

ESG Viewpoint

Nature as an ally: tackling
the climate-nature nexus

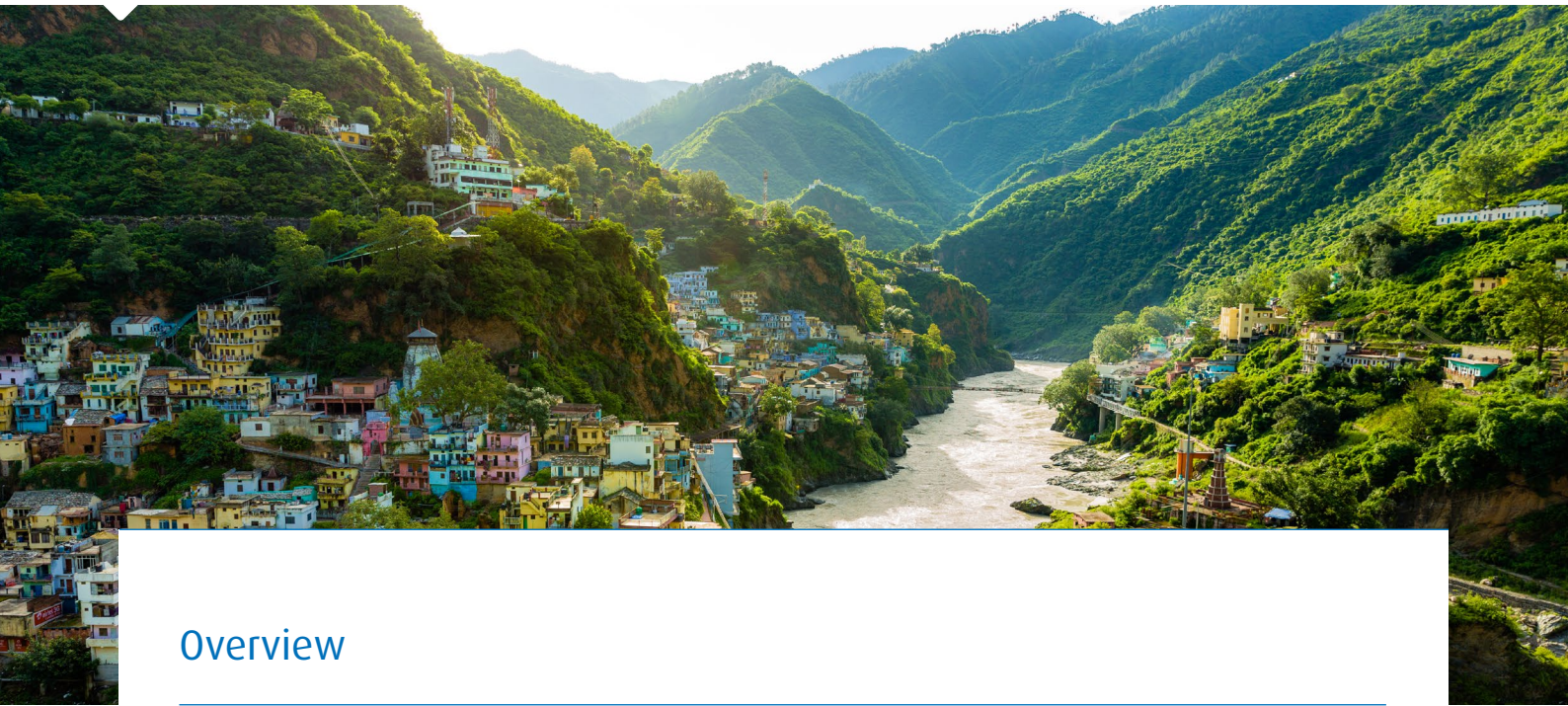
March 2022

At a glance

- ▶ We need all the tools at our disposal to tackle climate change. Have we been neglecting the most powerful of all – nature itself?
- ▶ Climate action has seen a surge of support in recent years. Meanwhile, the severity of nature loss is widely accepted but has, until recently, remained in climate change's shadow as a subject of political and commercial concern.
- ▶ Discover how becoming Net Zero and Nature Positive are interdependent challenges with mutual benefits.



