



FOX OR PANDA: HOW WILL BUSINESS TACKLE WATER SCARCITY?

BRITISH AMERICAN TOBACCO STAKEHOLDER DIALOGUE REPORT



Illustration: Cured tobacco in Indonesia and cigarettes in production at our factory in South Africa.

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In November 2010, British American Tobacco hosted an independently facilitated stakeholder dialogue session focused on the long-term implications for business of global water scarcity. This was the first of three sessions to examine risks and opportunities relating to climate change: the next two dialogues will focus on carbon pricing, and renewable energy.

The aims of the dialogue were:

- To develop a shared understanding of future global water scarcity issues and how they might impact businesses such as British American Tobacco; and
- To identify tools and methodologies for managing water more effectively.

Participants at the session on water management included experts from NGOs, universities, governments, international organisations and other large companies with significant water requirements in their supply chains. They were joined by representatives from the British American Tobacco Biodiversity Partnership, key suppliers and senior managers from British American Tobacco familiar with our supply chain and its exposure to water-related risks.

The session was facilitated by Acona Limited, a specialist sustainability consultancy, and included presentations to set the context and instigate group discussions. These were given by:

- Professor Brian Moss from the University of Liverpool;
- Professor Pat Wouters from the Dundee UNESCO IHP-HELP Centre for Water Law, Policy and Science; and
- Matthew Wenban-Smith from the Alliance for Water Stewardship.

Three major themes emerged from the dialogue:

- The challenges posed by water availability are significant and immediate;
- These challenges can only be addressed through stakeholder partnerships at global, regional and local levels; and
- Techniques need to be developed for the accurate measurement of water use and how it impacts available resources; these measurements also need to be communicated to stakeholders in ways that are meaningful.

We are committed to acting on the ideas raised during the session and are in the process of carrying out a water footprint analysis to better understand the risks and opportunities that changes in water availability could present for us.

i British American Tobacco water facts

British American Tobacco's supply chain and manufacturing operations extend across countries where water can be scarce. Group water use in 2010 was down by 5.9 per cent to 4.15 cubic metres per million cigarettes equivalent produced, exceeding our 2012 target. The increase in water efficiency was largely due to increased reuse of water, improved measurement with the introduction of water meters and site rationalisation.



For a company like British American Tobacco with an agricultural supply chain that needs reliable sources of water, it would be foolish not to tackle the issue of water scarcity. But we don't have all the answers, so it's great to have opportunities like this to develop solutions together with our stakeholders.

Barbara Klammer, Group Head of Environment, Health and Safety, British American Tobacco



Water availability: a significant and immediate concern

Evidence presented during the session highlighted the scale of the challenge posed by water availability. According to recent research¹, global water requirements could grow from 4,500 billion m³ today to 6,900 billion m³ in 2030. This exceeds the current accessible, reliable water supply by 40 per cent. One-third of the world's population, concentrated in developing countries, will live in basins where the deficit will be over 50 per cent. We cannot afford to assume that this gap between supply and demand will be closed by process efficiencies or tapping into new water supplies.

The anticipated increase in demand relates primarily to increased requirements from industry and greater agricultural needs to feed the rising global population. It is unsurprising that competition for water resources already exists, both between industry sectors and between countries. This is likely to become more pronounced over the next couple of decades, with a real danger that competition over water resources will develop into armed conflict.

Working in partnership

Given the scale and complexity of water availability, there was unanimity that meeting these challenges requires collaboration between stakeholders.

The participants identified three main groups of stakeholders with which it would be beneficial for British American Tobacco to partner:

- International bodies, such as the World Water Forum and the Water Resources Group, that are seeking to establish global strategies and regulatory frameworks to address these issues;
- Smaller groups that are tackling water scarcity issues at a local level; and
- Tobacco farmers and other materials suppliers that British American Tobacco could encourage to adopt agricultural practices that minimise water use.

A key element of the support that British American Tobacco and other large businesses can provide is their expertise. While we have much to learn from our stakeholders, we can also impart the knowledge we have of, for example, catchment planning and water-efficient agricultural practices.

Measuring water use

Another point on which there was unanimity was the importance of measuring water consumption in a way that is meaningful to stakeholders.

A standard method has been established for reporting greenhouse gas (GHG) emissions, and similarities and differences between measuring GHG emissions and measuring water consumption were discussed.

