

## WATER SECURITY AND SCARCITY: RISING UP THE POLITICAL AND CORPORATE AGENDA



**GOVERNANCE & SUSTAINABILITY**

Part of the Horizon Scanning series

Water security is a tier one issue for many societies and businesses, yet for years it has had a lot less attention than other sustainability-related issues, including greenhouse gas emissions reduction. The UN and the investment community are now bringing water back into the spotlight.

Back in March of this year, the UN held its 2023 Water Conference - the first major international water summit since 1977 - with the aim of opening the eyes of the world to a looming global water crisis. Despite the fact that water is inextricably linked to most areas of sustainable development, the global response to escalating issues of water scarcity is widely recognised as being inadequate.

However, the UN Conference generated some much-needed visibility with a focus on the design and delivery of concrete solutions by governments, businesses and communities alike.

In this article we address the risks facing businesses as a consequence of the water crisis, examine the developing regulatory landscape, and offer some suggestions for future action.

### The Water (in)Action Decade?

The UN heralded 2018-2028 as the UN Water Action Decade - ten years of improving knowledge of, and progressing towards achievement of, Sustainable Development Goal (“SDG”) 6: to ensure the availability and sustainable management of water and sanitation for all by 2030.

However, in the report published prior to the UN Water Conference, the Chair of UN-Water warned that, “*as things stand today we are seriously off-track. The latest data show that if we continue on our current course we will not achieve any of the SDG 6 targets by the 2030 deadline.*” In fact,

according to the UN, the world has witnessed a marked rise in global water vulnerability. In the last two decades, almost three quarters of all recent disasters were water related, causing economic damage totalling almost US\$700 billion.

This is especially relevant to the broader sustainability agenda as a lack of progress in relation to SDG 6 threatens almost all of the other SDGs, including those relating to climate change, food and nutrition, gender equality, energy, economic growth, sustainable cities and the environment.

The relative side-lining of water-related issues by the global community is in part due to a collective failure to consider it a global crisis inextricably interlinked with other sustainability issues, rather than a series of discrete local problems. Almost 90% of climate impacts are related to water yet only 3% of climate finance is currently dedicated to the world’s water systems.

### Key resources for corporates

- [The UN Water Development Report 2023](#)
- [Vision Statement UN 2023 Water Conference](#)
- [Global risk report 2023](#)
- [Climate Disclosure Standards Board: the Water Guidance](#)
- [World Resources Institute - Corporate Water Stewardship](#)
- [International Council on Mining and Metals: Water Reporting Good Practice Guide](#)

## Water moving up the agenda

One key development coming out of the UN Water Conference is the [Water Action Agenda](#), a collection of voluntary commitments which it is hoped will develop into binding agreements at COP28 in December of this year. Advocates from various countries have been pushing for water to be formally included in each of the four negotiating tracks: mitigation, adaptation, finance, and loss and damage.

In the UK, there has been increased pressure on water companies and the government to minimise pollution and improve infrastructure in order to confront the growing risk of water scarcity. Indeed, one of the reasons cited by the Climate Change Committee (a government advisory body) for finding the UK “strikingly unprepared” for global warming in [their report](#) published 29 March 2023, was the limited progress on reducing water consumption. In light of the Committee calling on ministers to set targets for reducing business and household water use, consideration of regulatory change seems increasingly likely.

## The role of business in addressing the water crisis

Whilst some companies have adopted water-related KPIs and targets, in general terms water consumption and management have not had anywhere near the level of focus amongst corporates that has been afforded to greenhouse gas emissions. As with many other non-climate related sustainability issues (such as nature and biodiversity, just transition, and human rights), water is catching up. It is likely that heightened political focus from a COP28 proclamation will lead to more legislative requirements and recommendations in the medium term. This will likely put water management into sharper focus for corporates.

Water is also intertwined with other sustainability issues that are increasingly the focus of legislators and the market. For example, the EU’s draft [Corporate Sustainability Due Diligence Directive](#) (or “CSDDD”) is set to bring in much greater scrutiny of supply chains and manufacturing processes, seen through the lens of adverse environmental and human rights impacts. This will likely raise important questions about how organisations’ activities could help or hinder the water-strained

communities in which they and their suppliers operate. The Directive as drafted also comes with a civil enforcement mechanism, meaning water-affected communities could potentially use it to bring actions against corporates in court.

