

Navigating the tipping points of biodiversity loss

Biodiversity loss isn't just an environmental issue, it's a financial risk, says Robert-Alexandre Poujade, ESG Analyst and Biodiversity Lead at BNP Paribas Asset Management. Financial Investigator spoke with him about key tipping points, their investment implications, and how investors can integrate biodiversity risks into their decision-making.

By Esther Waal

What are the critical tipping points in relation to biodiversity loss? And how might these impact investments?

'The planetary boundaries remind us that we should think about our investments in the context of the Earth system. Out of the 25 Earth tipping points identified in the latest Global Tipping Points report released at COP28 in 2023¹, 16 biosphere tipping points are directly connected to biodiversity loss: forest dieback – with the Amazon as a textbook example – savanna

and dryland degradation, lake eutrophication, die-off of coral reefs, mangroves and seagrass meadows, and fishery collapse.

Since the adoption of the Global Biodiversity Framework (GBF) at COP15 of the Convention on Biological Diversity (CBD) in Montreal in December 2022, we have seen an increase in awareness of the potential economic implications of biodiversity loss among governments and businesses.

A recent World Bank study² found that, in a worst-case scenario of partial ecosystem collapse, Malaysia could experience a 6% GDP annual loss by 2030 compared to a baseline scenario. For example, we know that changing rain patterns are affecting water availability for humans, agriculture or hydroelectricity.

As a global investor, we are ultimately exposed to all the economic consequences linked to the change of dynamics of the planet.'

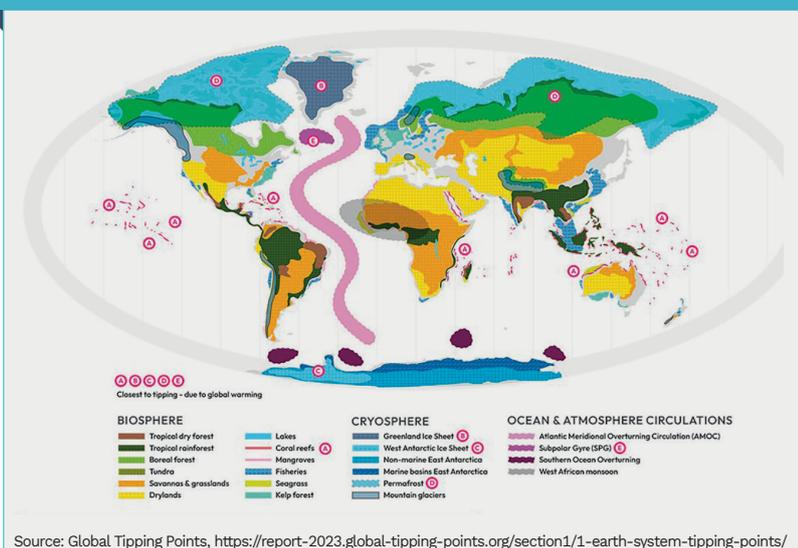
How can investors address and incorporate tipping points related to biodiversity loss into scenario analyses for investment portfolios?

'Investors need to be aware of these tipping points to better understand the investment trade-offs to make when considering other dimensions than just carbon for example. Think about large scale hydro. It is a good way to produce low-carbon electricity, but what about its impacts on terrestrial and aquatic biodiversity?

This is why we first look for macro-level guidance and scenario analysis from the Taskforce on Nature-related Financial Disclosures (TNFD) and the Network for Greening the Financial System (NGFS). For example, the NGFS recently released its framework for nature showing how systemic risk affects financial stability with two interesting illustrative cases, the Colorado River Basin in North America and the Amazon Rainforest in South America. We can then try to map our exposure to these areas to better understand potential impacts for our portfolios.

When it comes to analysing how corporates are themselves taking into account these dynamics, there are also obvious links to the Science Based Targets Network's ongoing work on freshwater, land, ocean and biodiversity.'

FIGURE 1: PARTS OF THE EARTH SYSTEM IDENTIFIED AS FEATURING TIPPING POINTS



‘Addressing biodiversity loss as an investor requires at the same time modesty and ambition.’

