

Briefing on biodiversity, deforestation and forest degradation disclosure in the EU

In our new report ‘The State of EU disclosure in 2020’¹ the Climate Disclosure Standards Board (CDSB) has taken a deep dive into the environmental disclosures of the largest listed companies in the EU. Third in the series, we pick up where our previous report ‘Falling Short?’² left off, comparing where we were then and what progress has been made.

Supported by the LIFE programme of the European Union, CDSB reviewed the 2020 environmental disclosures of 50 of Europe’s largest listed companies, with a combined market capitalisation of US\$3.5 trillion, under the EU Non-Financial Reporting Directive (NFRD) and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Our analysis assesses the effectiveness of environmental disclosures in meeting the NFRD’s purpose of increasing the relevance, consistency and comparability of company reporting to support informed stakeholder decision-making on sustainable development. It also supports the corporate reporting process by identifying good practice case studies and tips.

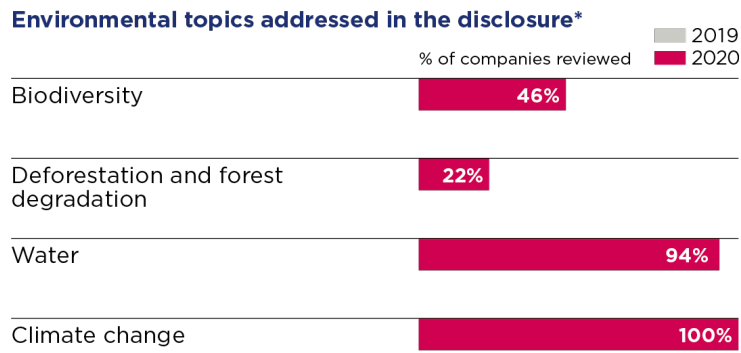
This briefing will provide an overview of the findings of the review with respect to biodiversity, deforestation, and forest degradation disclosures and provides recommendations for companies, policymakers and regulators. It complements two further topic briefings on climate-related³ and on water-related disclosure⁴.

This topic briefing on biodiversity, deforestation and forest degradation examines the state of play on EU disclosures via mainstream reports.

Insights on biodiversity and forest-related disclosure

Overall summary

Our research emphasised that both biodiversity (46%) and forest-related disclosures (22%) are emergent areas of focus within corporate environmental disclosure, addressed by reviewed companies.



*Aspect first assessed in 2020, therefore 2019 data unavailable

¹ CDSB (2020) The state of EU environmental disclosure in 2020. [PDF]. Available from: <https://www.cdsb.net/nfrd2020>
² CDSB (2020) Falling Short? Why environmental and climate-related disclosures under the EU Non-Financial Reporting Directive must improve. [PDF]. Available from: <https://www.cdsb.net/falling-short>
³ CDSB (2021) Climate and TCFD disclosure briefing: The state of EU environmental disclosure in 2020. [PDF]. Available from: <https://www.cdsb.net/nfrd2020>
⁴ CDSB (2021) Water-related disclosure briefing: The state of EU environmental disclosure in 2020. [PDF]. Available from: <https://www.cdsb.net/nfrd2020>

There are initiatives to improve biodiversity and forest-related disclosures from both a regional (e.g., EU Biodiversity strategy) and national policy level, where France's national biodiversity protection strategy saw 75% of French companies in the analysed sample address biodiversity.⁵ In addition, ongoing initiatives (e.g., [One Planet Business for Biodiversity](#), [Act4Nature](#) and [Fashion Pact](#)) with respect to nature and biodiversity are encouraging corporates to consider and take action on these challenges, and companies are responding.

Nevertheless, disclosure on these topics is at an early stage – far from comprehensively covering the different reporting elements required by the NFRD, or from having the structure that is increasingly adopted for climate via the implementation of the TCFD recommendations. This is reflected in the generic nature of management approaches to these topics and related disclosures, as well as in the high-level commitments.

