



# WATCHING WATER – EVALUATING CORPORATE RISKS

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# Framework for evaluating water risks

Global Equity Research  
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**JPMorgan**

## Watching water

A guide to evaluating corporate risks in a thirsty world



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Wall Street appears well aware of the investment opportunities in water-related stocks.

Much less attention has been paid to those sectors that rely on clean water as an input into supply chains or production processes, or have waste water as an output.

This report represents an initial effort to outline water-related risks and to understand how they may affect various companies and industries in the coming years.

# Water-related risks at company level

**Table 1: Water-Related Risks at the Company Level**

Risks	Supply Chain	Production Process	Product Use
<b>Physical</b>	Temporary non-availability of water disrupts supply chain	Temporary non-availability of water disrupts operations	Non-availability or scarcity of water required for using product or service limits growth
	Water scarcity drives up input prices	Increased capital expenditure on water treatment, water extraction, or alternative technologies to circumvent water problems raises costs	
	Intensifying competition for scarce water constrains growth	Intensifying competition for scarce water constrains growth	
<b>Regulatory</b>	Suspension or withdrawal of supplier's water license or discharge permits disrupts supply chain	Reallocation to more urgent needs during drought disrupts operations  Suspension or withdrawal of supplier's water license or discharge permit disrupts operations and/or constrains growth	Non-issuance of water license or restrictions on use of particular products or services due to water intensity raises costs or checks growth
<b>Reputation</b>	Competition with household water demand constrains suppliers' growth	Increased capital expenditure on wastewater treatment to meet or exceed standards	Public outcry regarding water intensity of product damages brand, reputation, hinders growth
	Responsibility "by association" for suppliers' water pollution damages brand or reputation, hinders growth	Competition with household demands, or pollution incidents, damages brand or reputation, hinders growth	

Source: World Resources Institute.

## In conclusion...

- Exposure to water scarcity and pollution is not limited to onsite production processes, and may actually be greater in companies' supply chains than in their own operations.
- The power-generation, mining, semiconductor manufacturing, and food and beverage sectors are particularly exposed to water-related risks, in our view.
- In our opinion, corporate disclosure of water-related risks is seriously inadequate and is typically included in environmental statements prepared for public relations purposes rather than in the regulatory filings on which most investors rely.
- We recommend that investors assess the reliance of their portfolios on water resources and their vulnerability to problems of water availability and pollution.

Thank You

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