

Corporations Branch
Market Conduct Division
Treasury
Langton Cres
Parkes ACT 2600

16 February 2023

To whom it may concern,

RE: Water Stewardship Asia Pacific response to
Consultation on Climate-related financial disclosure

I'm writing on behalf of Water Stewardship Australia Ltd, trading as Water Stewardship Asia Pacific, in response to Treasury's consultation on Climate-related financial disclosure.

Water Stewardship Asia Pacific (WSAP) is a member-based not for profit company established in 2010. Our purpose is to promote and support use of water that delivers sustainable environmental, economic, social and cultural outcomes.

Water Stewardship is the global leading practice for demand-side water management, including industrial, agricultural, commercial and institutional water users, and recognised in international financial and ESG reporting and disclosure frameworks; CDP Water, Global Reporting Initiative (GRI), Ceres Valuing Water Finance Initiative, and the Sustainable Development Agenda 2030.

The concept and practice of Water Stewardship originated in Australia in response to challenges faced by businesses during the Millennium Drought. The International Water Stewardship Standard was developed in Australia and launched in 2014 after undergoing a multi-stakeholder international development process. There is now an established Standard and multi-level verification system that is used by a wide range of companies and industries to demonstrate their sustainability performance with water.

Climate change brings major risk and uncertainty to businesses, communities and catchments. Extreme events and disasters associated with a changing climate are taking an enormous toll on public and private water assets, making water one of the most expensive and least secure natural resources in Australia and Asia Pacific region.

Specifically in response to Question 17:

While the focus of this reform is on climate reporting, how much should flexibility to incorporate the growth of other sustainability reporting be considered in the practical design of these reforms?

"...it will be impossible to advance global water security without far stronger private sector leadership – both from companies and the investors owning them. Concerted and focused efforts of investors, companies, and governments to drive change in these unsustainable practices would make a significant positive

impact to protect global water security, economic development, and the lives of millions."

CERES (2022) Global Assessment of Private Impacts on Water¹

We submit that water-related sustainability risks in particular are of vital interest to investors and Australia as a nation. Australia has existing and significant challenges in relation to water, exacerbated by climate change, and a number of water intensive industries set to expand in coming years (e.g. hydrogen) in the context of water stressed regions that are experiencing increasing water scarcity, flooding, social and environmental challenges.

These sustainability risks are often uniquely difficult to capture in the case of water, as water represents a local challenge that cannot be disconnected from local context and stakeholders that rely on shared water availability and access. For example, a particular water source or technological solution to an industry need could be considered to be best sustainability practice in one location, while the equivalent could be a harmful outcome in another location and context.

This represents a key challenge in financial disclosures for water sustainability.

We believe the answer lies in the concept of stewardship, where the blind consumption of a commodity gives way to a locally-engaged and collective approach to responsible management of it instead. Water Stewardship is "the use of water that is socially and culturally equitable, environmentally sustainable and economically beneficial, achieved through a stakeholder-inclusive process that includes both site- and catchment- based actions".

Water Stewardship motivates organisations to engage with water-related risks that include governance, stakeholder resilience, water quality, environmental impact, and community risks, in addition to the real-world security of the water supply needed. A successful disclosures framework would see water treated as an interconnected system, a shared challenge, and a collective opportunity.

There is increasing evidence that water needs to be incorporated into financial disclosure frameworks, for a number of reasons.

- According to the Stockholm International Water Institute, mitigation of climate mitigation 'cannot succeed without water'². For this reason alone it is important that financial disclosures related to climate include water and are accurate and credible.
- There are emerging reports, however, that voluntary financial disclosures related to water are less than adequate. For example, the 2022 Collier FAIRR Protein Production Index³ found that, of the world's 60 largest meat, egg, dairy and aquaculture producers, including companies based or operating in Australia:
 - 87% do not know if supplier farms are located in areas of high water stress;
 - 72% of meat and dairy companies – mostly located in Asia – do not disclose how they address water scarcity risks in feed farming;
 - 83% have not issued plans on preventing water pollution from nitrogen and phosphorous in animal waste;

¹ https://www.ceres.org/resources/reports/global-assessment-private-sector-impacts-water?utm_source=web&utm_medium=lightbox&utm_campaign=GWA22&utm_content=report

² <https://siwi.org/publications/essential-drop-to-net-zero-unpacking-freshwaters-role-in-climate-change-mitigation-report/>

³ FAIRR is an investor network holding \$US60 trillion in assets. See: <https://www.fairr.org/index/company-ranking/>

- 56 of the 60 companies listed are classified as High Risk for either Water Use and Scarcity or Waste and Pollution.
- Evidence of declining performance in water-related disclosures has been published by the ESG CPD Water Platform. Its 2022 'A List' for water disclosures among 900 companies shrank by 12.7% from 118 in 2021 to 103 in 2022⁴.
- The economic reliance on water for food production is profoundly important for human populations. However, of all the world's major ecosystem types, "Nowhere is the biodiversity crisis more acute than in freshwater ecosystems"⁵. Thus for financial disclosures to have credibility, and on ground impact, it is vital that water is included in any future framework.

There are existing and emerging voluntary disclosure platforms that focus on water, and in particular recognise and align with the principles of Water Stewardship, that can provide a solid foundation for water related disclosures.

For example, the CDP Water platform's Water Security 2022 Reporting Guidance notes that "Water presents local issues which need to be understood and managed at a local level; typically at river basin [or catchment], or at least a country level, rather than the corporate level. Investors are increasingly interested in this type of granularity when it comes to assessing the water risk within their portfolios."

The CERES Valuing Water Finance Initiative⁶ and associated Corporate Expectations for Valuing Water⁷ is a new global investor-led effort, comprising 64 companies and \$US9.8 T under management, to engage companies with a high water footprint to value and act on water as a financial risk and drive the necessary large-scale change to better protect water systems. The CERES initiative is particularly important, as it's very tight alignment with the principles of Water Stewardship means that the veracity of claims made through disclosures can be determined by site-level performance in accordance with International Water Stewardship Stand.

Initiatives such as CDP Water and the CERES VWFI thus provide a solution to credibility in sustainability reporting and associated financial disclosures. Water Stewardship provides reliable, quantified verification for organisations managing water responsibly and sustainably at site and catchment levels, and confidence that financial disclosures related to water can be backed up by independent evidence.. It is suggested that there be provision for aligning reporting and disclosure against these existing frameworks.

We believe that it is deeply important to Australia's future communities that there is provision for genuine consideration of water in mandatory disclosure and ESG reporting. We also consider that an existing framework like the Water Stewardship Standard could be rapidly and effectively aligned to the purposes of these reforms and suggest that this be investigated closely.

Should the Australian Government seek to bring water into its financial disclosures framework, we strongly recommend and welcome consultation with Water Stewardship Asia

⁴ <https://www.cdp.net/en/companies/companies-scores>

⁵ <https://academic.oup.com/bioscience/article/70/4/330/5732594?login=false>

⁶ https://www.ceres.org/water/valuing-water-finance-initiative?utm_source=marketingcloud&utm_medium=organic&utm_campaign=vwfi

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https://www.ceres.org/sites/default/files/Ceres%20Corporate%20Expectations%20for%20Valuing%20Water%202022.pdf?utm_medium=organic&utm_source=marketingcloud&utm_campaign=vwfi&utm_source=marketingcloud

Pacific on the incorporation of Water Stewardship standards and principles into such frameworks.

Please contact me should you have any questions or wish to discuss our submission or Water Stewardship further.

Sincerely,

[Redacted]

Chief Executive Officer

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