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Overview

Climate change and nature loss are two of the most significant challenges facing the planet and society today. Climate action has seen a surge of support in recent years, with policymakers and business leaders worldwide scrambling to set emissions reductions targets, in line with the goal of “Net Zero” emissions by mid-century to limit planetary warming to 1.5 degrees. However, despite widespread acceptance of its severity, nature loss has remained in climate change’s shadow as a subject of political and commercial concern until recently.

Human environmental damage and biodiversity loss were respectively ranked as the third and fifth risks by likelihood, and sixth and fourth by impact by the [World Economic Forum in 2021](#). Additionally, last year’s [Dasgupta Review](#) pointed to a financial and social system that fundamentally undervalues nature and places unsustainable demands on ecosystem services, even whilst [50% of economic value generation is dependent](#)

[on nature](#). This year’s “Biodiversity COP” 15 will seek to implement a [Post 2020 Global Biodiversity Framework](#), with many stakeholders calling for aims to halting net nature loss in the 2020s, become “[Nature Positive](#)” by 2030 and live in harmony with nature by 2050.

Rather than being two separate challenges, we firmly believe that climate change and nature loss must start to be treated as interconnected and interdependent issues, an approach reflected in the links between our Environmental Stewardship and Climate Change engagement programmes. [Climate change is a key driver](#) of nature loss, undermining and potentially reversing nature’s ability to sequester greenhouse gases in our atmosphere and diminishing the role nature can play in protecting us from the physical consequences of climate change. The twin pathways below highlight the links; nature must be enlisted as an ally in the fight against climate change, and climate mitigation must not come at the expense of nature.

Interested in learning more? Keep on scrolling or click the quick links.



Pathways to a sustainable planet



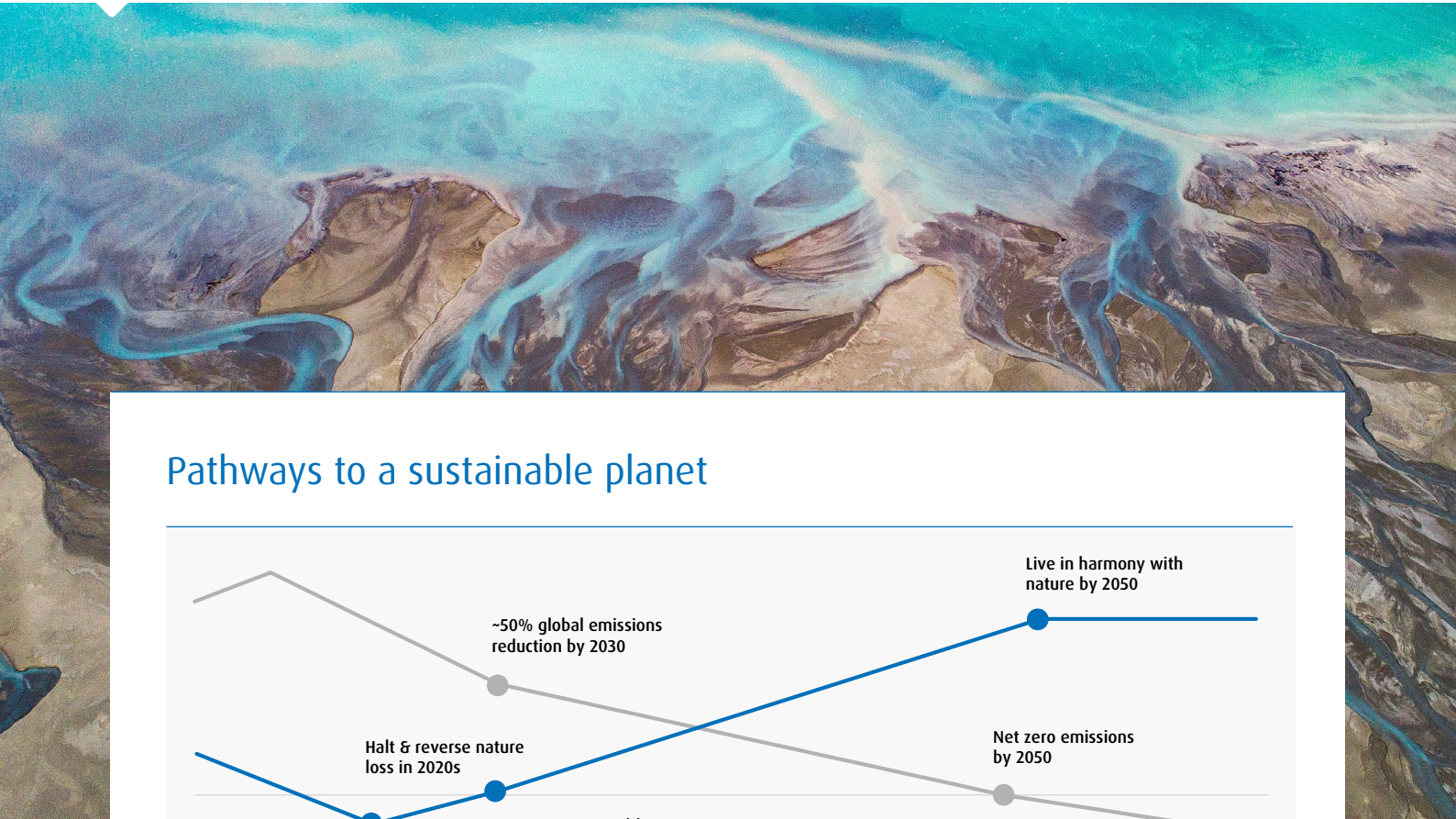
Standards for managing nature-related risks