In scenarios analysing the impact of climate change and biodiversity loss on investment portfolios, how can double counting of impacts – such as those on agriculture – be avoided?

‘We are more concerned of investors and companies avoiding analysing the impact of biodiversity loss on their portfolios and businesses, rather than any double counting issues. We mentioned the increased awareness on biodiversity loss in the private sector, but the reality is that the available data resulting from current macro scenario and corporate disclosure is heavily tilted only on how the economy can reach net zero by 2050.’

To what extent are transition risks related to biodiversity loss significant for investment portfolios? How to value these risks?

‘We’ve taken a sector approach to value these risks to better reflect double materiality. But since location and supply chain data is usually only partially available, we are aware that we need to progress in our understanding of our potential exposure to biodiversity loss. Today, we use proxies from our data providers and estimates from our own research, which are initial steps to assess transition risks related to biodiversity loss. For example, in our own analysis³, we compared the projected rate of decrease of our corporate holdings potential deforestation and conversion of natural ecosystems to the required rate as embedded in the ‘Inevitable Policy Response (IPR) Forecast Policy Scenario (FPS) + Nature’ scenario⁴.’

How can investors address the challenges and risks of using multiple data providers when measuring the impact of biodiversity loss on their portfolios?

‘Our strategy is to combine the best available biodiversity data to meet what our clients need. These needs (such as repor-

ting and decision-making) differ from one asset class to another (such as listed corporates, private assets, and sovereign). For example, for our Responsible Business Conduct screening of palm oil or wood pulp, we use ZSL SPOTT that provides policies, programs, and impact indicators. For our mandatory disclosures as per French article 29 regulation, we use Iceberg Data Lab Coverage which covers approximately 75% of our investment in corporates and approximately 94% in sovereigns for our Europe perimeter. For project-level analysis, such as mining, infrastructure or real estate, we have embedded a protected area screen using IBAT based on proximity, given we usually have access to the GPS coordinates of the project that we consider for investment.’

What are the key lessons from your Biodiversity Roadmap since its launch in 2021?

‘Addressing biodiversity loss as an investor requires at the same time modesty and ambition. This is why we’ve launched a specific strategy with clear objectives⁵ by 2025, leveraging on significant resources, ranging from company screening, sector deep-dives, or stewardship efforts.

This strategy can only be implemented through collaboration with several partners to ensure a scientific and empirical foundation for the transition, either on data with Naturalis, on standards with Partnership for Biodiversity Accounting Financials (PBAF), or with Capitals Coalitions.

We also value our continuous dialogue with our clients, who expect us to increase our range of biodiversity-related strategies across listed and private assets, while also supporting the transition to a less harmful economy for biodiversity.

Educating our workforce has been identified as one of the biggest levers to drive change within our organisation. We already embed biodiversity considerations, but it is a long journey. Our next step is to move from a biodiversity-aware mindset to a biodiversity-protection attitude from all our employees in their professional activity.’ ■

- <https://report-2023.global-tipping-points.org/section/1-1-earth-system-tipping-points/>
- <https://documents1.worldbank.org/curated/en/099315003142232466/pdf/P175462094e4c80c30add50b4ef0fa7301e.pdf>
- <https://docfinder.bnpparibas-am.com/api/files/3F133AE1-6792-438F-8786-2D3C39D04D35>
- <https://www.unpri.org/inevitable-policy-response/ipr-forecast-policy-scenario--nature/10966.article>
- <https://docfinder.bnpparibas-am.com/api/files/5a588f17-f044-4b52-bd2c-9d4921b08bad>



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SUMMARY

16 biosphere crises, including forest dieback, coral reef loss, fishery collapse, are currently impacting economies.

TNFD, NGFS, and corporate analysis can be used to assess risks.

Avoiding analysing the impact of biodiversity loss on portfolios and businesses is a bigger issue than double counting the impact.

A sector-based approach helps to improve data quality.

Investors can combine sources like ZSL SPOTT, Iceberg Data Lab, IBAT to combat data challenges.

Partnerships, and workforce education are part of the efforts to address biodiversity loss, in addition to company screening, sector deep-dives, and stewardship efforts.