

THE BUSINESS'S COMMERCIAL SUCCESS SUBSTANTIALLY DEPENDS UPON:

RED FLAG NO.

Depleting natural resources or public goods such that it undermines access or health.

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RED FLAGS IN THE VALUE CHAIN

- Such as:**
- Harvesting of wild flora by agricultural or pharmaceutical companies depleting traditional food sources for indigenous communities
 - Extractive projects leading to an influx of people that places stress on local services, such as in communities near mine sites
 - Tech companies establishing large corporate headquarters in urban areas and reducing access to affordable housing
 - Manufacturing activities that lead to pollution of the water, soil or air at levels that have an impact on people's health
 - Water extraction by food and beverage companies leading to water stress in a given catchment



HIGHER RISK SECTORS:

- Extractive industries
- Large-scale projects, e.g. hydropower projects, construction projects
- Manufacturing
- Agribusiness and industries that rely on agricultural commodities
- Consumer products, including health and beauty products and supplement products which incorporate natural resources relied upon by indigenous populations



KEY QUESTIONS FOR LEADERS TO ASK OR BE ASKED:

- How does the company assess whether environmental, housing and other relevant laws and regulations where it operates or sources are sufficient, and sufficiently enforced, to protect human health, livelihoods and other human needs?
- How does the company assess whether that is the case when it comes to cumulative impacts from multiple users of resources, and not just for individual users?
- Where local laws and regulations are not sufficient, or not sufficiently enforced, how does the company assess whether such impacts may be occurring due to the added demands of its own business or supply chain?

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RISKS TO PEOPLE

- Impacts on people through resource depletion or emissions into air and watersheds can occur as a result of individual or collective corporate activities.
 - The activities of individual companies may, for example, overtax a resource, particularly in an existing context of scarcity. While individual corporate activity is more typically regulated than cumulative impacts (see below) this is not the case in all geographies (e.g. rural areas in some geographies).
 - A company may also contribute to cumulative impacts (a total impact that is the result of the actions of more than one actor) where it is one of several actors involved in an impact that depletes, destroys, pollutes or otherwise damages a resource or access to that resource.
- In both cases, this can lead to impacts on people's health and livelihoods. People most commonly affected by corporate resource include those in physical proximity to sites of corporate activity, such as in the vicinity of extractive projects, hydropower and construction projects, large farms or plantations or large corporate headquarters in urban areas.
- Government authorities "frequently fail to undertake cumulative/strategic impact assessments, and even where such assessments are undertaken, human rights information relevant to such assessments is not taken into account" (OHCHR).
- Corporate activities may be associated with:
 - Reduced water availability for local communities (*Right to health*).
 - Long-term health problems amongst local people as a result of their own emissions, or as contributors to cumulative air and water emissions from multiple industrial facilities concentrated into a single area (*Right to health*).
 - Water emissions from a single factor or several factories that flow into a single waterway – reducing fish stocks and undermining local livelihoods and nutrition (*Right to adequate standard of living (right to food)*).
 - Price inflation, pressures on social services and affordable house and increased levels of anti-social behaviour in towns near to or hosting extractive projects that attract a large influx ("in-migration") of actual/aspiring workers and their families (e.g. housing, rents and access to medical services). (*Right an adequate standard of living (right to housing)*).
 - Scarcity of resources for indigenous or other local communities, where a company contributes to harvesting of, e.g. a plant for use in products (*Indigenous peoples' rights*).

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RISKS TO THE BUSINESS

- Reputational Risks:** Cumulative impacts often generate considerable attention and multinational corporations can be targeted for criticism, particularly where people believe that approaches to governments may have little effect.
- Legal Risks:** Companies that do not address their impacts can face legal action for their contribution, or preemptive action to prevent it (as has been seen in the case of concerted action to prevent multinational companies from creating bottling plants – and drawing on water – in India).
- Regulatory Risks:** Where management of a resource is unsatisfactory, public pressure can lead to regulation creating taxes, limits or prohibitions on use of the resource.
- Operational Risks:** The IFC notes that:
“[o]ne of the biggest risk management challenges currently facing project developers in emerging markets is the appropriate assessment and management of cumulative impacts” and cites factors such as *“climate change and unpredictability of climate patterns, increasing and competing water use demands, decline of species biodiversity, degradation of ecosystem services, and changing socio-economic circumstances”* which it notes *“add complexity to risk assessment and management.”*
- Financial Risks:** Concerns over corporate resource use or emissions can lead to shut-downs with significant financial impacts. A multi-billion dollar mine expansion in Peru was abandoned over community concerns about water stress.
- Business Continuity Risks:** In the mid-2000s, protestors blocked a bridge over plans by two companies to build two pulp mills on the Uruguayan side of the Rio Uruguay, citing concerns that the plants would generate pollution which could harm health of communities and destroy their main sources of income, including tourism and agriculture. One company ultimately decided to relocate its pulp mill to a different area of Uruguay and the remaining pulp mill was the subject of a 2010 ICJ judgment.

HIGH-LEVEL
DECISION-MAKING

RISK TO PEOPLE

RISK TO THE
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UNGP's & SGD's
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WHAT THE UN GUIDING PRINCIPLES SAY:

**For an explanation of how companies can be involved in human rights impacts, and their related responsibilities, see [here](#).*

The **State has a duty to protect** its people from harm to their health and other human rights, through appropriate regional planning and/or industry-wide regulation. However, States are not always able or willing to manage impacts: corruption may interfere with the management of single corporate impacts, for example, or the government may have a lack of technical capacity to understand and manage complex cumulative impacts. Notwithstanding, companies have a responsibility to address such impacts.

Cumulative impacts (also known as “collective impacts”) are one of the two ways in a company can contribute to impacts. (See [OHCHR](#) at page 16).

