



Sustainability and Commodities

This edition of WWF's commodity update features an article on payments for ecosystem services in Florida as well as updates on some of the global commodity roundtables that we know are of interest to the finance sector. There is growing interest in ecosystem service markets and the role that financial institutions can play in supporting and enabling them (for example see the ecosystem market place web site www.fresp.net).

Water and nutrient reduction markets are already delivering important environmental and social benefits, as well as generating new business products and opportunities for some financial institutions. Markets for forest carbon are generally reckoned to be a bit further away - continuing uncertainty over regulations, governance and ownership of forest carbon resources seem likely to constrain commercial activity in this area over the coming few years at least. Ecosystem market opportunities are not evenly spread and require a range of supporting regulations and public policy commitments. Currently the USA, Australia and Brazil lead the charge in providing an enabling environment for such markets. Interestingly China is also exploring such ideas as well - so these opportunities certainly aren't restricted to the OECD.

Despite these encouraging trends, [WWF's 2010 Living Planet Report](#) (LPR) confirms that biodiversity loss continues apace. The LPR has become an

important biannual benchmark of the state of the world's biodiversity and ecosystems. This edition, released October 2010, contains stark messages about the continuing loss of biodiversity and the attendant social, economic and financial impacts. Biodiversity loss is most serious in emerging markets, and soft commodity sectors such as palm oil, soy, wild capture fisheries and pulp/timber are clearly significant drivers of biodiversity loss globally.

There are encouraging signs, including uptake of voluntary standards such as RSPO and MSC, recognition from the business sector that biodiversity loss is a risk to business ([refer to McKinsey Global Survey Results](#)) and market driven responses by [global corporations to poor sustainability practices](#), but much more needs to be done. The financial sector can play an important role here and urgently needs to get engaged. I do recognize also that the limited ambition and commitment of many public policies and regulations relating to biodiversity creates an uncertain and difficult environment for the financial sector, and we are all hoping that the recent outcomes from the [Convention on Biodiversity](#) in Japan will address at least some of these deficiencies.

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Payment for Ecosystem Services

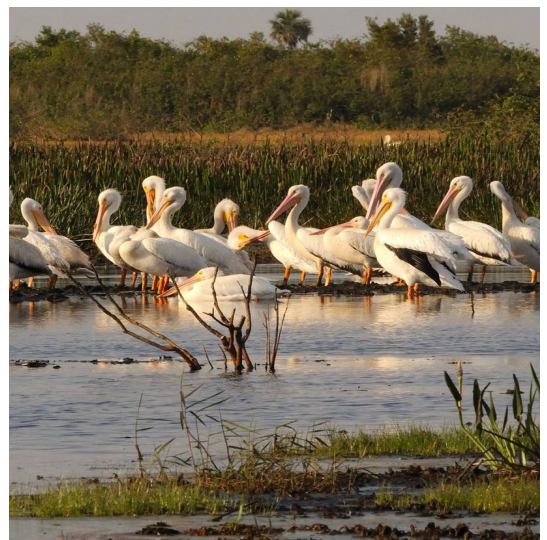
Florida Ranchlands Environmental Services Project, by Sarah Lynch, Director of Agriculture, WWF U.S.

Over the past four years the Florida Ranchlands Environmental Services Project (FRESP) has been field testing elements of a Payment for Environmental Services (PES) program where cattle ranchers can use working agricultural land to provide valuable water-related environmental services, using market-like concepts to increase the provision of environmental services. The state of Florida has decided to take this design to scale in a new Northern Everglades PES by modifying existing water management systems on a ranch to capture water and reduce the amount of phosphorus in surface water drainage. Ranchers help to improve water quality and quantity in the Northern Everglades Lake Okeechobee watershed, as well as maintain and enhance wildlife habitat.

The Payment for Environmental Services (PES) program is designed to achieve two important goals. On-ranch water management for water retention and phosphorous removal adds a new tool for water managers to secure these critical services. At the same time, it contributes to ranch economic sustainability. PES provides another source of income for ranchers, helping them to increase their profitability, and keeps ranchland from being converted to more intensive uses that could have adverse impacts on water quality and wildlife.