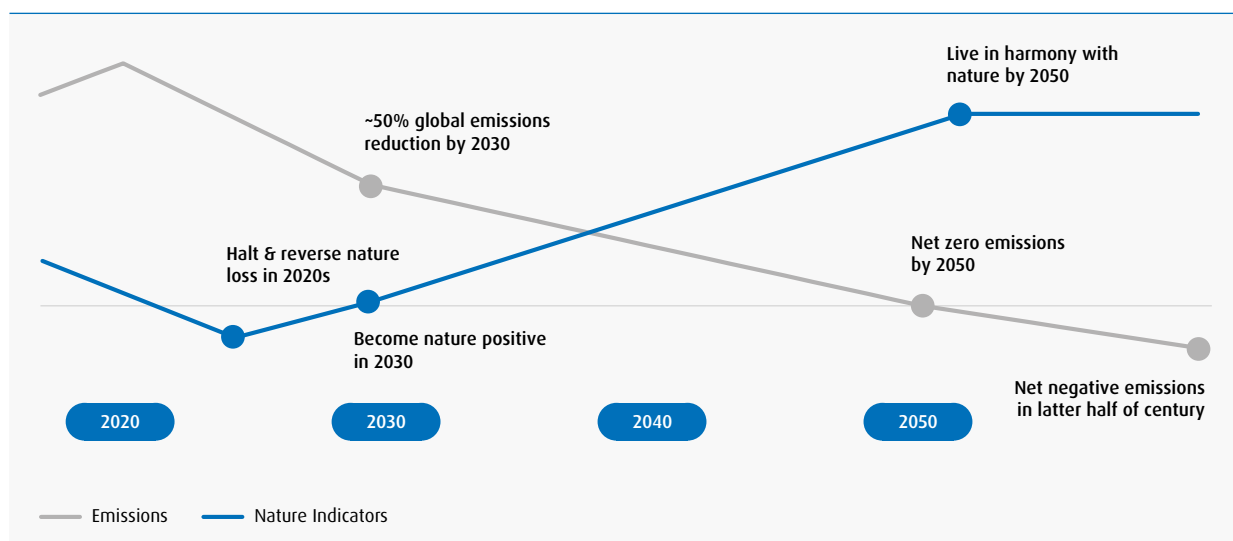
Nature-based solutions



Our 2022 engagement Nature



Pathways to a sustainable planet



Examining our unsustainable use of land is a good way of demonstrating these challenges and their links. The majority of 1.5 degree pathways require an [increased quantity of carbon sequestered by natural sources](#). As Sir David Attenborough [stated clearly at COP 26](#), “to have any chance of keeping below 1.5°C of global warming, we must halt deforestation”. The ongoing loss and degradation of forests alone contributes [5-10 Gt CO2e emissions](#) annually, in addition to those resulting from damage to other terrestrial and aquatic habitats and human activity. To enhance the planet’s ability to draw down and store carbon we must urgently find ways to tackle the whole range of land use change and emissions-intensive agricultural practices that drive [around a quarter of global emissions](#).

Given land use change and modern agriculture are also [key drivers of nature loss](#), through habitat destruction, soil degradation, pesticide use and pollution, there are clear nature benefits to changing our food system and preventing significant land use change. Whether actions to protect habitats or move towards regenerative agriculture are given impetus by a desire to protect

nature, reduce emissions or adapt to physical risks, the outcomes are positive for both Net Zero and Nature Positive ambitions.

The plight of fresh water bodies and oceans is also increasingly appreciated. Both realms are subject to significant pollution and ecosystem damage and exploitation. Oceans in particular are a significant carbon sink, [absorbing around 30% of historical anthropogenic emissions](#) and [90% of excess heat from global warming](#). However, increasing ocean acidification from absorbing CO2, rising ocean temperatures and more frequent of marine heat waves all pose significant risks for aquatic biodiversity and natural ocean processes.

Just as governments are now taking action on climate change, we expect a ramping up of action on biodiversity, as the co-benefits are increasingly recognised. A greater focus on the potential impacts on biodiversity of poorly planned climate mitigation actions is also likely. Companies operating in high-impact sectors should be anticipating increased focus on this area, and taking action now.



Standards are emerging for managing nature-related risks

