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Coca-Cola on the Yangtze: A Corporate Campaign for Clean Water in China

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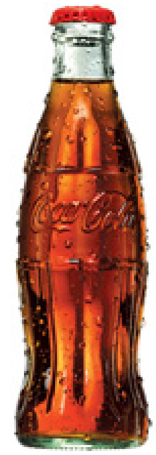

The Yangtze River -- the longest river in Asia and the lifeblood of millions of Chinese -- was once said to be so clear you could see the bottom. Today, as China's massive economic growth takes its toll on the environment, it is at the top of the list of the 10 most-threatened rivers in the world, according to the World Wildlife Fund (WWF).

To help reverse the tide, the WWF has joined forces with Coca-Cola, which operates 39 bottling plants in China, to improve the water quality of the upper reaches of the Yangtze. One project, for example, has them working with rural farmers to reduce the runoff of animal waste into the river by turning pig waste into biogas, a type of fuel that can be used for cooking and heating. Another involves searching for ways for the multinational to be more efficient in its own use of water.

The non-profit's partnership with Coca-Cola is part of a growing corporate awareness that water is a threatened resource, not just in the Yangtze but throughout the world. Companies that require a lot of water to do make their products are beginning to assess the risks that they -- and their customers -- face on the water-supply front and what could be done to mitigate them.

For continued growth in China, Coca-Cola officials recognize that the company must strengthen what they call "water security." The WWF projects are "not considered philanthropy [or] even CSR [corporate social responsibility]," says Brenda Lee, vice president of Coca-Cola China. "It is part of our business commitment. We can only prosper and thrive in communities that are sustainable."

Coca-Cola is working with WWF to help clean six other rivers on the 10-worst list. The company isn't the only multinational to add an environmental partner to its water-related efforts, which also involve industry groups. Indeed, Coca-Cola's competitor, PepsiCo, has been collaborating for some time now with the China Women's Development Foundation, the architect of the Mother Water Cellars Project, which provides ways for people in the most water-scarce regions of China to have better access to water.

For environmental groups, such alliances add clout to their projects, an important factor in drumming up support and funding from the general public and other corporations. Coca-Cola's rural program "is really making a difference in the Yangtze," notes Chris Williams, director of fresh water conservation at the WWF. "If we could get this kind of involvement from a wider range of private-sector actors in the Yangtze, the results could be considerable."

For companies, such undertakings bolster their image and brand, according to Piet Klop, a senior fellow at the Washington-based think tank World Resources Institute (WRI). "The last thing a branded company would want," he states, "is to end up in a newspaper [report] saying it is operating a bottling plant in an area where households cannot even access clean drinking water."

Coca-Cola is at a particularly sensitive point in China, eager to expand its business into the rapidly growing juice, dairy and ready-to-drink tea market. The company's partnership with the WWF is designed in part to build a relationship of trust, which may help open doors to more consumers in China, according to Eric Orts, Wharton professor of legal studies and business ethics, and director of the Initiative for Global Environmental Leadership. It is a market that is increasingly important to the $31 billion Coca-Cola, whose sales by volume grew 19% last year in China while declining by 1% in North America.

Alliances like that between Coca-Cola and the WWF don't come without challenges. Some environmentalists are critical of non-profits working with companies that are seen as part of the problem. In China, there are special issues, given that the government tends to shun non-profits, while micromanaging projects itself through state-approved non-governmental organizations (NGOs). "Companies need to be aware of the limitations that this reality imposes," Orts says. "They have to work with the government and government-sponsored NGOs in China. At the same time, it's also important to work directly with people who are actually affected."

Becoming 'Water Neutral'

It's been three years since the WWF and Coca-Cola started working with locals living along the Yangtze. Other multinationals, such as New York-based HSBC bank, have also been involved with conservation and cleanup projects related to the river.

The Yangtze provides China with 35% of its fresh water. Yet nearly half of the country's sewage and industrial waste is discharged into the river as it flows 3,900 miles (6,280 kilometers) from West China to the East China Sea at Shanghai. The river has also been affected by the recent construction of the Three Gorges Dam, the largest electricity-generating plant in the world, which has weakened its ability to flush away pollution.

