulatory agencies, and local governments, to develop reclamation and conservation plans during the early planning and lengthy permitting phases of a mine, before any construction or mining takes place".⁶ This collaborative process results in permits issued under strict conditions, which are monitored both by internal and external experts, as well as the federal and state authorities. Additionally, in Nevada, the company supports the continuation of the Sagebrush Ecosystem Conservation Program, a landscape-level, multispecies conservation effort that includes planning, monitoring, adaptive management, rangeland research, partnerships and conservation credits. The program sets forth an approach to conservation of Newmont's owned and managed rangelands to conserve biological diversity and offset mineral exploration and mine-related impacts.

Food: Indonesia and Malaysia are among the countries mostly associated with biodiversity controversies due to the prevalence of companies involved in the cultivation of palm oil. The soft commodity is used extensively in food products. However, the sourcing of palm oil has come under heavy criticism due to its negative impact on the forest ecosystem, endangered species and in some – in some instances – illegal land-clearance for palm plantations. Another commodity with similar controversy levels is cocoa, particularly when sourced from Ivory Coast and Ghana.

⁶ Newmont feedback to V.E, April 17, 2020.

French food producer Danone communicated to us its efforts to reduce deforestation and the impact of palm oil-suppliers: “to increase transparency, we published a Forest Policy Update on Key Categories, providing details on our sourcing and progress for fresh milk, soy, paper and palm oil. We also updated our palm oil supply chain details, with both tier 1 suppliers and mills. Finally, we put in place a formal grievance process, developed with the support of the Earthworm Foundation, to enhance transparency and its capacity to act. The process was designed in consultation with external experts and shared with our suppliers. When allegations of noncompliance against the Danone Palm Oil Policy arise, Danone carries out an investigation into the implicated palm oil producers with support from internal and external experts. If a low risk non-conformity has been detected and confirmed, the producers must develop an action plan to resolve the non-conformity. In the case of a high-risk non-conformity, Danone works with its Tier 1 suppliers to suspend the non-compliant producers until they demonstrate concrete progress vis-à-vis our Palm Oil Policy”.⁷

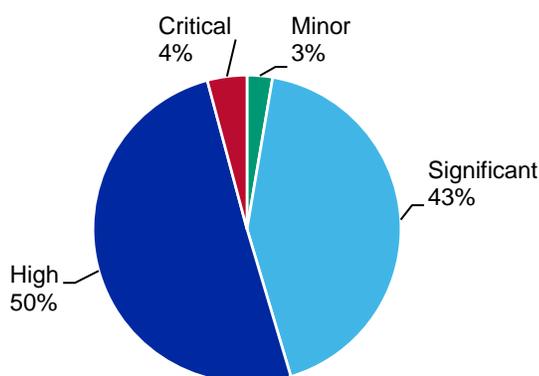
Energy: Energy companies can face controversies due to their location in sensitive ecosystems, where the land rights of indigenous people or damages to local biodiversity can be material issues, for example. Most cases in our analyses are associated with the destructive impacts of oil spills and oil and gas leaks on local environments. Some high-profile examples have resulted in long-running lawsuits from local communities and, in a few cases, governments seeking compensation for damage and destruction.

Spanish energy company Repsol represents an “advanced” performer in the sector. The company has adopted best practices on biodiversity protection and is no longer involved in controversies, according to our analysis. Following 2015 monetary fines over the death of migratory birds flying in proximity of its plants, Repsol took significant actions to prevent such an incident from reoccurring by improving its understanding of migratory bird populations and promoting habitat preservation and land rehabilitation programmes via early warning systems and on-site environmental restoration actions pre- and post-operations.

Companies' recognition and remediation of biodiversity-related controversies is mixed

In order to assess the severity of a controversy, we follow guiding frameworks set out by the UN that call for an assessment of the scale, scope and remedial/irremediable nature of a specific controversy. We adopt a four-point scale spanning “minor”, “significant”, “high” and “critical” (see highlights box). With respect to biodiversity-related controversies, 93% of cases are categorised with a “high” or “significant” level of severity in our database. Less than 5% of all cases are classified as “critical” (Figure 1).

Figure 1 Distribution of biodiversity-related controversies by level of severity



Note: Launched in 2015 The Controversy Risk Assessment Database captures over 20,000 cases logged and analysed across a broad range of ESG issues.

Sources: Moody's ESG Solutions Group

We also find that companies' acknowledgment and remediation of biodiversity-related controversies is mixed. In 43% of biodiversity-related controversy cases, companies have not provided a response to allegations. Moreover, companies were assessed to have taken a “remediative” or “proactive” response to controversies in only in 19% of cases which is slightly higher than the Universe average (13.9%).⁸ Nevertheless, we would expect the response of companies to such controversies to improve as biodiversity exposure and risk management moves up the investor and regulatory agenda.

⁷ Danone feedback to V.E, August 3 2020.

⁸ Controversy risk assessment data and analytics are compiled by V.E, a part of Moody's ESG Solutions.

Our Methodology

The Controversy Risk Assessment screens over 7,700 companies for their involvement in environmental, social and governance (ESG) controversies.

All controversies are systematically assessed in terms of their:

- » **Severity:** on a four-point scale ranging from "minor", "significant", "high", "critical".
- » **Frequency:** on a four-point scale ranging from "isolated", "occasional", "frequent", "persistent".

In addition, the responsiveness of a company is assessed on a four-level scale: "non-communicative", "reactive", "remediative", "proactive".

Controversies are classified under an ESG taxonomy containing 38 individual themes. environmental themes include biodiversity, atmospheric emissions, waste and local pollution. Social themes include healthy and safety, fundamental human rights and labour rights and non-discrimination. Finally, from a governance perspective, we include themes such as remuneration, anti-competitive behaviour and audit and internal controls.

Information sources are monitored by our specialist team on a real time basis. As such, company records, data files and individual company reports are updated and/or refreshed daily.

Our assessments are used by investors for active engagement as well as portfolio risk management. Our controversy analyses are also incorporated into our overall ESG Assessments for companies under coverage.

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