

Responsible water stewardship

Summary of PepsiCo and Ethical Corporation roundtable discussion

30 November 2009

Main points discussed in the roundtable:

1. Engaging suppliers to reduce water footprints

- *Trust between suppliers and buyers are paramount.*
- *Share the benefits of initiatives with all stakeholders.*
- *Learn from how auditing works in other sectors.*
- *Companies are well placed to help with data collection.*

2. Watersheds – taking collective responsibility

- *Coordination of up and down stream activities is vital.*
- *Compensation schemes within catchments can ensure best use of resources.*

3. Engaging farmers to focus on water

- *Credible leadership is needed to get projects moving.*
- *Take the easy first steps.*
- *Multilateral donors can provide initiate leverage.*
- *Climate change means that predicting long-term catchment water resources is not easy.*

Speakers

- Walter Todd, vice-president operations, PepsiCo (host)
- Toby Webb, managing director, Ethical Corporation (chair)
- Pam Muckosy, head of research, Ethical Corporation (presenting)

Guests

- Jill Ardagh, director general, British Soft Drinks Association
- Prof Nigel Arnell, Walker Institute, University of Reading
- Simon Barnes, senior sustainability analyst, IGD
- Tim Collins, Natural England
- Dan Crossley, principle sustainability advisor, Forum for the Future

- Robin Farrington, WWF
- Dr Richard Harding, Centre for Ecology and Hydrology
- Andrew Kuyk, director, Sustainability, Food and Drink Federation
- Caroline Miller, brand sustainability and integrity manager, Sainsbury's
- Dr Edward Moorhouse, group technical director, G's Marketing Ltd
- Lauren Orme, sustainable raw materials manager, Marks & Spencer
- Prof George Rothschild, Natural Resources, Crops for the Future
- Salil Tripathi, journalist, Institute of Human Rights in Business
- Ian Abbot Donnelly, IBM
- Andrew Smith, head of public affairs, PepsiCo
- James Barlow, sustainability manager, PepsiCo
- Emma Clarke, sustainability manager, PepsiCo
- Mark Pettigrew, agricultural development manager, PepsiCo
- Adam Griffiths, agro group manager, PepsiCo

1.Engaging suppliers to reduce water footprint

Main points from this discussion:

- *Trust between suppliers and buyers are paramount.*
- *Share the benefits of initiatives with all stakeholders.*
- *Learn from how auditing works in other sectors.*
- *Companies are well placed to help with data collection.*

Opening the discussion, **Walter Todd, PepsiCo**, said that one of the key things PepsiCo learned as it developed its environmental strategy is that external stakeholder input is essential if the strategy is to have relevance and credibility.

Toby Webb, Ethical Corporation, pointed out that apart from some lobbying activities, companies are mostly concerned with water use in their own activities. How, then, he asked, do they engage their supply chains?

Walter Todd said that **PepsiCo** has focused on making its operations more efficient, reducing the amount of water taken to make a bag of crisps by half in the past 10 years. PepsiCo has made major future commitments on water, including zero water intake at its Walkers crisps factories. But in the process of focusing on its own operations the company found that this is only a fraction of total impact. So now PepsiCo is engaging with growers and supplier groups to try and understand impacts on water and energy. And now the company is building environmental goals into contracts with suppliers.

Mark Pettigrew, PepsiCo, continued, stating that PepsiCo is establishing groups of growers to try and reduce water use. UK and European growers are keen to be involved, he said, as they value the relationship they have with PepsiCo. 90% of suppliers have engaged immediately, and have been coming up with good ideas.

A big issue is how inefficient methods of irrigation can be. And so, he said, you can engage farmers if you talk about money and returns on investment.

The carbon analogy

Andrew Kuyk, Food and Drink Federation, made two points. Firstly, he argued that water is differentiated from carbon in that it is very location-specific. Water use in an area where it is abundant has a very different impact from use in an area of scarcity.

And secondly, water is still regarded as effectively a free good. If you buy from someone in a water-stressed area, the true cost of the water resources will not necessarily be reflected in the price paid.