We expect companies to implement similar governance structures, reporting formats and targets to tackle nature loss as those now commonplace for climate change, giving nature loss equal priority. Fortunately, there are several nature frameworks in development that follow a familiar approach, which should aid adoption and quality of responses, as shown in Box 1.

We advise companies to engage with these processes early on, for example by joining [the Science Based Targets for Nature \(SBTN\)](#) programme's corporate engagement stream, enabling them to pilot the methodology and be prepared to set targets as soon

as the framework is formally launched. Being prepared to set nature targets or report against the [Taskforce on Nature-related Financial Disclosures](#) framework will ensure companies are not left behind by peers and are well prepared for a tightening regulatory environment.

Existing reporting frameworks like the Global Reporting Initiative and CDP (Climate, Water and Forest reports) already cover both climate and nature indicators. Companies that already report against these frameworks may be in a better position to assess their impacts on nature and give hope that existing processes can be strengthened as companies set Net Zero and Nature Positive goals.

Box 1: Parallels between best practice standards and initiatives on climate change and nature

Climate Change			Nature		
Policy	Paris Agreement		Convention on Biological Diversity		Convention on Biological Diversity
Reporting	TCFD		Taskforce on Nature-related Financial Disclosures		
Targets	SBTi		Science Based Targets for Nature		SCIENCE BASED TARGETS NETWORK GLOBAL COMPACT ALLIANCE
Investor Engagement	Climate Action 100+		Nature Action 100+, coming in 2022	No logo	
Accounting	Partnership for Carbon Accounting Financials		Partnership for Biodiversity Accounting Financials		Partnership for Biodiversity Accounting Financials

Lessons learned from climate change

Some of the lessons learned from developing standards on climate change have parallels in nature action. One example is on reporting, where one of the key points made by investors on climate change is that companies should look not only at their direct impact, but also at their value chain ‘Scope 3’ emissions. Likewise, SBTN’s framework emphasises the need for companies to assess key areas in which they impact

nature within their operations but also upstream and downstream, across their supply chains and product use.


