

The Leadership Compact: 'Committing to Natural Capital'

We have come together as leaders of global companies to issue a collective call for action to properly value and maintain the Earth's natural capital¹.

We speak with a sense of urgency. In the two decades since the 1992 United Nations Conference on Environment and Development in Rio, the world has failed to respond to the challenge of sustainable development with adequate determination. Specifically we have not addressed risks posed by the loss of natural capital. Vital services under threat range from crop pollination to carbon storage and freshwater provision, and from wood production to the renewal of soil fertility and fisheries. The world no longer lives off the dividends of natural 'capital', but off the capital itself.

The challenges we face are complex and critical. To turn the situation around requires immediate action at all levels, by all of us: businesses from all sectors, investors, governments, civil society and citizens.

Business leadership is essential, and we commit to actions in the following key areas.

As business leaders we pledge to:

- 1. Operate within the limits of natural systems.** We aim to manage supply sources in order to protect the environment and improve social equity. We will encourage cooperation between those relying on the same ecosystems for their products, services and livelihoods. We commit to good governance, transparency and inclusive decision-making throughout our value chains and to develop ways to ensure that land is used for social and economic development in ways that protect, manage or restore the value of natural capital for current and future generations.
- 2. Identify and address externalities.** We will build a deeper understanding of the externalities – the un-costed impacts on people and the environment – associated with the production and consumption of goods and services. We will identify the right value for these externalities and interdependencies both in our direct operations and through our supply networks, and collaborate within and across industries to develop transparent reporting.

We commit to moving beyond demand-driven production to operating within supply constraints. To underpin this move, we will integrate externalities into assessments of business risk and opportunities, and into our decision-making. We will communicate material risks, and our strategic responses, more clearly to investors and society.

- 3. Enable consumers to make better-informed choices.** We will work with industry bodies, governments and citizens to deepen public debate on how to realign consumption within the limits of natural capital and to eliminate wastage and inefficiency. We will seek a fuller consensus on the key elements of sustainable lifestyles, and will continue to design, manufacture and promote products that can be used more sustainably, and to extract raw materials responsibly.
- 4. Develop rigorous and realistic targets and plans.** We recognise that the commitments above must be transparent, measurable, and scalable across business. We pledge to build on current initiatives to identify appropriate metrics so we can monitor our own performance and report our annual progress (e.g. regarding water, biodiversity, deforestation, greenhouse gas emissions, waste and pollutants). In 2012 we will work together to identify rigorous and realistic targets to promote the protection and efficient use of natural capital, based on these metrics.

By demonstrating leadership we aim to inspire other companies to do likewise. Many of us have already taken significant steps and we call upon governments to provide essential cost and regulatory signals to enable us to go further and more rapidly.

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¹As defined by TEEB, 'natural capital' is an economic metaphor for the limited stocks of physical and biological resources found on Earth, and the limited capacity of ecosystems to provide ecosystem services (i.e. the direct and indirect contributions of ecosystems to human wellbeing). In the context of this Leadership Compact we are focusing on renewable resources and services.

We therefore urge governments to:

A. Establish a holistic policy framework to sustain natural capital. It is essential that governments introduce policies that: encourage companies, investors and regulators to assess natural capital impacts on company value chains; provide incentives for more sustainable products; and support effective collaboration across sectors between those reliant on the same ecosystems. As part of this framework, governments and companies must be required to disclose their environmental impacts. In support of this goal we urge that governments join with leading companies in support of a global convention on corporate reporting, based on principles of transparency, accountability and board responsibility, to develop national regulations that mandate the integration of material sustainability issues into public reporting to key stakeholders, including investors.

Efforts to change purchasing and investment behaviour by businesses and governments, and to promote innovation, are a key part of this framework. These efforts should include fiscal and tax policy and incentives, and targeted public procurement. Such an approach should aim to encourage investors to reflect the true value of natural capital in their decision-making.

Governments and companies must work together more effectively to encourage stronger standards and more sustainable consumer choices. Successful responses to global social concerns, as achieved with Health & Safety, demonstrate that governments can work together to put in place the necessary standards and targeted regulation.

B. Work with all stakeholders to promote sustainable resource use. To ensure the most efficient use of natural capital, we encourage national governments to develop plans for the use of natural capital openly and transparently. This process must include all stakeholders, recognising that many citizens derive their livelihoods from natural resources, while lacking formal land use rights.

C. Set a clear goal of 'no net loss'. Some companies have already adopted the principle of 'no net loss', aiming to replenish natural capital of forests or biodiversity depleted through their operations. Governments should set similar goals for key natural capital assets (e.g. wetlands, forests and coastal habitats). Countries that have exploited natural capital to create wealth should support those struggling with poverty to develop in a way that conserves their natural capital. The Convention on Biological Diversity provides one existing framework for action.

Businesses' bottom line – and that of the entire global economy – is built on products and services provided by ecosystems and other components of natural capital². Companies and governments must signal that the choice between economic development and sustaining natural capital is a false one, and take measures to create a global economy that pursues both goals simultaneously.

As demand for resources such as land, water, agricultural produce, timber and fish continues to grow beyond supply, price volatility will inevitably become more pronounced. The resilience of the Earth's natural systems to absorb shocks and disturbances is being systematically undermined³. Effective action now will reduce the risk of social upheaval around the world in the near- and long-term future, exacerbated by resource scarcity and increased volatility in the price of food and other commodities.

We do not have 20 more years to debate what needs to be done. We therefore urge you, the governments of the world, to seize the opportunity for action presented by Rio+20 and, with business, respond to the growing challenge of resource scarcity. Delay is not a viable option.

We look forward to working with you in preparation for Rio+20 and beyond and hope that, together, we can provide the leadership the Earth needs in this crucial arena, at this crucial time.

Companies convened by:

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². TEEB – The Economics of Ecosystems and Biodiversity Report for Business – Executive Summary, 2010

³. Rockström, J. (2010), 'Planetary Boundaries'. *New Perspectives Quarterly*, 27: 72–74