

EXPOSURE DRAFT

ESRS E3

Water and marine resources

Basis for conclusions

May 2022



DISCLAIMER

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Objective

- BC1. The objective of this [Draft] Standard is to set disclosure requirements that cover the information required by undertakings across all sectors (subject to the rebuttable presumption in ESRS 1 paragraph 57 to 62) in order to report under a double materiality perspective. It covers in particular:
- (a) the impacts (how the entity impacts water and marine resources);
 - (b) the actions and their results;
 - (c) the material risks and opportunities arising from the undertaking's impacts and dependencies; and
 - (d) the effects of risks and opportunities on the undertaking's development, performance and position over the short, medium and long-term and therefore on its ability to affect enterprise value (financial effects).

Context and reference table

Approach to drafting the standard

- BC2. The approach to drafting this proposal has been described in the cover note of the consultation documents.
- BC3. The drafting process considered the following elements as a rationale for choosing disclosure requirements:
- (a) Water is a local impact. The EU's approach to managing the quality and availability of water, and associated risks, is based on a river basin approach / body of water approach / catchment approach. This should be reflected in the disclosures.
 - (b) Water issues can be grouped in two categories: either water quantity issues (too little water available, or too much – floods) or water quality issues (chemical, physical and ecological status). There are legal references or international references which enable to define these notions, upon which disclosures can be based.
 - (c) Water withdrawals, water consumption, water storage, water use and water discharge are the key concepts used to quantify inflows and outflows of water and understand water balance.
 - (d) Pressures on marine resources originate from issues related to the management of waste, pollution, the circular economy, biodiversity, freshwater, habitat conservation which are also covered by other standards.
 - (e) The whole value chain (including supply chain, operations, products and services sold and used) should be considered for the identification of material issues, in a double materiality perspective.
 - (f) Undertakings should provide information on how they have identified material issues related to water and marine resources and on the policies, targets, action plans and resources they dedicate to tackling these issues, and on the progress they are making, through the disclosure of performance indicators.
 - (g) Undertakings should provide information which can be a basis for inter-firm comparison, beyond open ended narrative-based disclosures.

- BC4. Besides, all environment objectives of the Taxonomy are interrelated as reminded in the Platform on Sustainable Finance's report with recommendations on technical screening criteria for the four remaining environmental objectives of the EU Taxonomy. Hence the provisions of ESRS E3 are to be read in conjunction with other environmental standards.

General context

- BC5. According to the European Environment Agency's State of the Environment Report for 2020, in a context of increasing pressures on the environment, the world population is projected to reach 10 billion by 2050, with water demand set to increase by 55%. The ability of nature to maintain clean water is likely to be disrupted and since Europe depends on resources extracted in the rest of the world, many impacts associated with European production and consumption occur outside of Europe. According to this report, for the past 10-15 years, trends and developments in the quality of water ecosystems and wetland has been mixed and so are outlooks to 2030. The process of meeting policy objectives and targets is largely not on track. The same assessment applies to pollution pressures and links to human health. If water quality has improved, the EU has by far not achieved a good ecological and chemical status for all water bodies by 2020. Only 40% of bodies of water have achieved good ecological quality status and 38% good chemical quality status, and modest progress has been made on reducing emissions of pollutants to water. Wetlands are widely degraded and so are 80 to 90% of floodplains. Point source pollution has been reduced but 18% of reported water surface bodies and 14% of reported groundwater bodies are under the significant pressure of point sources. Nitrogen surpluses have been reduced but diffuse pollution and hydromorphological changes are affecting the state of freshwater. Despite these trends, the quality of drinking water and bathing water remains high across Europe (95% of bathing waters). Also, EU water abstraction has decreased by 19% between 1994 and 2015, and 89% of bodies of water have achieved good quantitative status. However, overall, addressing the impact of some sectors has not been successful, as illustrated by agriculture's continued impacts on biodiversity, pollution of water and soil, and the energy sector's continued impact through hydromorphological changes.
- BC6. As regards marine environments at a global level, 40% of marine environments are now severely altered. If the trends for creating marine protected areas has been good for the past 10-15 years, the outlook to 2030 is more mixed. However, the prospect of meeting policy targets for creating protected marine areas is on track. Protected marine areas are only one part of the agenda and the state of marine ecosystems and biodiversity has known mixed evolutions. The outlook to 2030 points to deteriorating trends, with a process of meeting policy targets largely off track. Targeted efforts on individual species has been met with success, but many marine species, or marine species groups, still have declining population or have not reached good conservation status. Climate change, legacy hazardous substances, heavy metals, marine litter and invasive species are expected to continue to impact marine ecosystems. A similar analysis can be made for pressures and impacts on marine habitats with 65% of protected seabed habitats considered to be in unfavourable conservation status, and only 55% of coastal areas having reached good ecological quality of water status. There are however sharp differences between different European regions. Also 19% of the EU coastline is affected by permanent alterations and 25% of the area of the coastal strip (up to 12 miles) is subject to seabed habitat loss (due to construction of wind farms, oil & gas installations, ports and also exploitation of fish, shellfish and minerals). Non-indigenous species; marine litter, eutrophication and fishing practices such as