Key elements in the new Northern Everglades PES program:

- The water management services will be produced on **working agricultural lands**.
- These water management services will be produced by **modifying existing water management structures and strategies**.
- Ranchers enter into **10 year fixed-term contracts**, not easements.
- Payment is based on **provision of documentation annually** to demonstrate that, subject to rainfall, the landowner met the terms of the contract to provide water management services.
- All landowners by law are expected to meet some **threshold of provision** of water management services. Only the services that exceed the regulatory baseline will be eligible for payment.
- The PES program creates a **new ranch profit center**. The new product - water management services- generates a new revenue source for the ranch operation.



Ranchlands provide habitat for many wading and migratory birds

Snapshot of Recent Developments in Commodity Roundtables



Soy

On June 10th, 2010, the Round Table on Responsible Soy (RTRS) approved standards that will help ensure soy production is undertaken in an environmentally sound and socially responsible way, avoiding clearance of native forests and other areas important for conservation. The standards are available at <http://www.responsiblesoy.org/>. The certification system to verify compliance with the standards and establish methods to trace the soy is under development, and RTRS certified soy beans should be available on the market in March 2011. In other good news, the "Soy Moratorium" in the Amazon was renewed for another year. For more details, please visit http://www.abiove.com.br/english/sustent/relatorio09/monitoramento09_press_release_8jul10_us.pdf.



Cotton

The Better Cotton Initiative (BCI) is in its first year of implementation (www.bettercotton.org). The BCI is collaborating with more than 80,000 farmers across more than 200,000 hectares of land in Brazil, India, Pakistan and Mali. BCI's Implementing Partners are doing tremendous work and we expect to see improvements this year in the economic, environmental, and social sustainability of cotton farming. The results of these sustainability improvements will be available after harvest is finished, when farmers know what their income was from the season and when the first BCI cotton is available on the market. The total yield of cotton from the 80,000 farmers involved in 2010 is expected to be more than 100,000 metric tons of cotton lint (approx. 0.4% of global production). Not all of this cotton will meet the BCI Minimum Production Criteria yet, but the market is eagerly waiting to purchase this new commodity.



Biofuels

The Roundtable on Sustainable Biofuels (RSB) has finalized the first round of field tests and is working towards incorporating the feedback in the 1.1 version of the RSB Standard. Details of the ongoing public consultation and the synopsis from the field tests are available from <http://energycenter.epfl.ch/page87086.html>. In another important development it has been decided that all RSB certified biofuel blends will have to produce at least 50% GHG savings compared to the fossil fuel reference. Additionally, the RSB is gaining growing market recognition. In July the RSB was recognized by UK regulators under the UK biofuel sustainability framework, and the EU is currently assessing the RSB under the obligations set out in the Renewable Energy Directive.



Aquaculture

Global standards for the shrimp and salmon aquaculture industries are in the final stages of development. The standards will address the key negative impacts salmon and shrimp aquaculture can have on the environment and society. They will be the most credible shrimp and salmon standards in the marketplace, given that they will be the product of an open and transparent process, coordinated by WWF, involving almost 1,000 people, including the world's largest salmon farming companies, leading aquaculture scientists, retailers, and NGOs. Final standards are expected in December for shrimp and in early 2011 for salmon. When completed, the standards will be given to a new and independent entity, the Aquaculture Stewardship Council (ASC), which will be responsible for working with independent, third party entities to certify farms that are in compliance with the standards. The ASC, which will be in operation by mid-2011, recently appointed Accreditation Services International to accredit and oversee the certifiers. For more information, go to www.worldwildlife.org/aquadialogues.



Palm Oil

The Roundtable on Sustainable Palm Oil (RSPO), meeting this month, 8-11 November, Jakarta, Indonesia, is rapidly evolving from a small group of stakeholders discussing what sustainable palm oil is to a very large organization now delivering certified sustainable palm oil to the world. Its larger membership and much more public profile have resulted in increased scrutiny of its membership. The RSPO has developed a procedure to deal with complaints against members in a timely, fair and credible manner. The finance sector also represents an important stakeholder in the RSPO and in pushing companies to follow the principles and criteria of the roundtable.

Next Edition

Our next edition of the Commodity Update will be available in February 2011 and will feature a review on forest carbon, following the 16th Conference of the Parties, United Nations Climate Change Conference in Cancun, Mexico, November 29 -December 10, 2010.

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