

THE ROLE OF FINANCIAL INSTITUTIONS IN CONSERVING BIODIVERSITY

— RESTRICTIONS ON FINANCING TO ENCOURAGE CHANGES IN CORPORATE BEHAVIOR WILL HAVE IMPACTS ON VARIOUS INDUSTRIES —

Minami Amaki
Industrial Planning Dept., Industrial Studies Div.
Mitsui & Co. Global Strategic Studies Institute

SUMMARY

- Financial institutions are expected to play an important role in promoting changes in corporate behavior in relation to the issue of biodiversity, which has become the subject of considerable debate in recent years.
- Because biodiversity is so broad in scope, it is likely to impact various industries. The efforts of financial institutions to date and discussions at organizations such as the TNFD (Task Force on Nature-related Financial Disclosure), which was established in 2021, suggest that the agriculture, forestry, and fisheries industry will be the first to be subject to restrictions.
- Constraints will have far reaching consequences for related supply chains, and the scope of the activities to be targeted in the effort to conserve biodiversity may well expand.

Following climate change, biodiversity is beginning to attract attention as another factor constraining various industries. While financial institutions have played an important role in constraints relating to climate change, they are also expected to play a similar role in relation to the issue of biodiversity. Biodiversity is very broad in scope and is likely to affect various industries. This report looks into business activities that may be affected by biodiversity, based on the efforts of financial institutions to date and ongoing discussions.

1. THE EVOLVING DEBATE OVER BIODIVERSITY

1-1. Establishment of rules for sharing benefits and the remaining issues

The three objectives adopted at the 1992 UN Convention on Biological Diversity (CBD) are (1) the conservation of biodiversity, (2) the sustainable use of the components of biodiversity, (3) the fair and equitable sharing of the benefits arising from the use of genetic resources. With regard to objective (3), the Nagoya Protocol, which was adopted at the 10th Conference of the Parties (COP10) in 2010, stipulates that the utilization of genetic resources requires the prior consent of the providing country and that the benefits of that utilization be shared on the basis of terms mutually agreed by the provider and user countries. This solved an urgent issue for some interested parties, namely the establishment of rules for the sharing of benefits between emerging countries that still possess a rich natural environment as a source of genetic resources and companies in developed countries that benefit from their utilization.

On the other hand, objectives (1) and (2), which are important common issues for humanity as a whole, remained beyond reach. While the Aichi Targets were set at COP10 with a view to achieving these objectives,

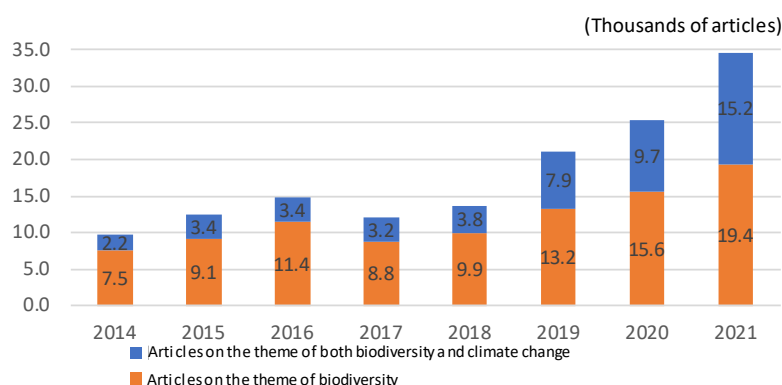
they lacked specificity. There was a growing recognition that the target should be the conservation of all species, not just specific species, and that to achieve this end, the conservation of the natural environment as a whole is required. Accompanying this recognition, the term “biodiversity”, which had hitherto been focused on the diversity of living organisms and on genetic resources, has recently come to be used in a wider sense encompassing nature, the natural environment in general, and natural capital. However, the scope of coverage has become very wide, and while issues such as the extinction of species and destruction of local environments have come into focus, the threat has not been recognized as sufficiently serious because it does not yet threaten the existence of a large number of people. For these reasons, although the scope of objectives (1) and (2) expanded to the natural environment as a whole, discussions became more diffuse, and did not progress.

1-2. Discussion of biodiversity invigorated again through linkage with climate change

By the end of the 2010s, that situation had changed. During that period, extreme weather and the accompanying natural disasters occurred with greater frequency, threatening people’s livelihoods around the world and raising awareness of the issue of climate change. Many of the NGOs that led the discussions at that time were organizations not just debating climate change but also advocating the preservation of the natural environment as a whole, and the urgent issue of climate change came to be discussed side by side with the issue of biodiversity, which is regarded as the natural environment overall. A report published by the IPBES¹ in May 2019 suggesting that human activity may lead to the extinction of about one million species over the following decade also added fresh impetus to the discussions. In 2021, the number of articles and reports on the theme of biodiversity published worldwide² was 2.5 times that of 2018. This was more or less matched by the 2.6-fold increase in articles and reports on the theme of climate change. This increase was driven by the 4-fold increase in articles combining both of these themes, indicating that discussions on biodiversity are becoming increasingly active alongside discussion of climate change (Figure 1).