A promising reporting practice identified by research highlights the link between biodiversity and nature with other environmental topics that are commonly disclosed. 20% of the companies referred to biodiversity, forests and nature when reporting on management responses to climate change and water stewardship. For example, climate mitigation through both reduction of emissions from deforestation and carbon offsetting via protection and restoration of biodiversity-rich areas, and water stewardship through conservation and restoration of freshwater and marine ecosystems.

The upcoming [CDSB Framework Application Guidance for land use and biodiversity-related disclosure](#) (CDSB Land Use and Biodiversity Guidance) supports preparers in the disclosure of material land use and biodiversity-related information in corporate mainstream reports. It does this by providing detailed reporting suggestions and guidance on land use and biodiversity governance, strategy and policy, risks and opportunities, impacts, performance and future outlook, reference to useful external resources and examples of good practices.

Disclosure of biodiversity and forest-related information will now be explored in further detail.

Business model

Only one company explicitly integrated biodiversity and none mentioned forests in the description of their business models. Despite this, preliminary and promising steps in integrating strategic biodiversity [and forests] matters were evident in other aspects of disclosures:

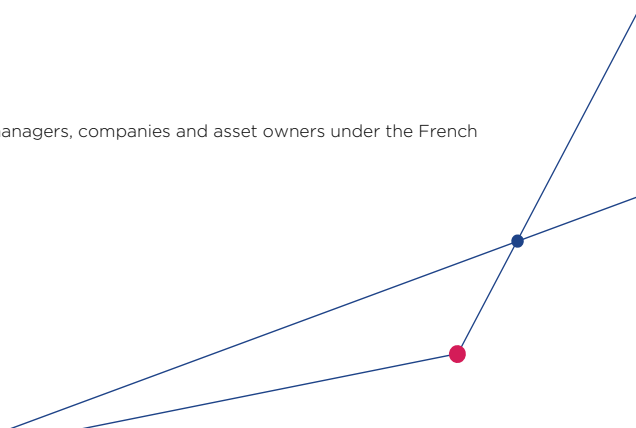
- 18% considered biodiversity in the development of products (e.g., insurance) or business lines (e.g., design of nature-based solutions), or integrated the topic in their environmental strategy; and
- 4% had implemented initiatives relating to zero deforestation products.

Policies and due diligence

Despite the relative novelty of biodiversity and forest-related disclosure for companies, they are often disclosing preliminary policies and goals. However only few have set quantitative targets.

- 42% disclosed a biodiversity policy, strategy or commitment, often integrated within the wider environmental policy. However, policies typically lacked quantitative targets, underlining the need for improvement in biodiversity assessment and accounting methods;
- 14% disclosed forest-related policies on or commitment to eliminating deforestation in supply chains for commodities such as palm oil, soybeans, paper, wood-based commodities and bio-based plastics; and
- 20% disclosed specific or localised actions aimed at tackling biodiversity loss, which are not directly linked to business policies or goals. These actions are often generic, or small-scale, and are not linked to material issues, e.g., the installation of beehives at an office.

⁵ Additionally, the French Parliament requires the disclosure of biodiversity impacts by asset managers, companies and asset owners under the French Energy Transition Law - [SOURCE](#)



Outcomes

The nascent stage of biodiversity and forest-related policies affected the disclosure of outcomes, which were usually neither linked to a clear company policy, nor disclosed quantitatively.

- 10% disclosed biodiversity-related outcomes such as the number of actions or projects implemented, the area covered by biodiversity projects, number of threatened species⁶ or protected areas threatened by operations sites, and development of biodiversity action plans; and
- 6% disclosed forest-related outcomes with a focus on certification of responsible raw material supply and suppliers.

