

Protecting the Achilles Heel of our Economy

Valuing our Life Support Systems, Nov 6-7 British Library

Keynote Speech by Pieter van der Gaag, Interim Executive Director Natural Capital Coalition

Ladies and Gentlemen, we've discovered that our companies, that deliver the goods and services that we want, have an Achilles heel.

That was a problem for Achilles, but if we do our job well it may end up not a problem for business.

Business is currently moving forward on Natural Capital Valuation and Accounting, but, and I will touch upon this also, business cannot do this alone. Business needs government, accounting and civil society to join in.

Before I go into what my organisation, the Natural Capital Coalition, is doing, I would like to take a step back and go through the story that has brought us to the point that Natural Capital has become such an important point for discussion.

My daughter is born in the year 2000, she is a turn of the century girl. Now, if you are born around the 1950s, you hail from the turn of the Geological Age! We have moved from the relative stable, and for humans optimal geological era of the Holocene (which lasted nearly 12000 years) into a clearly marked around the 50s age, called the Anthropocene.

In the 1950s, our economy exploded through mass marketing, consumption, and innovation. This explosion has now exposed a major fault in how we historically think about ourselves and our businesses. And that faulty self-view is impacting our planet in such a way that it will be visible in the geological layers of this planet for the rest of time. Where the Holocene was stable and optimal for our existence, the Anthropocene now looks like it will not be so stable.

What is that fault? Up to very recently humanity did not realise to what extent we are connected to and dependent on Earth's natural systems. We now know that our connection isn't limited to our need to eat, drink and breathe. The planet is not merely the store that provides us. Biologists tell us that our own bodies are linked to the natural environment in many more dependent relationships than we could possibly imagine. We all know the story of the 2 kilos of benign bacteria we are carrying with us. And, do you know what mitochondria really are? Basically we are learning that we are open ecosystems ourselves.

Yet, for millennia we developed our society and economy without that insight. From the principle that we are separate unique beings we've constructed our economy. So in managing our economy, we focussed all on the human side of it. Through measurement, accounting and valuation of only those things we felt belong to us, we have come to the faulty believe that we have a firm grip on the economy and on the companies within it.

But we have an Achilles heel. Do you know the myth? Achilles the hero of the Trojan war, who was meant to be invincible when his mother Thetis, the sea goddess dipped him in the

river Styx, holding him by his heel. It took a blind man and some help from Apollo to hit him in that weak spot.

Same with our companies. The River Styx's magic is now measurement, accounting and valuation. And we were holding on with two hands to the ankles.

We need our ankles for stability!

Those ankles are the natural resources, the ecosystem services, and our natural environment. Welcome to The Anthropocene.

How do we know this is a problem?

Well again, up to the 50's the problem was not apparent. The few people on the planet hardly had an impact substantial enough to destabilise the natural systems we are part of and dependent on. And if we did, we moved to a different location.

Who could have thought during the industrial revolution that lighting fires underneath kettles to harness energy would in the end lead to climate change?

In food, who could have thought that when the first woman planted the first seeds more than 15000 years ago, it would lead to degraded and poisoned soil, eutrophication and the risk of losing pollinators?

IUCN Red Lists have been telling us we are confronted with an extinction crisis for decades. The footprint methodology told us we were exceeding our planetary limits. But it wasn't until the early 21st century, in 2005 when the Millennium Ecosystem Assessment managed to drive the point home, and persuade the world's leaders that this loss of biodiversity, pollution, climate change and unsustainable landuse is degrading the ability of ecosystems to provide us with life-essential services.

The G8 acted on it, and commissioned the landmark study The Economics of Ecosystems and Biodiversity. The question was: What does this cost? That price blew our minds. The TEEB study showed how faulty our economic compass is.

Business got the point then too, and methods to understand the value of ecosystem services and dwindling natural resources sprouted up from the ground everywhere. There are now so many systems that business is getting confused. We need a global approach that works for business, and delivers the values, measurements and accounts that will work also for keeping our natural ecosystems intact, and better yet, restore them. And, we need it quickly.

We need to find out how we can also expose the heels of our companies to the magic of valuation, accounting and measurement, without letting go!

The business case is simple: Business wants to make smarter decisions. Not accounting and valuing nature in those decisions is no longer smart.

The Natural Capital Coalition has taken it upon itself to prove to business the value of understanding natural capital in their business processes. We have also taken it upon ourselves to pull together the different methods and approaches that exist into one Natural Capital Protocol.

The business case for one global multi-stakeholder Natural Capital Protocol is also simple. It provides business with the security it is valuing natural capital properly, and ultimately will provide business with the opportunity to present to society how it is doing in a comparable way.

So we've come a long way since 2005. We have now even reached a point where we can integrate ecological consideration on the level of a company or company project.