trawling have been identified as key drivers of these deteriorating trends. In some areas, such as the North-East Atlantic Oceans and the Baltic Sea, fishing pressure has decreased, and has led to signs of recovery of fish stocks. In other areas most fish stocks are overexploited such as in the Mediterranean sea (93,9%) and the Black sea (85,7%). Overall, across 397 stocks reported on by the State of the Environment Report, most of them were still overexploited, with the abundance of sensitive species decreasing by 69% in heavily trawled areas.

Global and EU Water Goals

- BC7. The global and EU policy goals that were identified for water are the following:
- (a) achieve universal and equitable access to safe and affordable drinking water for all (SDG 6, EU Drinking Water Directive);
 - (b) achieve access to adequate and equitable sanitation and hygiene for all and end open defecation, paying special attention to the needs of women and girls and those in vulnerable situations (SDG 6);
 - (c) protect and restore water-related ecosystems, including mountains, forests, wetlands, rivers, aquifers and lakes (and contribute to the restoration of at least 25 000 km of free-flowing rivers) (EU Water directive, EU Biodiversity Strategy);
 - (d) expand international cooperation and capacity-building support to developing countries in water- and sanitation-related activities and programmes, including water (SDG 6);
 - (e) support and strengthen the participation of local communities in improving water and sanitation management (SDG 6); and
 - (f) assess and manage flood risks, aiming to reduce the adverse consequences for human health, environment and cultural heritage (EU Floods directive).

Global and EU goals for Marine Resources

- BC8. The global and EU policy goals that were identified for marine resources are described below:
- (a) prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution by¹:
 - i) continuously reducing discharges, emissions and losses of hazardous substances;
 - ii) moving towards the target of their cessation within one generation (25 years) with the ultimate aim of concentrations in the environment near background values for naturally occurring substances and close to zero concentrations for man-made synthetic substances;
 - (b) sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts by²:
 - i) protecting and restoring marine ecosystems and the services they provide;

¹ (SDG Directive, Esbjerg declaration). 14, EU Marine Strategy Framework

² (SDG 14, EU Marine Strategy Framework Directive, EU Biodiversity Strategy; EU Common Fishery Policy