Some companies with operations in areas of particular water scarcity or that are particularly dependent on water as a resource (such as beverage and clothing) have already begun implementing concrete solutions and adapting their business. For instance, one of PepsiCo’s largest food manufacturing plants, the Vallejo facility in the Valley of Mexico, is in an area that faces critical water shortage and has witnessed Mexico City sinking into the ground as the aquifer below the city runs dry. PepsiCo first made a “water positive” commitment to put more water *into* areas where it operates than it takes out. The Vallejo facility now [has a goal](#) to become PepsiCo’s first circular water system and eliminate freshwater usage in the operation completely. This project is underpinned by recognition that “water resource availability is in critical condition in Mexico City”.

Other companies with net-positive water reduction pledges include Starbucks, GAP, Microsoft, Marks, and Kraft Heinz. In addition PepsiCo and GAP amongst others track their annual progress using the standardised water security survey produced by CDP (a worldwide disclosure system).

## Investors increasingly demanding more action on water and greater disclosure

Given the scale of financial risk the water crisis presents, investors are also beginning to exert pressure on companies to be more transparent about their water use, and to take action in managing it: with global water demand [being projected](#) to outstrip global water supply significantly by 2030, the ensuing water scarcity risks causing disruption to business operations and supply chains, raising the costs of materials and their transportation, and worsening employee health and safety, all of which will have an impact on companies’ future prospects. The total cost of water-related risks [reported to the CDP](#) in 2020 was US\$301 billion. CDP further reported that investors with over US\$110 trillion in assets requested that

companies provide disclosure about their water use and management through CDP in 2021.

Indeed, prior to the UN Water Conference, investors with US\$3 trillion in assets, including BNP Paribas Asset Management, [wrote an open letter](#) calling on governments to set more ambitious water targets and implement mandatory water disclosure requirements. The letter stated that the investors were seeking to decrease their exposure to water risk as a “core fiduciary duty” and looked to “benefit from the opportunities associated with the transition to a water secure economy”.

Examining the water-related resolutions filed by shareholders provides an important insight into the changes companies will be expected to make in this area. Resolutions filed in the US, for example, have called on companies to conduct water risk assessments, disclose water management operations, and address water risks in their operations and supply chain. They are also being asked to begin the prioritisation of water resource management within their business by completing a water inventory and water risk analysis. The data gained from these initial steps will be essential in facilitating corporate decision making and the formulation of a comprehensive water strategy to mitigate the risks associated with the crisis.

These sorts of data are likely to be needed to meet growing investor expectations in relation to disclosure on water use but also in order to make operational and strategic improvements within businesses. As with greenhouse gas emissions, the disclosure of comparable and quantifiable information is the first step in achieving goals and targets, and allowing investors to scrutinise their investee companies. There are a number of water disclosure schemes already operating through the various sustainability reporting frameworks, including the CDSB’s [guidance](#) on water-related

disclosures and the ICMM’s [good practice guide](#) on water reporting.

Some companies are also looking to take a holistic view, enforcing water stewardship standards across their supply chains and operations. Levi Strauss has a Recycle and Reuse compliance program which sets requirements for their suppliers, for example.

However, there is currently no global pricing mechanism for water impacts. Some companies have begun to [develop their own internal pricing mechanisms](#), which incorporate additional externalities as well as traditional costs, such as the costs avoided by improving biodiversity. Diageo for example uses the World Resources Institutes’ volumetric water benefit accounting system which provides a comprehensive methodology to calculate the value and benefits of water stewardship activities.

## Where next for corporates on water?

It is likely that over time more and more corporates will need to incorporate water conservation into their sustainability strategies alongside the existing plans for emissions reduction and nature protection.

In practice, this means mapping out water-related risks, developing a plan to address them in coordination with local and investor stakeholders, and putting in place governance procedures to ensure that policy is carried through, and aligned with wider corporate objectives. It also means ensuring that water-related issues are properly considered when taking other actions like drawing up a diligence plan to comply with the CSDDD.

Over the last few years, business has generally begun to take a more and more important role in reducing emissions and furthering the energy transition. In time, we expect the same to happen with water.

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### This briefing is part of the Slaughter and May Horizon Scanning series

Click [here](#) for more details. Themes include Across Borders, Governance & Sustainability, Digital, Risk & Resilience and Hybrid World. Governance & Sustainability explores how the climate crisis is no longer in the future. Businesses are faced now with increasing pressure from investors and new regulations to make a change. This brings even more focus on running a business in a way that responds to the crisis. This series will examine the changes.