Simon Barnes, IGD, said that different varieties of crop, including potato, can be better or worse in terms of water use. How then, Barnes asked, does PepsiCo influence its suppliers in terms of variety and do the farmers look to PepsiCo to provide information about this?

Mark Pettigrew, PepsiCo, said that the company controls the varieties that are grown by its suppliers. Sustainability criteria, including water use, are included in the selection process.

Ian Abbot Donnelly, IBM, said that his clients are looking for new technology that can provide information about water, energy, soil moisture content and stress – things that analysts had not previously considered.

New sensors and interconnectors can supply information so that companies can manage crops from an office anywhere in the world. In India, for example, there are examples of valves in water supply systems that can be turned on and off by mobile phone SMS messages.

Supply chain trust

Robin Farrington, WWF, argued for trust between suppliers and buyers. He said that unless there is motivation for suppliers to reduce water use, there would be no reason for them to do so.

Lauren Orme, Marks & Spencer, said that M&S has worked with suppliers in the Lake Naivasha region, in Kenya. A number of local producers had recognised that the lake's waters were dwindling and formed a working group to allocate usage and manage impact. Rather than leaving it to someone else, they came up with their own solutions.

Caroline Miller, Sainsbury's, said that her company is in the early stages of examining water issues with its supplier base. There is a strong appetite to address them – though the company does not impose targets. Unpredictability of supply is a central concern – storage in times of plenty for use in times of drought requires infrastructure and planning.

Also important, Miller argued, is sharing best practice and peer-to-peer learning. Companies should engage suppliers in a way that makes sense for them, establishing benchmarking procedures and common information.

Tim Collins, Natural England, said that there are examples in England of regulation being used successfully to restore catchments – albeit slowly. Problems can arise, he said, when dealing with the interests of water companies.

Robin Farrington, WWF, argued that the ultimate aim should be a water allocations mechanism by government that is fair and adaptable to changes in climate and/or variations in rainfall from year to year. Companies can play a major role in helping to share the costs required in developing a better idea of the hydrology, river basin and ecological needs of the catchments.

Benefit sharing for all users

Prof George Rothschild, Crops for the Future, said that an important issue is to derive benefit sharing between water resource users, including energy generators, hydroelectric schemes, health authorities and other up and downstream users. For example, sedimentation in dams and how dams are constructed affects other water users downstream. Rothschild argued that it is important to take an integrated approach and a broad perspective.

Dr Richard Harding, Centre for Ecology and Hydrology, said that developing mechanisms for the flow of information to and from scientists and companies is required. The Centre for Ecology and Hydrology is assessing water resource use across catchments, and can produce information about balance between incoming precipitation and runoff, and water use.

Perhaps, Harding suggested, companies can be mobilised to provide better rainfall data. Equally, companies can help transfer information on river basins and how they work back to the agricultural communities and stakeholders.

Dr Edward Moorhouse, G's Marketing, noted that the bulk of the UK high street is not committed to strategy and action that is sustainable on a long-term basis. For consumers, price is still the top concern, he argued.

In such a competitive environment it is difficult for companies to make large investment in water conservation – such as, for example, constructing reservoirs for summer irrigation that fill from winter rainfall. Companies that do make this investment reap the rewards during dry summers.

Regulation of water resources is coming. If companies don't invest and protect their resources then their business will be affected in the long-term.

Dan Crossley, Forum for the Future, commented that we need to think about how water resources will be distributed in 20 years. We can't assume, he said, that things will be the same and that the same crops will be sourced from the UK, for example.

A question of auditing

Turning to supplier auditing, **Toby Webb, Ethical Corporation** questioned if there will be a process of unannounced audits looking at water issues.

Lauren Orme, Marks & Spencer, suggested that it is important to transfer the lessons learned regarding auditing in other sectors. Something like Sexed Sedex – the ethical supplier sourcing tool – would be good for water resources.

Jill Ardagh, British Soft Drinks Association, pointed out that ethical and labour codes are increasingly including sustainability criteria. The problem is finding auditors who are capable of covering the very broad spectrum of issues necessary.

