

## Age of scarcity: Resource shortages yield investment opportunities

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Environmental problems are combining with global population growth to create shortages in food, energy and water – our most fundamental commodities.

In 2008, the world had a taste of resource constraints – oil priced at \$147 a barrel and sharp increases in the price of many foodstuffs. Since then, prices have dropped sharply. While this has eased pressure in some areas, the volatility of prices is bad for businesses everywhere, particularly small farmers in emerging markets.

Knowing what environmental changes will occur and how to deal with them is crucial for banks and their customers. In a recent report on Banking and Climate Change by Swiss group Sustainable Asset Management, Matthias Kopp of the environmental group WWF says: "Growing global environmental and social challenges are posing future risks of dramatic magnitude and consequence. These risks are of material significance for financial markets, especially in a resource-constrained world."

Alex Barratt, head of research at [Standard Chartered](#), says "Because we operate in emerging markets, the issue of sustainable growth and the environmental aspects of that are vital. If we do not have sustainable policies in our markets, they are not going to grow and the financial sector will not grow."

Water is the most pressing issue. Climate change means drinkable water will become scarcer, rainfall distribution will change and there will be more floods, more droughts and more storms. The key to coping with changing conditions is information, and a number of companies are providing data on the changing climate and its impact on the economy.

This information highlights apparent absurdities such as Saudi Arabia growing wheat using desalinated water while the US subsidises farmers to grow biofuels, says Mr Barrett. It is far more efficient for Saudi Arabia to produce oil for fuel while the US grows wheat. But recognising the problems with growing water-intensive products in water-stressed areas will also have far-reaching consequences for big agricultural producers in areas such as California and Australia, which face increasing water scarcity.

Environmental consultancies such as WSP Environment & Energy provide tools to help businesses work out the stress points in their supply chain.

"Banks and investment houses that understand how climate change will affect business will have a competitive advantage, enabling them to invest in the right areas and avoid the wrong ones," says David Symons, director of corporate services at WSP Environmental.

Investors have a big role to play, he adds. "There is a very substantial adaptation gap in the world at the moment. Companies will start taking this more seriously if investors start asking probing questions about how well companies are prepared to deal with climate change."

Eckhard Plinke, head of sustainability research at [Bank Sarasin](#), the Swiss private bank, says: "The economic and social risks associated with scarcity result in interesting investment opportunities." These include energy efficiency and renewable energy; water purification and water efficiency; and agricultural technologies such as irrigation and fertilisers.

For some banks, this is a long tradition. Rabobank, established in the late 19th century to provide financial services for Dutch farmers, is now replicating that model in emerging markets, says Arnold Kuijpers, head of Rabobank Development.

"Demand for agricultural products will grow exponentially because of the growth of the world population and the increase in wealth in emerging markets," Mr Kuijpers says. Over the next 30 years, there will be significant trade flows from places such as Mozambique, which is using only 15 per cent of its vast resources of agricultural land, and China, which has a quarter of the world's population but only 8–9 per cent of the arable land.

The sector is inherently risky but companies such as [Swiss Re](#) are helping farmers to manage unpredictability with weather insurance. In Malawi, for example, working with the World Bank, Swiss Re has created a scheme whereby it will pay out up to \$5m in the event that Malawi's farmers suffer from a drought-related shortfall in maize production.

Another approach to the perennial volatility of the commodities market is taken by Credit Agricole Asset

Management. Rather than invest directly in commodities, it invests in the companies that produce them. "We do not want to invest in a speculative way, looking for quick wins," says Anne Ruffin, head of CAAM's global resources fund. "Last year's massive commodity price rises were in no one's interests. The only way to manage resource scarcity cleverly is to help commodity producing companies to grow their resources and expand their markets."

Rabobank's CSR director Ruud Nijs sums up the way forward: "Our clients' CSR risks are huge opportunities for us. Sustainability is the new way of banking – banks will not survive unless they have this as a long-term strategy."

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