

Global Resource Constraints

The Case of Water

Are you worried about water scarcity affecting you or your business? Should you be?

Water scarcity has been a widely debated topic, but many leaders still feel it is a distant, localized issue rather than a global one. Take a quick look at news outlets around the world, and you will notice that the problem is not too far from home. Massive droughts in California are leading to a rise in food prices across the United States; Pakistan is accusing India of 'water terrorism' for diverting shared upstream resources; social tensions are rising in Mexico City where the poor go for days without running water while the rich consume water at twice the rate of some European cities. These examples illustrate that access to fresh water is not as abundant – or as equal – as many of us thought.

To make matters worse, consider the scenario in 30 years. The global population is expected to surpass 9 billion people in 2050. By then, an additional 2.6 billion people are expected to attain middle class incomes. These trends point to a sharp increase in the demand for fresh water, both from direct consumption and from consuming goods that require fresh water in their manufacturing. Given the increasingly global reach of supply chains, there is a real possibility that some water sources used by your business may dry up.

Many companies already face the impact of water scarcity. Businesses in Brazil suffer power outages because current droughts have reduced the capacity of the country's hydroelectric power plants. In 2004, Coca-Cola was forced to shut down a production plant in Northern India following pressure from the local community on its water extraction approach. Pressure to manage water-related risks is coming from investors as well. In 2009, the Norwegian government announced it would evaluate the water risk management practices of over 1,000 companies in which it invests through its public pension fund. Clearly, sound water management has moved beyond a nice-to-have

item for the annual report and has become a critical aspect of operations.

Businesses should be prepared to look at their water risk more closely, yet not many actually do so in enough detail. According to a 2009 report by CERES, a sustainability-oriented NGO, 63% of surveyed businesses reported top-line water withdrawals, but only 14% broke them down by region. Disappointingly just 40% reported total wastewater disposal, and only 8% reported disposal by site. Only 3% of businesses reported their supply chain water footprint. Although a more recent CERES update from 2012 points to growing awareness by businesses on water issues, disclosures and performance evaluations on water usage are still limited.

What can a business do to ramp up its water risk management?

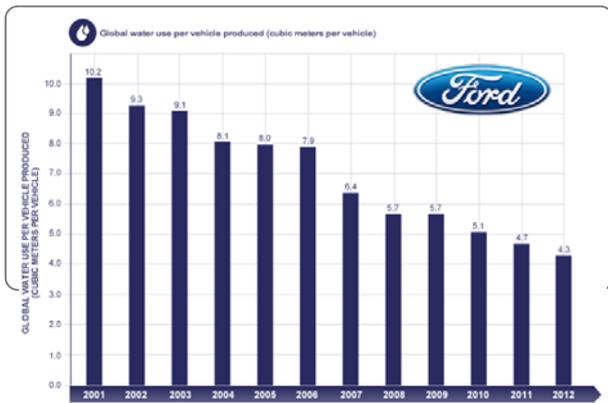
Awareness

The first step is to generate the awareness that ignoring water risk will expose a business to potential operational disruptions, and could ultimately impact the bottom line. It is critical that leaders are educated on the risks, and incorporate water management into their agenda. The next step is to understand and analyze the company's exposure to water risk, identifying any operations located in water-stressed areas, and understanding the company's overall water footprint. There are free tools such as the Aqua Gauge by CERES that can assist businesses in determining their water exposure.

Diageo is a company that monitors its risks according to the specific water conditions in each of its operational areas

Measurement

Once the company's water risk exposure has been assessed, it is necessary to identify areas of potential improvement, and set targets and accountabilities to mitigate exposure and promote improvements. There may be opportunities to reduce water consumption in-house, either by reducing usage or substituting water when possible. Perhaps more importantly, businesses must recognize and understand the embedded water risk in products or raw materials procured from suppliers.



Ford has been able to reduce its water footprint by 30 percent on a per-vehicle basis, not only by implementing improvements in its facilities, but also by working with suppliers in water-stressed areas to achieve reductions

Engagement

Once the business has implemented goals and aligned incentives, it must engage with key stakeholders to ensure execution of its water strategy. Organizations such as the Pacific Institute and the United Nations have developed guidelines for companies to assess their water footprint and report on their water usage according to standardized water accounting principles. In addition, by connecting with local governments, businesses are helping manage water scarcity in their local communities, and generating strong publicity at the same time.

What does the future hold for water?

The water scarcity issue will continue to make headlines in the near future. Many countries are still struggling to find ways of balancing the demand for water with sustainable supply. Continued depletion of aquifers, climate change and increased competition among countries for natural sources of water will pose substantial issues for governments and for the public at large.

A few promising solutions have sprung to the surface. Water recycling, for example, has been successfully implemented in Singapore to reduce its dependence on imported water from Malaysia. However, the question remains on how scalable this solution would be, given its need for large-scale treatment plants. Another promising field is desalination. Many technological advances point to improvements in efficiency and reduced energy requirements

for desalination plants. However, like recycling plants, desalination facilities are also large-scale investments, and cost-effectiveness remains a question mark.

Ultimately, business leaders should not leave the resolution to governments alone. Only by working to understand their water footprint and by putting in place comprehensive water continuity plans can companies truly safeguard their water future.