Andrew Kuyk, Food and Drink Federation, said that context is very important. To not buy a commodity that uses more than a certain amount of water is a very crude measurement. Also, Kuyk argued, it is difficult to compare one country with another: if a company will only source from country A then it may set in chain a whole series of development problems for country B, for example.

Dr Richard Harding, Centre for Ecology and Hydrology, said that as water is more complicated than carbon, an index approach is useful. The Water Poverty Index, the Climate Variability Index and others are intelligent methods of gauging appropriate places to source goods.

Scale matters

Robin Farrington, WWF, argued that examining water resources watershed by watershed can be effective – for example if you are deciding where to site a facility such as a brewery. Companies need, he said, to examine how things might change with future climate and assess the water risks. Once they have quantified the risks, then they should look at mitigation strategies, engaging with suppliers so they understand the risks and the business case for action.

Prof Nigel Arnell, University of Reading, highlighted that there is a great opportunity for big companies to provide information to help support understanding. In many parts of the world, governments are not doing this, he argued.

And in terms of scale, while indicators are good, they must be calculated at the right scale. For many cases the national level is not the correct scale because water resource issues can be very local. So the watershed scale is better.

2. Watersheds – taking collective responsibility

Main points from this discussion:

- *Coordination of up and down stream activities is vital.*
- *Compensation schemes within catchments can ensure best use of resources.*

Robin Farrington, WWF, said that there needs to be a business case for everyone in a watershed for them all to act. People need to understand that if they don't do something about farming on slopes, he suggested, then eventually they will not have any land left to farm on. This then benefits other users in the watershed – by helping to prevent silting of industrial water users downstream.

Farrington highlighted WWF's partnership with brewer SABMiller, which has developed watershed strategies that have benefited all stakeholders at a number of locations in the Andes mountains.

Simon Barnes, IGD, said that the psychology of water resources is important. Research has shown that as companies become more water efficient, they actually increase production so water use remains the same or increases. And if a company upstream reduces water use, a natural reaction for a downstream company is to increase production as there is more water available.

This, Barnes argued, is an issue of fair allocation and also of market pricing.

Competition rules

Caroline Miller, Sainsbury's, highlighted a need to be wary about competitive issues. Taking carbon as an analogy, she said that there is a fear among suppliers that information about their carbon footprints will be used to unfairly discriminate against them.

Some suppliers are wary about providing information – and Miller suggested it is important to remember this so they are not alienated from a process of transparency. There is a fine line between when things are collaborative and when they are competitive.

Making data anonymous is a useful practical step, Miller said. But there is a slow process of developing trust, capacity building and increasing the baseline data to a stage where auditing might be one of the tools you use.

Toby Webb, Ethical Corporation, asked if supplier groups in developing countries are developing an awareness about water.

Prof George Rothschild, Crops for the Future, suggested that in the example of the Mekong river system, energy demands determine how the water resources are managed.

He also highlighted the CGIAR Challenge Program on Water and Food, a river basin project in the Ecuadorian Andes. There, water is used for what provides the maximum return, in this case lowland irrigation. The programme set up a trust fund to compensate the upstream stakeholders.

Food prices affect matters too, Rothschild argued. Countries that have been growing crops for export to UK supermarkets may now focus on growing food crops that they were previously having to import.

And, he said, as water becomes scarcer, it is harder to achieve win-win situations from benefit sharing.

3. Engaging farmers to focus on water

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- *Credible leadership is needed to get projects moving.*
- *Take the easy first steps.*
- *Multilateral donors can provide initiate leverage.*
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Robin Farrington, WWF, highlighted the Water Neutrality Scheme, through which WWF South Africa is working with big companies to offset their water use by removing invasive tree species, such as eucalyptus, that suck up a lot of the water from a watershed. These are replaced with native species that are less water-intensive.

Tim Collins, Natural England, illustrated some English catchment-scale management examples.

United Utilities is funding a scheme in the Forest of Bowland. The company's interest is in cleaning the water so there is less peat in it from run-off after heavy rainfall. Another example Collins highlighted is the Moorlands for the Future project on the Manchester/Derbyshire border, where peat uplands are being restored. This helps reduce peat content in the water and cuts the flood risk as the water is more readily absorbed into the ground.