- ii) reducing - including underwater - noise at a level that does not adversely affect the marine environment;
 - iii) keeping the level of non-indigenous introduced species below a level that adversely affects the ecosystems;
 - iv) keeping populations of all commercially exploited fish and shellfish within safe biological limits;
 - v) eliminating by-catch of species or reducing it to a level that allows species recovery and conservation;
 - vi) substantially reducing any negative impacts on sensitive species and habitats, including on the seabed, through fishing and extraction activities;
- (c) minimize and address the impacts of ocean acidification, including through enhanced scientific cooperation at all levels (SDG 14);
 - (d) effectively regulate harvesting and end overfishing, illegal, unreported and unregulated fishing and destructive fishing practices and implement science-based management plans, in order to restore fish stocks in the shortest time feasible, at least to levels that can produce maximum sustainable yield as determined by their biological characteristics (SDG 14);
 - (e) conserve at least 10 per cent of coastal and marine areas, consistent with national and international law and based on the best available scientific information (SDG 14);
 - (f) prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation (SDG 14);
 - (g) increase the economic benefits to Small Island developing States and least developed countries from the sustainable use of marine resources, including through sustainable management of fisheries, aquaculture and tourism (SDG 14);
 - (h) increase scientific knowledge, develop research capacity and transfer marine technology in order to:
 - i) improve ocean health;
 - ii) enhance the contribution of marine biodiversity to the development of developing countries, in particular small island developing States and least developed countries by³:
 - iii) setting up international funds for research;
 - iv) collecting, managing and sharing data;
 - (i) provide access for small-scale artisanal fishers to marine resources and markets (SDG 14); and

³ (SDG 14, UNGC Ocean Stewardship 2030).

- (j) enhance the conservation and sustainable use of oceans and their resources by implementing international law as reflected by UNCLOS and EU Marine Strategy Framework Directive, which provide the legal framework for the conservation and sustainable use of oceans and their resources.

BC9. As a conclusion, to comply with the requirements of the [Draft] CSRD, considering the EU legislative framework and taking into account current international frameworks, the following disclosure requirements emerge as most relevant:

Disclosure Requirements	European framework references	International framework references
DR E3-1 – Policies implemented to manage water and marine resources	[Draft] CSRD Art.5 / 6 SFDR indicators on “Investments in companies without water management policies” / “Exposure to areas of high-water stress” Annex II of the EMAS Regulation	GRI 3 Disclosure 3-3 / 303-1 GRI 2 ‘General disclosures’ SDG 6 / 14 CoP questionnaire CDP Water questionnaire CEO Water mandate Alliance for Water Stewardship UNGC Communication on Progress
DR E3-2 – Measurable targets for water and marine resources	[Draft] CSRD Art.19a (2) / b EMAS Regulation	GRI 3 on “Material topics” / 303-1-d / 3-3-e CDP Water questionnaire CDSB Application guidance CoP questionnaire CEO Water mandate Alliance for Water Stewardship UNGC Communication on Progress SPOTT indicator framework
DR E3-3 – Water and marine resources action plans and resources	[Draft] CSRD Art.19a (2) / e Annex II of the EMAS Regulation	GRI 3 on “Material topics” CDP Water questionnaire CEO Water mandate Alliance for Water Stewardship Joint publication of the WWF and the German Environment Agency WBCSD’s “Right tools for the job”
DR E3-4 – Water management performance	[Draft] CSRD Art.19a (2) / g SFDR indicators on “Emissions to water” / “Water usage and recycling” Annex IV of the EMAS Regulation	GRI Disclosures 303 / 303-3/5/4 / 3-3 (e) (iii) CDSB Framework application guidance for water related disclosures CEO Water mandate CoP frameworks CDP water questionnaire

Disclosure Requirements	European framework references	International framework references
		Alliance for Water Stewardship UNGC Communication on Progress Future Fit Benchmark
DR E3-5 – Water intensity performance	[Draft] CSRD Art.19a (2) / g SFDR indicator on “Water usage and recycling” Regulation (EC) No 1221/2009 Annex IV of the EMAS Regulation	GRI Disclosures 303 / 3-3 (e) (iii) CDSB Framework application guidance for water related disclosures CDP water questionnaire Alliance for Water Stewardship UNGC Communication on Progress CEO Water mandate Future Fit Benchmark CoP frameworks
DR E3-6 – Marine resources-related performance	[Draft] CSRD Art.19a (2) / g EU Maritime Spatial Planning Directive Annex IV of the EMAS Regulation	SDG 14 GRI Disclosures 303 / 3-3 (e) (iii) Ocean approved framework CDSB Framework application guidance for water related disclosures CDP water questionnaire Alliance for Water Stewardship UNGC Communication on Progress CEO Water mandate Future Fit Benchmark Fondation de la mer Ocean approved framework (based on Science Based Targets; GRI 305-1, 305-2, 305-3, 305-7, 306; UNEP 5; IPIECA; IFOAM; Global Commitment)