In response to such public opinion, organizations involved in concrete policy making began to take action. In December 2020, the IPCC³ and the IPBES held their first joint workshop, and the resulting report stated that the response to the climate change and biodiversity crises should be addressed in tandem. Discussion of these two crises as inseparable issues is growing, as seen, for example, in the Glasgow Climate Pact adopted at COP26 in November 2021, which refers to the “interlinked global crises of climate change and biodiversity loss”.

Figure 1 The number of articles on the theme of biodiversity



Source: Compiled by MGSSI based on data extracted using the QUID AI text analysis tool

¹ The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services

² English language articles including the term “biodiversity” were extracted, narrowed down by relevance, and displayed in chronological order by the AI text analysis tool QUID.

³ The Intergovernmental Panel on Climate Change

2. THE EFFORTS OF FINANCIAL INSTITUTIONS

2-1. The importance and role of financial institutions and the current status

By controlling the flow of funds, financial institutions have the ability to influence the activity of industry as a whole. As a reflection of growing public sentiment, governments, investors, NGOs are demanding financial institutions to use their influence to address climate change, in the same way that they urge industries that produce high greenhouse gas emissions to take actions. In response to these demands, financial institutions have become a major driver of the response to climate change through such actions as curbs on investing in and financing high GHG-emitting industries, and encouraging changes in corporate behavior by urging many industries to disclose GHG emissions. They are also expected to play a similar role in addressing the issue of biodiversity.

In fact, action on biodiversity has progressed since it was incorporated into the UN's Sustainable Development Goals (SDGs) in 2015, and the majority of the 30 banks designated by the Financial Stability Board (FSB) as being important for the global financial system⁴ include biodiversity in their public announcements of business policy. They state that when considering providing finance to specific industries and businesses, they will conduct more thorough due diligence in relation to the effect on biodiversity and will limit lending if certain conditions are not met.

Nevertheless, about 60% of the banks listed approach biodiversity either as a component of or subordinate to climate change, and it is not afforded the same importance as climate change. Furthermore, it is common practice for the majority of these banks to make the conservation of World Heritage Sites, protected areas, and the Arctic Circle the focus of restrictions (Figure 2), but focusing on these sites alone has an extremely limited effect on biodiversity preservation worldwide. Some other examples of banks limiting financing in certain activities include France's BNP Paribas, which targets soybean cultivation and beef production in Brazil's Amazon and Cerrado regions, the Netherlands' ING Bank, which targets commercial whaling and shark finning, and the US Citi Bank, which targets drift netting using nets over 2.5 km in length. While the details of the restrictions differ from bank to bank, and they have as yet had limited impact on the industries, the efforts of financial institutions, such as those mentioned above, are likely to increase further in the future in response to the growing global debate.

Figure 2 Major activities subject to financing restrictions and stricter due diligence by leading banks in relation to biodiversity

Activities commonly listed by many financial institutions	Activities listed by a few financial institutions
Development and mining within UNESCO World Heritage Sites	Soybean cultivation, processing, and trading in the Brazilian Amazon
Development and mining within protected areas	Soybean cultivation in Brazil's Cerrado
Development and mining within the Arctic Circle (mainly exploration, mining, and production of oil and gas)	Exploration, production, export of oil and gas from the Ecuadorean Amazon
	Exploration, production, export of oil and gas from the Peruvian Amazon
	Shark finning
	Commercial whaling

Source: Compiled by MGSSI based on information disclosed by the banks

⁴ 30 banks in the 2021 list of Global Systematically Important Banks (G-SIBs) published by the FSB (approximately 80% are Western banks, and the list includes three Japanese megabanks).

2-2. Progress of discussions to strengthen efforts

The response to the issue of climate change will serve as a useful reference for forecasting future developments in relation to biodiversity. With the issue of climate change, the targeting of constraints has gradually become clearer through the discussions held at COP to date, and financial institutions have made progress in addressing the issue. The TCFD (Task Force on Climate-related Financial Disclosures) was formed by national public and financial institutions at the behest of the G20 Finance Ministers and Central Bank Governors Meeting in 2015. The TCFD holds discussions focused on a disclosure framework for corporate GHG emissions. As a result, investment in and financing of high-emitting industries have actually been curtailed.

With regard to biodiversity, the TNFD (Task Force on Nature-related Financial Disclosures) was launched in June 2021 to discuss the natural environment as a whole other than climate change, and to deliver a framework similar to that of the TCFD. The task force discussed the assets to be preserved and the activities to be restricted, and in March 2022, it released a beta version of an information disclosure framework. The final version is scheduled to be completed in 2023, and its impact on industries and companies is expected to become clear.

