

Scarce Water Resources of Increasing Concern to NBIM

Limited access to clean water is a growing risk for an increasing number of the companies the Government Pension Fund Global invests in. The United Nations forecasts that almost half the world's population will live in areas facing water stress or water scarcity by 2030. Global demand for water is expected to outstrip supply by 40 percent within the same time, according to McKinsey.

As manager of the fund and a long-term investor in about 8,400 companies, NBIM expects businesses to regularly assess and report on the risks to their operations and supply chains from increasingly scarce water supplies and water pollution. This is the focus of the seminar, "Water Intensive Companies: The Benefits of Managing and Reporting on Water-Related Risks," hosted today by NBIM at the World Water Week in Stockholm.

"Water is an important input factor at many of the companies the fund invests in, but water is not an infinite resource," says Magdalena Kettis, head of social and environmental issues for the fund's ownership activities. "On the contrary, water may become an increasing cost that hurts profitability at many companies. This may in turn affect the fund's investments."

Water was an important input and output factor at 865 companies the fund was invested in with 255 billion kroner at the end of 2010. NBIM has evaluated to what extent 432 of these companies in 2010 fulfilled nine criteria for reporting on water management and water-related risks.

The companies scored an average 2.7 out of a maximum 9 points. A total of 131 companies scored zero, while 10 companies got top marks. Of the companies with the highest score, five were from the food and beverage sector and two were from the electricity and multi-utilities sector. There was also one company from each of the following sectors: water utilities, pharmaceuticals and mining. The fund's average shareholding in each company was 1 percent.

"Far too few companies provide adequate information on water as a risk factor, particularly in their supply chains," Kettis says. "How companies manage and report on these risks will become increasingly important to investors as concern grows over water issues."

Companies with inadequate water management face significant operational risks, such as supply interruptions and higher treatment costs. There are also risks associated with regulation and opposition from local communities and activist groups to companies' water use. Poor water management can lead to liability for damages or the loss of licences and permits. Access to the quantity and quality of water needed for production, as well as more stringent requirements for wastewater emissions, may impact the results of an increasing number of companies in the future.

Water management is one of six strategic focus areas for the fund's ownership activities. The assessment of companies' water management risk reporting was the first by NBIM.

Press inquiries may be directed to:

Communications Adviser Bunny Nooryani, tel: +47 48 02 75 75