Disclosure Requirements

General, Strategy, Governance and Materiality assessment

- BC10. Appendix B of the [Draft] Standard contains specific water and marine resources-related application guidance that the undertaking shall follow when disclosing information under ESRS 2, in particular with regards to ESRS 2-IRO 1, ESRS 2-IRO 2 and ESRS 2-IRO 3 on the process to identify water and marine resources-related impacts, risks and opportunities and the outcome of this process.
- BC11. The main objective of the disclosure requirements related to water and marine resources is to provide information on:

- (a) what impacts are caused, and will be caused, to water and marine resources by the undertaking, over the value chain (supply chain, operations, products and services), and what are, will be, the financial effects;
 - (b) how the state of water and marine resources has impacted and will impact the undertaking's value chain and what are, will be, the financial effects. What are and will be the consequences of these physical and financial impacts in term of risks and opportunities; and
 - (c) how impacts and dependencies, risks, opportunities are assessed and how they serve as an input to the elaboration of the undertaking's strategy and business model.
- BC12. Due to their activities and business relationships, most if not all undertakings contribute – to varying extents – to water/marine resources-related impacts. In addition, water/marine resources-related issues will increasingly affect the operations of undertakings and their ability to create value, may it be through physical hazards induced by water availability, floods or pollution and pressure on marine resources, as well as through policy and market responses in the EU and beyond, to apply the EU water framework directive and the EU marine strategy framework directive. On the other hand, the transition to ensuring a good quality of water and a good state of marine resources can also bring along opportunities, e.g. for undertakings offering products and services that contribute to policy objectives.
- BC13. There is a need among the public in general, and among investors, credit institutions and other stakeholders, who rely on an undertaking's ability to create value over the short-, medium- and long term, to understand the principal impacts, dependencies, risks and opportunities as such, but also the processes implemented to identify, assess and manage material issues.
- BC14. With the global reporting frameworks, notably the recommendations of the CEO water mandate as well as of the GRI, the CDSB, CDP water, SASB, there are already generally accepted reporting approaches for this information upon which to rely (see BC 8 above).
- BC15. In summary, as a starting point in the preparation of [Draft] ESRS E3 it has been assumed that reporting on water/marine resources-related impacts, as well as on related risks and opportunities, covering the whole value chain, is material for all undertakings. This presumption can be rebutted following ESRS 1 paragraph 57.
- BC16. The identification, assessment and management of the adverse impacts on water/marine resources reflect a part of an undertaking's water/marine resources-related due diligence process. Since due diligence as such is a cross-cutting concept, it is reflected in different sections of this document. Information on the management of adverse impacts on water/marine resources are further underpinned in sections "water/marine resources Governance" and "water/marine resources". Actions to mitigate these adverse impacts are addressed in section "water/marine resources Targets" and "water/marine resources Actions & Resources".

Policies, targets, action plans and resources

Disclosure Requirement E3-1 – Policies implemented to manage water and marine resources

- BC17. This Disclosure Requirement provides an understanding of the undertaking commitments to reducing water withdrawal, consumption and discharges, manages water on its facilities, engages with suppliers as regards water and marine resources-related issues, designs its products and services as regards water and marine resources-related issues and measures and monitors water and marine resources-related performance.
- BC18. It is to be observed that there are different interpretations of the term “policies”. It can be either understood as formal commitments by an undertaking’s leadership (e.g. GRI, ISO 14001/EMAS) or as overarching topic-specific implementation plans (e.g. PTF-NFRS, or TCFD’s understanding of “transition plans”) including different elements (e.g. commitments, targets, action plans and performance metrics and monitoring). However, ESRS 1 covers the aspects to be disclosed about a policy.
- BC19. As a consequence, the ‘Policies’ reporting area should focus on describing policy commitments related to water/marine resources. However, policy commitments should be disclosed so as to facilitate a continuity of understanding between a given policy, and the targets, actions, resource allocations and outcomes to which it can lead.