Principal risks

As underlined by the [Final Report of the Dasgupta Review on the Economics of Biodiversity](#), the degradation of nature poses significant financial risks to business. Nevertheless, biodiversity and forest-related risks were weakly disclosed, with only a few companies disclosing biodiversity risks and none reporting forest-related risks. This result can also be influenced by the poor understanding of those risks, which may only impact individual businesses indirectly.

- 16% of companies referred to biodiversity-related risks in their mainstream reports. Disclosed risks were reputational or legal, e.g., non-compliance with regulation, or incidents and accidents that impact local environment and biodiversity;
- Few companies recognised biodiversity as a direct financial risk, or its interrelationship with climate risk; and
- 20% disclosed about specific management actions to tackle forest-related risks, such as forests restoration, certifications of suppliers or customers, and incentives to suppliers to abandon practices that cause deforestation.

Key performance indicators

The research highlighted the current lack of quantitative biodiversity and forest-related KPIs. Biodiversity KPIs refer to protected species¹ and areas, while forest-related KPIs regard participation in sustainability certification schemes for forest products. Some of the ongoing research activities and initiatives mentioned in the analysed reports aim at developing biodiversity indicators for corporate (e.g., Biodiversity Impact Metric).⁷

- 10% disclosed biodiversity KPIs, which often consist of basic accounting and inventory metrics that are not linked to company policies or risks (e.g., metrics such as the presence of protected species within operating areas, the number of conservation projects being undertaken, operations within or close to protected or conservation areas); and
- 4% disclosed forest-related KPIs on responsible sourcing, e.g., the percentage of raw materials sourced through certification schemes.

Materiality

24% of the reviewed companies considered biodiversity-related issues as material for their business. The main justifications offered for the identification of material biodiversity issues were risks for company reputation (given the momentum around the topic or the risks of incident, such as oil spills), or significant dependency on agricultural production, which strongly relies on natural ecosystems.

Conversely, some companies disclosed biodiversity not to be material for the business and the explanations provided in the reports often showed a limited understanding of the topic. This underlined the low maturity in the recognition of the interdependency and connectedness of different aspects of nature, and of the business dependency on biodiversity.⁸

⁶ IUCN Red list of threatened species. LINK: <https://www.iucnredlist.org/>

⁷ Cambridge Institute for Sustainability Leadership, 2020. Measuring business impacts on nature: A framework to support better stewardship of biodiversity in global supply chains.

LINK: cisl.cam.ac.uk/resources/natural-resource-security-publications/measuring-business-impacts-on-nature.v

⁸ WWF (2020) Living Planet Report 2020 - Bending the curve of biodiversity loss. Almond, R.E.A., Grooten M. and Petersen, T. (Eds). WWF, Gland, Switzerland. Available at: <https://f.hubspotusercontent20.net/hubfs/4783129/LPR/PDFs/ENGLISH-FULL.pdf>

Recommendations for corporate report preparers

1. **Disclose clear commitments to address biodiversity, deforestation and forest degradation issues, by underlining ongoing efforts to assess the strategic relevance for the business, referencing to existing initiatives and frameworks.**

Given the relatively early stage of disclosure, companies should demonstrate their (1) awareness of existing initiatives and tools on biodiversity and nature, their (2) engagement in the process of understanding the relationship between business biodiversity and natural ecosystems, and their (3) integration of material biodiversity, deforestation, and forest degradation-related topics in their business strategies.

2. **Provide biodiversity and deforestation and forest degradation-related disclosures that are specific to your business by considering the entire value chain and the link with other environmental topics.**

When assessing and disclosing on biodiversity, deforestation, and forest degradation, consider business-specific dependencies and impacts, including reference to specific locations and timing of such interactions, and the wider value chain. Given the complexity of the topics, companies can adopt a gradual approach in integrating biodiversity and natural ecosystems, and provide related disclosures. Companies could start by disclosing their potential direct operational impacts on protected or biodiversity-rich areas, and the links with other environmental topics addressed by the company such as climate change.