Different sectors and products have different nature and emissions profiles, as shown by the example impacts in the table below. It is worth noting here, however, two key differences in the measurement and reporting of nature and climate impacts. First, given nature’s inherently local relevance, geography plays a much more important role in dictating nature impacts than it does for carbon footprints. And second, the multiple and complex ways in which a company can cause nature loss and the dynamic subsequent impacts this can have adds complexity: SBTN asks companies to consider their impact through a range of activities, from water use to species disturbance.



Table 1: Contrasting example impacts from nature loss and carbon emissions from two sectors

Sector	Impacts	Upstream	Direct Operations	Downstream
Consumer Products	Nature loss from:	<ul style="list-style-type: none"> • Land clearance for agriculture • Soil and water pollution from farming • Biodiversity loss from pesticide use 	<ul style="list-style-type: none"> • Air and water pollution from factories 	<ul style="list-style-type: none"> • Plastic and microplastic waste contamination
	Emissions from:	<ul style="list-style-type: none"> • Burning vegetation during land clearance • Farming equipment • Soil disturbance • Fertiliser use • Packaging production 	<ul style="list-style-type: none"> • Energy consumption • Industrial processes 	<ul style="list-style-type: none"> • Transportation of goods • Water or cooking equipment • Food and water waste
Power Generation	Nature loss from:	<ul style="list-style-type: none"> • Land clearance for resource extraction and transportation • Air, soil and water pollution from extractive operations and pipelines 	<ul style="list-style-type: none"> • Land clearance for power plants • Water pollution from plant effluent • Air pollution 	<ul style="list-style-type: none"> • Land clearance for networks
	Emissions from:	<ul style="list-style-type: none"> • Energy intensive resource extraction and transportation • Burning vegetation during land clearance • Methane leaks 	<ul style="list-style-type: none"> • Burning fossil fuels in plants 	

Source: BMO Global Asset Management (EMEA), as at February 2022



Companies should enlist nature as an ally to improve resilience and support net zero plans.

Finding solutions in nature

Some organisations have already started to apply a nature lens to their climate change strategies and are well positioned to reap the rewards. For example, [Nestle's Net Zero strategy](#) includes actions targeting soil health, deforestation and habitat restoration, all of which have an explicit biodiversity benefit highlighted by the company, as well as leading to a projected 14mtCO₂e emissions reduction by 2030. Suzano, a Brazilian paper and pulp giant, have developed a "[Biostrategy](#)" in addition to their sustainable forestry management approach that sequesters carbon and protects biodiversity. This strategy develops products from wood-derived materials that have the potential to reduce emissions or impacts on nature in other products by replacing plastics or polluting compounds with lower carbon, natural alternatives.

There are also several pitfalls that we are highlighting to companies in our engagements. Overreliance on carbon offsets is a priority topic, with many companies in the energy sector in particular looking to meet emissions reduction targets through a significant scale up of nature-based solutions (NBS). Unfortunately, not all NBS projects are equal, and in pressing for action on nature loss we must avoid creating a false incentive that pushes companies down a route of purchasing poor quality offsets. For example, large scale monoculture plantations may grow rapidly and sequester carbon but offer minimal biodiversity support or community benefits.

When it comes to emissions reductions we ask companies to follow the [Science Based Targets hierarchy](#) of abating all possible emissions before using offsets

for any residual emissions. The same prioritisation holds for biodiversity, where we expect companies to follow the SBTN impact hierarchy of avoid, reduce, regenerate, restore, whilst looking to contribute to system-wide change. In the event carbon offsets are used we prefer companies draw on the [Oxford Principles for Net Zero Aligned Carbon Offsetting](#), and purchase high quality credits which are verified to have positive co-benefits for biodiversity and/or local communities, such as [VCS+CCB](#) or [W+ credits](#).

Another challenge facing both the public and private sectors is the management of increasing physical risks from climate change. Increased flood risk is a prime example, with changing weather patterns leading to an increased likelihood of extreme rainfall events or storm surges across the world. The typical response to this risk involves hard engineering solutions, such as river straightening, concrete levees and sea walls. Alongside the significant emissions from producing the steel and concrete for these engineering projects they also disturb habitats and disrupt natural ecosystem services.