The most crucial difference is that the impacts of, and appropriate responses to, water availability are location-specific. Water resources and the demands placed upon them are not uniformly distributed across the globe. Any label developed to portray the amount of water used in manufacturing a product would only be meaningful if it also provided information on how that consumption related to available water resources. Similarly, any techniques for measuring a company's or site's water footprint would need to consider both the scale of consumption and the impact on available water resources. As significant time and investment is often required to develop the infrastructure that brings water to consumers, it is also important to assess consumption in light of both current and future demand.

Another difference between measuring water and GHG footprints is that the measurement methodologies are at different stages of maturity. While there is widespread use of, for example, the GHG Protocol² a comparable standard for water footprinting is still only at the development stage.

Notwithstanding these obstacles, there was overwhelming support for the use of robust tools to measure water consumption both in absolute terms and relative to available resources. The participants thought that such measurement should be incorporated into a systematic assessment of the sustainability risks posed to businesses by water availability. At the same time, participants emphasised that the search for more accurate and comprehensive data should not be a barrier to progressing action on the ground.

¹ 2030 Water Resources Group. Charting our Water Future: Economic frameworks to inform decision-making (2009)

² <http://www.ghgprotocol.org>



Participant: Where do you see the water hot spots?

Professor Wouters: Everywhere! ”

Tuvu Village Project

In 2010, in partnership with Rotary Pacific Water for Life Foundation, British American Tobacco Fiji undertook a project to bring a water supply to Tuvu Village in the Sigatoka valley, where a number of the 150 residents are tobacco farmers. Residents were also trained on how to maintain the new facility. This project is part of Rotary Pacific's broader initiative to provide agricultural communities with access to sustainable sources of safe drinking water.



Participant: We've a factory in Nottingham and another in Senegal. When asked which is in the more water stressed area most people will say Senegal, but the answer is Nottingham. How do we explain this to the general public? ”

Working with the Nature Harness Initiative

British American Tobacco conducts biodiversity risk and opportunity assessments of their tobacco leaf growing operations. One assessment resulted in our company in Uganda working with Nature Harness Initiative, a local NGO, to produce a set of indicators of freshwater health. Since 2009, farmers there have used the indicators to monitor the impacts of their activities on the water sources they rely on.

Beyond the financial bottom line

Professor Moss pointed out that we face a stark choice: does Western society want to continue to emulate the panda (highly specialised, with little adaptability and wedded to a limited diet) or should it, when faced with finite resources, water included, become more like the fox (adaptable to changing circumstances, with a broad diet)? In the course of the discussions, several participants returned to this theme, stressing the needs for change and for longer-term measures of performance that do not focus solely on economic/financial indicators. This applies to both companies and governments.

The implications for business are clear. Firstly, any business that relies on significant quantities of water in its processes or supply chain needs to be aware of the implications of current and future water availability and, like the fox, consider how best to adapt. Secondly, when considering the viability of capital investments, companies should take account of both the pricing and availability of water and incorporate assessment of social and environmental impacts.

British American Tobacco has taken its first steps in addressing water scarcity in its operations. Already, many areas of our business have incorporated measures to reduce their water consumption. We also work with some 149,000 directly contracted tobacco leaf farmers, helping them to implement water-efficient agricultural techniques. In 2011, we will complete our first water footprint analysis and we are on track to reduce our water consumption per million cigarettes equivalent to 13.4 per cent lower than our 2007 baseline by end 2012.



Participant: What messages should our businesses take away from today's session?

Professor Moss: Think about what you are going to do to change...think about Plan B...how can you become the fox? ”

Water-saving measures at Souza Cruz

Souza Cruz, British American Tobacco's subsidiary in Brazil, has implemented many water-saving measures at its factories. These range from fitting sensor taps in bathrooms to installing a system to collect rainwater and reusing it in the manufacturing process. This rainwater accounts for 59 per cent of all water used at the factory, therefore reducing demand on local water supplies.

For more information



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Assurance

As part of our process for providing assurance on British American Tobacco's Sustainability Report, we have carried out a 'reasonable level' of assurance engagement on the information presented in the Report on the London based stakeholder dialogues, of which this was one.

To view our conclusions and observations, or for more details, see our online Assurance statement in the British American Tobacco Sustainability Report 2010 at www.bat.com/sustainability.

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