Disclosure Requirement E3-2 – Measurable targets for water and marine resources

- BC20. In order to ensure a sound understanding of the undertaking’s targets related to water and marine resources and to be able to assess those targets’ contribution to the achievement of targets set out in EU-regulation and global frameworks, specific targets in different areas of water/marine resources management shall be disclosed.
- BC21. It is required to report detailed targets regarding the absolute reduction of water withdrawals, the absolute reduction of water consumption, the absolute reduction of discharges and water pollution.

Disclosure Requirement E3-3 – Water and marine resources action plans and resources

- BC22. Action plans and stand-alone actions, as well as the corresponding policies, targets and the resources allocated shall be disclosed to ensure an understanding of the undertaking’s plans and resources allocated to water and marine resources and the contributions of those actions.
- BC23. All undertakings should report information on material water and marine resources action plans, key mitigating actions, water and marine resources-related supply chain engagement, product and service development, customer engagement.
- BC24. The presentation of actions and resources will follow the requirements in in the cross-cutting standard [Draft] ESRS 2, including a base year and milestones, as well as target years to foster comparability as far as possible.

Performance measures

- BC25. In order to gain a thorough and sound understanding of an undertaking's relationship to water/marine resources all stakeholders should have an understanding of water/marine resources-related metrics on:
- (a) their operations;
 - (b) their supply chains;
 - (c) their products and services; and
 - (d) in such a way that an evaluation in terms of performance can be carried out by the users of the information (such as evolution over time, resource use efficiency, ability to meet targets, comparison with other companies, etc.).
- BC26. Global reporting frameworks already propose generally accepted performance-related disclosures which this Standard can leverage on.
- BC27. More specifically stakeholders should have access not only to absolute or relative performance measures, but also to performance measures related to target achievement.

Disclosure Requirement E3-4 – Water management performance

- BC28. This Disclosure Requirement is inspired from the CDSB, CDP, GRI 303, CEO water disclosure and CoP frameworks which require an undertaking to report on the material water flows related to operations, such as withdrawals, consumption and discharges.
- BC29. The Disclosure Requirement is not too granular in order to remain sector-agnostic though.

Optional Disclosure Requirement E3-5 – Water intensity performance

- BC30. This Disclosure Requirement is based Commission decision of 4 March 2013 establishing the user's guide setting out the steps needed to participate in EMAS, under Regulation (EC) No 1221/2009 of the European Parliament and of the Council on the voluntary participation by organisations in a community eco-management and audit scheme (EMAS).
- BC31. It was deemed less critical than volumes to understand the undertaking's impacts and risks on water, hence the optionality.

Disclosure Requirement E3-6 – Marine resources-related performance

- BC32. This Disclosure Requirement is based on the SDG 14, the EU Maritime Spatial Planning Directive's request for an ecosystems approach and the Ocean approved framework⁴ of the Fondation de la Mer which considers that marine resources are a cross topic subject which relates to pollution, acidification and global changes of the marine environment, as well as exploitation of marine and coastal resources and cross-topic themes such as suppliers compliance, governance, exemplary practices, and advocacy.

⁴ <https://oceanapproved.org/en/>

- BC33. The references to other standards in paragraph 35 allow to have a full understanding of material matters related to marine resources even though they are addressed in other standards.

Disclosure Requirement E3-7 – Potential financial effects from water and marine resources-related impacts, risks and opportunities

- BC34. The [Draft] CSRD proposal (article 19 a 1) requires setting disclosure requirements in ESRS that allow to report information necessary to understand how sustainability matters affect the undertaking's development, performance and position. This requirement is reflected in the objective of this [Draft] Standard, in particular in the need to set requirements for undertakings to report about the effects of risks and opportunities on the undertaking's development, performance and position over the short-, medium- and long-term and therefore on its ability to create enterprise value (financial effects).
- BC35. This disclosure implements this requirement.



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