Rather than seeking to contain natural forces, enlisting nature as an ally to improve resilience should be a key consideration for companies' future-proofing approaches. [Yorkshire Water](#), an English water utility, has an extensive land management plan which includes peatland and forest restoration to reduce growing flood risks, naturally filter water and improve biodiversity. These measures reduce processing and flood defence costs as well as sequestering carbon.

Our engagement priorities in 2022

In addition to in-depth dialogues specifically on biodiversity or climate change we are actively engaging companies in carbon-intensive and high impact sectors on the climate-nature nexus. We are challenging and supporting them to accelerate their efforts on nature impacts by learning from their climate action journey. Alongside biodiversity expectations and our longstanding positions on climate change, our guidance for companies when considering the climate-nature nexus is to:

Capitalise on win-wins and avoid false progress

1. Consider the role natural processes can play in their emissions reduction goals and to improve resilience
2. Assess how improving circularity, and resource efficiency will positively impact carbon and nature footprints
3. Evaluate the impacts that efforts to mitigate corporate climate impacts will have on nature, to avoid undermining climate progress with nature regression

Establish governance and develop strategy

4. Apply lessons learnt from developing climate mitigation plans and governance to review nature management structures, ensuring they are considered together in the boardroom. Identify any needs for additional expertise
5. Learn from the scope of requirements investors have developed for assessing [Net Zero](#) plans and prepare to mirror them for Nature Positive plans. This is likely to include lobbying, capex decisions, remuneration as well as the aforementioned targets and disclosure expectations

Engage with the emerging frameworks and guidance

6. Start the value chain assessment process for identifying nature impacts and dependencies, using relevant guidance (like SBTN), be aware that priority areas may differ to their emissions profile
7. Prepare to assess how the outcomes of COP15 will affect the regulatory and policy environment they operate in, just as the Paris Agreement was a catalyst for more ambitious climate policy
8. Engage with the TNFD and SBTN frameworks, with the intention of publishing TNFD-aligned reports and SBTN-approved targets. We expect the penetration of both frameworks to occur more rapidly than for their original climate counterparts
9. Engage nearby communities on nature impacts and mitigation plans, including understanding and valuing the role indigenous peoples play in nature conservation. Nature loss and damage is felt at a much more local level than the climate impacts of high carbon operations, stakeholder dialogues should reflect this difference

In this seminal year for action on nature loss we will maintain focus on the issue through our Environmental Stewardship engagement project, which covered 249 companies over 312 interactions in 2021, and our proxy voting approach on biodiversity, which targets high impact companies that fail to provide appropriate disclosures. As well as our own continued engagement, we see a pressing need for a global co-ordinated investor effort to intensify the focus on the goals of halting and reversing nature loss in the 2020s, and becoming nature positive by 2030. To this end, we are helping develop the Nature Action 100 programme, which seeks to learn from the successes of the Climate Action 100+ engagement initiative and provide a framework for investor engagement on nature loss.

Climate change is cemented in our consciousness as the primary environmental challenge of our time, however we must not forget the biodiversity crisis. We must avoid being blinkered in our efforts to build a more sustainable future and ensure that climate mitigation does not come at nature's expense. Our efforts to extract the new materials and build the infrastructure that will drive the transition cannot come at the cost of the less tangible fragile ecosystem services that all life on earth relies upon.

“ ”

We see a pressing need for global, coordinated investor engagement on nature loss



Get to know the author:

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Harry joined the Responsible Investment team at BMO GAM in 2022 and covers engagement with extractive and heavy industries, focusing on climate change and natural capital. He previously worked on environmental strategy and engagement at the Church Commissioners for England, having previously set up the Capgemini Group's sustainable innovation and consulting programme. He enjoys running, water sports and exploring the great outdoors with his dog, Woody.

Responsible Investment – a glossary of terms

Its wide-ranging nature means that responsible investment involves a host of associated language and jargon. Here we explain some of the most commonly used terms.



Explore our glossary

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