Let me now focus on the work we are doing on the protocol

Reflecting Nature's complexity we have convened a complex system of actors from government, academia, accounting, business, finance and civil society to develop the Natural Capital Protocol. Next to that we will develop further guidance for two sectors: Apparel and Food, and we will rigorously test this with business on its applicability. Even though we have a large group of stakeholders already working on the protocol, we intend to involve an even larger group through a public consultation process.

The list of companies that have indicated an interest to participate has reached 200.

We started in October with the development of the protocol. We are now in the middle of finalising the scope and wireframe of the protocol and its sector guides and setting up the business-engagement programme.

There is a great deal of enthusiasm and willingness to contribute. We are able to use proprietary methodologies, we are gathering methodologies that are in the open, and building on the experience of some of the major players in the field. And, I am proud to say we have been able to collect some of the most important institutions in this field to deliver the Natural Capital Protocol project.

The World Business Council on Sustainable Development is leading a consortium that is developing the Natural Capital Protocol itself. Next to that we have been able to attract IUCN to lead a consortium that will focus on the business-engagement and the development of the sector guides. I did not bring a powerpoint, but if you ever see the slide, it's an impressive collection of about 30 major institutions.

Now, realising you are an audience that is advanced in this field, I would like to share a bit more on what we are thinking of in relation to the scope of the protocol and the elements you will find in it, Also on what it will not be, and finally how you could interact with the development of the protocol.

Let's start with what it will not be:

First, the protocol will not be a disclosure standard. We believe we need to start inside the business itself. Ultimately transparency, disclosure and reporting is going to be important, and it will be up to the reporting standard setting bodies such as GRI or IIRC to take that forward. We are also likely to take up transparency principles in the protocol itself. But primarily we are focussed on management accounting.

Second, It will also not be an ethical framework or a corporate code of conduct. The tools will expose value, and will guide how to work with those values and ecosystems. But the

entire do or do not do this or that discussion will have to be a discussion that will have to take place outside this protocol.

Third: It will also not be a price-list, an inventory, list or database of natural capital values or impacts and dependencies. It will also not be a calculator.

What will it be?

The Protocol will provide clear guidance on how businesses can assess their impacts and dependencies on natural capital, and manage these better. It will take the user through the purpose and value-add of carrying out such an assessment for the company, an inventory of impacts and dependencies to consider as well as guidance on how and where to focus effort so that the exercise is fit for purpose.

The Protocol will also help business navigate the range of approaches that exist, providing recommended steps to take wherever possible, as well as guidance on data needs. Importantly, it will also include how the results of the Protocol will be used and embedded in companies.

The Protocol will support companies in their decision-making and can be used for a range of applications, incl. risk management, exploring new revenue streams, improving products and value chain innovation, and even as I said preparing for future reporting and disclosure.

Specific sectors have specific natural capital priorities. The Sector Guides interpret the Protocol for these specific sectors contexts. We will focus first on apparel and food & beverage due to the materiality and complexity of their impacts.

As I said we are in the early phase of this project. As we move forward in the next few months, the contours of the Protocol will become more and more clear.

So how can you get involved?

If you are a business, the University of Cambridge Institute for Sustainable Leadership is coordinating our Business Engagement Programme. You can connect to them using the business-engagement@naturalcapitalcoalition.org e-mail address

If you have proprietary or publicly available methodologies that you would like to share, you can do so by sending them to the specially formed Methodology Review Panel which will treat your proprietary methodology in full confidence in selecting whether or not it should be included in the protocol. You can send these to info@naturalcapitalcoalition.org.

If you are another stakeholder, we welcome your input also. In the Spring of 2015 the members of the NCC are able to comment on an early draft of the Protocol. In Fall of 2015 we will organise a full global public consultation, so that everyone can comment or review what we have produced.

Get to our website, where we will soon publish this information:
www.naturalcapitalcoalition.org

We aim to have it all done in March of 2016! That is ambitious!

That is what I can say on the protocol. The Protocol is, however, not everything business needs.

We need involvement from government. Natural systems are shared by many companies, by communities and by nature itself. Not one private actor can adequately interact with such a system without clear and transparent involvement and governance from government. Business who are leading the way on natural capital valuation plead to government to set up frameworks that help leaders in this field become successful and take the risks that this ultimately entails to help safeguard our environment.

We need accounting professionals to help us develop the accounting tools and principles to value a capital that behaves differently that traditional capital has done. We need innovation in that profession!

We need forward movement on data that fulfils certain minimum quality criteria, and that will help companies understand the value of nature.

And finally we need fast and forward movement on the ethical discussion surrounding natural capital valuation. It is important that companies do not act on natural capital unframed in some form of societally acceptable ethical framework. In that sense, the NCC is happy to support the work of Jo Pike and the Natural Capital Forum to develop a Natural Capital Charter.

Business is now moving forward and doing so fast. I am hopeful it leads to a restorative economy and society that values nature and understands its interactions. I am hoping that the arrow does not hit our economy's ankles until we have learned how to measure, account and value natural capital. But we are in the unstable Anthropocene, which will act like the blind man with the arrow. We need to get our ankles covered!