Situations can arise **in which companies are directly linked** to such impacts by way of their products, services or business relationships. Examples would include food and beverage companies that rely on agribusiness where resource based impacts occur, and companies in various industries that rely on other commodities extracted in association with such impacts. In some circumstances, foreseeability of the relevant impacts and a lack of mitigation measures can, over time, lead to a situation of contribution.

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POSSIBLE CONTRIBUTIONS TO THE SDGs:



SDG 6: Ensure availability and sustainable management of water and sanitation for all, in particular:

- **Target 6.3** By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally
- **Target 6.4** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity



SDG 12: Ensure sustainable consumption and production patterns, in particular:

- **Target 12.6** Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle
- **Target 12.2** By 2030, achieve the sustainable management and efficient use of natural resources



SDG 15: Sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

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DUE DILIGENCE LINES OF INQUIRY:

- How do we assess whether our use of resources, including natural resources, could impact vulnerable populations that need to benefit from those same resources?
- Do we include in our assessments, the potential for contributing to these kinds of harm through cumulative impacts?
- How do we assess baseline conditions and measure the incremental impact of our activities, products and services, including when added to other existing or planned projects and developments?
- How do we engage with regulatory authorities and others to understand whether and how they mitigate these risks and measure the results?
- Where these risks exist, what sort of leverage do we have to influence the situation and how might we increase that leverage at the start of any project or investment? Have we considered ways of increasing our leverage by acting in collaboration with others?



ALTERNATIVE MODELS:

- **Emissions and Waste (various):** Closed-loop business models “keep products, components and materials at their highest utility and value – reducing the need for extracting and processing new resources and, in the process, cutting the related impacts on the environment” and people. See further [UNGC Project Breakthrough](#).
- **Danone** treats three key resources – water, milk and plastic – as part of closed loops, with a senior executive overseeing Danone’s cross-divisional, cross-functional, Strategic Resources Cycles Unit.



MITIGATION EXAMPLES:

**Mitigation examples are current or historical examples for reference, but do not offer insight into their relative maturity or effectiveness.*

- The CEO Water Mandate: Shift and the Pacific Institute (Mandate secretariat) partnered on bringing a UNGPs lens to company efforts to respect the human rights to water and sanitation. Endorsers of the CEO Water Mandate commit to continuous progress against six core elements of stewardship and in so doing understand and manage their own water risks.
- A company in the food and beverage industry considering entry into Myanmar identified, among other things, potential impacts that could arise from reliance on extracted ground-water at one plant near a village which also depended on groundwater for domestic and livelihood use. The company’s actions in response included upgrading wastewater treatment stations at both plants, and conducting assessments of local water sources. (See further CEO Water Mandate at p.78).
- Rio Tinto’s, Why human rights matter: a resource guide for integrating human rights into Communities and Social Performance work at Rio Tinto (page 37) describes how the company incorporates its potential contribution to cumulative human rights impacts into its assessment of the social impact of mining, metals and associated operations.

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OTHER TOOLS AND RESOURCES:

General

- UN Global Compact (2014) *Cumulative Impacts on Human Rights*: UNGC webinar addressing the “challenges and best practices in respect of cumulative human rights impacts.” Includes contributions from UNU, Shift, First Peoples’ Worldwide, Rio Tinto and Anglo American.
- *Cumulative Human Rights Impacts* in the Maplecroft/ UN Global Compact Human Rights and Business Dilemmas Forum: Contains scenarios, examples, case studies and suggestions for business in relation to the question, “How should a responsible company identify and address its incremental contribution to a cumulative human rights impact, particularly an impact on an individual or a community that is the result of the combined actions of several actors?”
- IFC (2013) *Good Practice Handbook Cumulative Impact Assessment and Management: Guidance for the Private Sector in Emerging Markets*: Contains guidance concerning cumulative impact assessment in the context of an ESIA (environmental and social impact assessment) or stand-alone CIA (cumulative impact assessment). Powerpoint [summary](#) also available.
- UN Working Group on Business and Human Rights Expert Roundtable on *Cumulative Human Rights Impacts*.

Sector Specific Examples

- **Oil and Gas**: Myanmar Centre for Responsible Business (2014) Myanmar Oil & Gas Sector-Wide Impact Assessment Report:

Created to support responsible business practices in the sector, the report contains a dedicated chapter discussing and assessing cumulative impacts.

- **Mega-infrastructure Investment**: OHCHR (2017) *Baseline Study on the Human Rights Impacts and Implications of Mega-Infrastructure Investment* (pp. 50 and 61).

Impact specific example (Water Usage):

- The [CEO Water Mandate’s Water Action Hub](#) “raises awareness, catalyzes collaboration, and scales critical lessons on water sustainability around the world.” It catalogues over one thousand water-related projects, including [distilling lessons learned on many projects](#).
- The Beverage Industry Environmental Roundtable, has produced the [Practical Perspective on Managing Water-Related Business Risk and Opportunities in the Beverage Sector](#) report in which members “share [their] collective experience and illustrate how the members of BIER and their suppliers ...approach ... the technical and business aspects of water risks and opportunities ... how best to gather data and use the wide variety of tools, resources and [share] guidance available to support such endeavors.”
- As part of the release of its Transition Minerals [Impact] Tracker, BHRRC has released a [case study](#) exploring the threat to water rights from “commodities vital to the clean energy transition”, particularly in Indigenous communities.

This resource is part of Shift’s collection of Business Model Red Flags, developed as part of the Valuing Respect Project and generously funded by Ministry of Foreign Affairs Finland, the Norwegian Ministry of Foreign Affairs, and Norges Bank Investment Management. Learn more at: shiftproject.org/valuing-respect