Taking this point further, **Toby Webb, Ethical Corporation**, suggested that therefore it takes people with local credibility to get projects moving – which is a challenge in developing countries.

Robin Farrington, WWF, argued that operating on a local level can be effective. It is useful to work on a small scale, he said, capturing the low-hanging fruit, and demonstrating how small successes can be replicated elsewhere.

The collaboration conundrum

Prof George Rothschild, Crops for the Future, argued that the leverage for groups to get together comes from donors, including the World Bank and the regional development banks. As water can transcend boundaries, partnerships need to involve local and regional authorities. Ultimately, he said, policymakers and national governments have to be involved too. And the Global Fresh Water Assessment brings all these interests together.

Robin Farrington, WWF, pointed out that *Water and Food: Comprehensive Assessment*, by the International Water Management Institute, is a good summary of this.

Farrington also argues that the Water Framework Directive is a good tool if it can be implemented well.

Prof Nigel Arnell, University of Reading, agreed that the Water Framework Directive is good, assuming that the resource base is constant. But with climate change, he argued, it won't be. Business needs to know how uncertain predictions are, which will influence decisions on long-term investment and commitment.

Simon Barnes, IGD, suggested that there may then be an opportunity for seasonal pricing of water: more in the summer and less in the winter, for example. How, he asked, would this effect investment strategies, and in particular encouraging people to invest for the long-term. It is very emotive to talk about putting the price of water up, he argued. He said that as well as seasonal variations, sophisticated pricing could also take into account water resource stress in different catchments.

Summary

In summing up, **Toby Webb, Ethical Corporation**, made two points.

Firstly, collaboration is very important – with organisations such as WWF and various industry bodies playing a central role.

Secondly, education is vital, and this is an area where the big companies need to play their part.

Appendix – Ethical Corporation research

Prior to the discussion, **Pam Muckosy, Ethical Corporation**, presented the results of some Ethical Corporation research.

- 3% of the world’s water is fresh and 70% of that is locked in ice caps. Most of the remaining 30% is trapped within soil – so there isn’t that much water to go round. Much of the water crisis is related to poverty and access to resources, and how this is managed.
- The ten largest water users are India, China, the US, Pakistan, Japan, Thailand, Indonesia, Bangladesh, Mexico and Russia. Water withdrawal is expected to rise by 50% by 2025 in developing countries and 18% in developed countries.
- Implications of scarce or inaccessible water include socio-economic impacts such as disease. One-tenth of global disease burden could be prevented by improving water supply and sanitation.
- Access is a major issue: 884m people, around half of whom live in Asia, rely on drinking water from sources that are termed “unimproved”.
- In 2000, one of the announced objectives of the Millennium Goals was to reduce by half the proportion of people without sustainable access to safe drinking water by 2015. In 2002 the target of also reducing by half the proportion of people who do not have access to basic sanitation was added.
- In late 2008, Ethical Corporation identified and then surveyed a number of multinationals that were taking action towards water management. The companies were chosen on the basis of their ability to tackle six big issues: **scarcity**; **costs/inefficiency**; **community partnerships and access**; **footprinting**; **handprinting** (which is going beyond a company’s footprint into its impact on communities); and **water labelling and auditing**. A number of risks emerged, including: **insecurity of supply**; **human rights and population growth**; and perceived **stewardship**, or lack thereof. Ethical Corporation also identified some opportunities for companies: **appealing to consumer concerns**; working on **competitive advantage**; **preventing high compliance costs** in a time of tighter regulation; and **savings** made through efficiency.
- Ethical Corporation’s research uncovered a number of standards worth watching: **Water Stewardship Initiative**; **Waterwise** in the UK; **Watersense** in the US; **Water Efficiency** labelling standard in Australia; **ISO 14001**, which has a water component; **Global Environmental Management Initiative**; **LEED**, the buildings standard; **Water Poverty Index**; and **Rainforest Alliance**.