3. **Consider, assess and disclose biodiversity and forest-related information in all the reporting areas required by NFRD and maximise coherence and connectivity within the report.**

Biodiversity and natural ecosystems (including forests) as other environmental topics should become part of the business strategy. When assessing and reporting on these topics, companies should integrate them in all the crucial business areas, from strategy to risks and business performance.

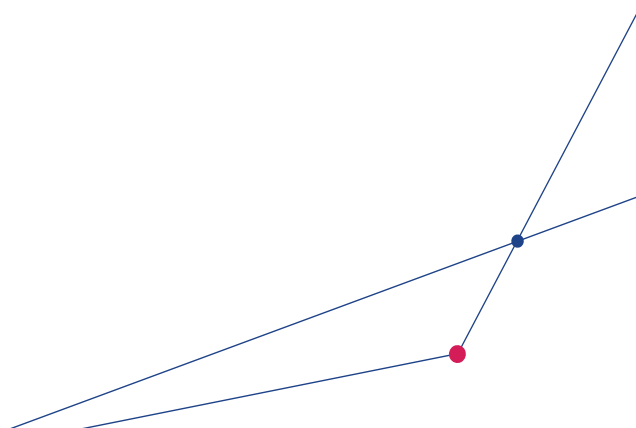
Recommendations for policymakers and regulators

1. **Ensure that environmental issues beyond climate, including biodiversity, deforestation and forest degradation, are explicitly and clearly integrated and addressed under 'environmental matters' in the revision of the NFRD, in order to minimize ambiguity and consequent inconsistencies in reporting practice.**

While neither climate change nor biodiversity are explicitly referred to in the NFRD under environmental matters, the June 2019 Guidelines on reporting climate-related information refer to the UN SDGs, the Paris Agreement and TCFD. Therefore, despite the absence of the terms from the language of the Directive, the NFRD's intention appears to cover climate and biodiversity under the auspices of "environmental matters". This ambiguity, however, has created uncertainties for preparers and inconsistencies in reporting practice when comparing disclosures, with a lack of disclosures on biodiversity, as found in the CDSB's review of non-financial reporting in the EU.

2. **Apply the TCFD's recommendations for other ESG information, such as biodiversity and natural capital in order to have a unified approach, ensuring consistency and connectivity of information.**

This will ensure we have a unified approach, guaranteeing consistency and connectivity of information. Creating a global standard for climate-related metrics as part of TCFD disclosures is essential to establish consistent and comparable reporting with the least reporting burden on companies. ESG information in the management report, including biodiversity, deforestation and forest-degradation, should cover all four elements of the TCFD (i.e., Governance, Strategy, Risk Management, Metrics & Targets). As stated by the TCFD recommendations, Risk Management and Governance of ESG matters shall be disclosed regardless of materiality.



3. Ensure consistency across EU policies in order to guarantee that company disclosure supports wider EU policy goals, such as those included in the Biodiversity⁹, Forestry¹⁰ and Sustainable Finance¹¹ Strategies.

This will support coherence connectedness across corporate disclosure and ultimately enable effective corporate contribution to the EU Green Deal's goals.

For questions relating to this, please contact our Technical Managers, Francesca Recanati (Francesca.Recanati@cdsb.net) and Laura Clavey (Laura.Clavey@cdsb.net) who are leading CDSB's work on the development on the Biodiversity Application Guidance.

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⁹ European Commission (2020) Communication from the Commission – EU Biodiversity Strategy for 2030: Bringing nature back into our lives (COM/2020/380 final) [Online]. Available from: https://ec.europa.eu/environment/nature/biodiversity/strategy/index_en.htm

¹⁰ European Commission (2020) The EU Forestry Strategy. [Online]. Available from: https://ec.europa.eu/info/food-farming-fisheries/forestry/forestry-explained_en#theeuforeststrategy

¹¹ European Commission (2018) Communication from the Commission – Action Plan: Financing Sustainable Growth. [Online]. Available from: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52018DC0097>