3. THE EFFECT ON INDUSTRIES

In considering future targets of limits on financing by financial institutions, the purposes of the TCFD's and TNFD's formation, constituent members, and the background of NGOs involved will also be factors to be taken into account. The TCFD is composed mainly of financial institutions and was established at the behest of the G20 by the FSB (Financial Stability Board), which is made up of central banks and financial authorities from around the world, as well as international bodies. It considers emission control measures for industries and activities that have already been identified as being responsible for high levels of GHG emissions.

On the other hand, although the TNFD is made up predominantly of financial institutions, it has more corporate members from the world of general industry than the TCFD (Figure 3). Since, unlike climate change, the targets of limitations are not clearly specified, it can be considered that one of the purposes of the TNFD is to clarify the targets and incorporate the opinions of industry in restrictions on financing and strengthening of due diligence. For this reason, the TNFD's framework is expected to give greater consideration to the actual situation in the industrial world than the TCFD. Moreover, TNFD industrial members consist largely of users of agriculture, forestry, and fisheries resources such as the food industry (Figure 3). That being the case, it is likely that the agriculture, forestry, and fisheries industry and the mining industry, both of which directly impact the natural environment, will be the first to be subject to restrictions, and the companies concerned will be required to disclose information on the raw materials they use, including ensuring their traceability. Restrictions on lending will probably spread to companies that use raw materials produced on agricultural land converted from forest or by the slash and burn method, such as food and daily necessity manufacturers, as well as for the distribution and food service industries handling such products, and the chemical industry supplying fertilizers and agrichemicals for those products.

Figure 3 TCFD and TNFD members

TCFD members (Total 32)	Business	Country	TNFD members (Total 34 organizations)	Business	Country
Financial institutions (15 companies)			Financial institutions (15 companies)		
AXA	Finance	France	AXA	Finance	France
HSBC	Finance	UK	HSBC	Finance	UK
JPMorgan Chase & Co.	Finance	US	Bank of America	Finance	US
UBS Asset Management	Finance	Switzerland	BNP Paribas	Finance	France
11 others			11 others		
Research/Information services, etc. (10 organizations)			Research/Information services, etc. (7 organizations)		
Deloitte	Consulting	UK	Deloitte	Consulting	UK
EY	Consulting	UK	EY	Consulting	UK
Moody's Corporation	Rating	US	Moody's Corporation	Rating	US
Principles for Responsible Investment	Initiative	UK	KPMG	Consulting	Netherlands
6 others			3 others		
General industry (7 companies)			General industry (12 companies)		
Unilever	Consumer goods	UK	AB InBev	Food (alcoholic beverages)	Belgium
Tata Steel Limited	Steel	India	Anglo American	Mining resources	UK
Dow	Chemicals	US	Bunge Ltd	Agriculture/Food	US
Mitsubishi Corporation	Trading company	Japan	Ecopetrol	Oil & Gas	Colombia
EnBW Energie Baden-Württemberg AG	Energy	Germany	GlaxoSmithKline	Pharmaceuticals	UK
Eni	Oil & gas	Italy	Grieg Seafood	Food	Norway
BHP	Mining	Australia	Holcim	Construction material	Switzerland
			Natura & Co	Cosmetics	Brazil
			Nestlé	Food	Switzerland
			Olam International Ltd	Agricultural trading company	Singapore
			Suzano	Paper pulp	Brazil
			Tata Steel Limited	Steel	India

Note: Companies that use agriculture, forestry, and fisheries products or supply equipment and materials to the agriculture, forestry, and fisheries industry are highlighted in yellow.

Source: Compiled by MGSSI based on information on the TCFD and TNFD websites and publicly available information

The TNFD was established by two UN organizations, the UNDP⁵ and the UNEP FI⁶, as well as the WWF, the world's largest environmental conservation NGO, and Global Canopy, a UK environmental NGO. The WWF was established in 1961 from the standpoint of wildlife preservation. Since the organization changed its name to the current World Wide Fund for Nature in 1986 and expanded its activities to protection of the global environment, it is expected to engage in wide-ranging discussions on the natural environment in general. For example, like those banks mentioned above, it is possible that many other banks will add specific areas that are rich in biodiversity, such as the Amazon and the Cerrado, as well as commercial whaling and drift net fishing to their list of target areas and activities. In terms of business activities, it is possible that the production and use of plastics mentioned in the draft of the post-Aichi Targets will also be the subject of discussions.

In a data-driven approach, the other NGO, Global Canopy, is involved in the development of a portfolio of the TNFD's environmental data initiatives. For that reason, as with the promotion of disclosure and reduction of GHG emissions in relation to the climate change issue, it is anticipated that restrictions on activity will be set based on quantitative figures, and information disclosure will be required in a wide range of industries. Based on the above, it is necessary to act preemptively by identifying operations that have the potential to impact all companies, not just those industries mentioned above, and to pay close attention to the trends of financial institutions and consider the measures to be taken.

⁵ United Nations Development Programme

⁶ United Nations Environment Programme Finance Initiative