So-called non-point source pollution, including animal waste and fertilizer runoff, is as big a threat as industrial waste, or even bigger, notes the WWF's Williams. The WWF-Coca-Cola partnership has run pilot projects to produce biogas with farmers living at the upper reaches of the Yangtze in communities along the Minjiang and Jiangling rivers. Coca-Cola has also launched a communication program to educate communities along the river basin about environmental issues. The partnership, meanwhile, liaises with the Chinese government to add their voices to environmental policy-making. "China now has tremendous resources [that the government has] set aside to invest in river basin management and water management," Williams says. "If they put some of those resources into replicating our pilot project, it could have a tremendous impact on the water quality of the river."

Suzanne Apple, the WWF's vice president and managing director of business and industry, helped set up the partnership with Coca-Cola, which has evolved into a $24 million, seven-year commitment to support fresh water programs globally. With operations in more than 200 countries, Coca-Cola, the world's largest beverage company, uses more than 290 billion liters of water a year. The partnership provides for WWF's help in eventually making all of Coca-Cola's plants worldwide move closer to becoming "water neutral" -- that is, reducing the water the company uses while replenishing the water supplies employed to produce its beverages through recycling and other activities. According to Apple, former head of CSR at home improvement retailer Home Depot, partnerships like the Coke/WWF relationship are good for business because they help guarantee sustainable supplies of water and other resources.

Coca-Cola has big plans for China. The company already controls more than half of the country's soda market, with rival PepsiCo a distant second at 33%. Coca-Cola officials predict that the market has plenty of room to grow, especially as the company rolls out products tailored to Chinese consumers. For now, the average consumer in China drinks the equivalent of 32 8-ounce Cokes a year, less than half the global average of 86.

The multinational also has its sights set on China's fruit and vegetable drink sector, which grew by 20% last year, double the rate for carbonated drinks, according to Euromonitor International. In what would have been the largest ever foreign takeover of a Chinese company, Coca-Cola's $2.3 billion bid for China Huiyuan Juice was rejected by regulators last year. The deal would have given Coca-Cola a 20% stake in the country's juice market. The failed deal isn't the end of the soft drink maker's ambitions in that market, however. The company has launched a three-year, $2 billion program to expand the amount of juice and other products it sells in China. PepsiCo plans to invest $2.5 billion over the next three years in the country as well

Learning from the Past

According to Wharton's Orts, Coca-Cola hasn't always received high marks for its environmental record. In 2004, Coca-Cola was forced to shut down one of its largest bottling plants in the southern Indian state of Kerala after community organizers blamed it for causing water shortages. A year earlier, PepsiCo's plant in Kerala lost its operating license as local officials cited similar concerns. "Coca-Cola had an unpleasant reminder of the potential cost of ignoring the social and environmental foundations of consumer trust in India with respect to groundwater issues," Orts says.

A state government panel in India recently recommended that Coca-Cola pay $47 million for damage allegedly caused by ground water depletion and the dumping of toxic waste between 1999 and 2004. The multinational has denied liability. In a recent statement citing a "scientific evaluation," the company said that its "plant operations have not been shown to be the cause of local watershed issues. It is unfortunate that the committee in Kerala was appointed on the unproven assumption that damage was caused, and that it was caused by Hindustan Coca-Cola Beverages."

The Sustainability Issue

Behind all the environmental partnerships are worries about the growing vulnerability of big companies to an uncertain water supply. Scarcity, flooding and pollution pose serious risks to multinationals -- particularly if their operations rely heavily on a steady supply of fresh water -- notes Dan Bena, director of sustainable development for PepsiCo. Such concerns are "prompting investors to ask public companies to disclose how water shortages could hurt their businesses and what companies are doing about it," he adds. "In fact, the momentum around the concept of water accounting and risk has been at an unprecedented level these last few years."

One of the problems in assessing vulnerability is that companies tend to focus only on their own usage, WRI's Klop points out. "What many companies do not have is the context around their footprint." Without being aware of all the factors that are competing for resources in a particular area, it is hard to assess the degree to which a company is exposed to water risk. One exception is Coca-Cola, according to Klop. "Context is key and Coca-Cola has a lot of that," he says. "It has a very good global model that is ahead of not only its competitors, but also many governments and international agencies in thinking about modeling water risk management."

Klop and his team at the WRI are working with Goldman Sachs and General Electric in developing a water index, which uses publicly available data on water quality and scarcity to create maps combining and comparing various risks. For example, along the Yellow River, China's second longest, the index identifies "hotspots" so that government agencies and companies can avoid building what Klop calls another Phoenix, or a city built in the wrong place, at least from a water perspective. "Aside from the index, it is absolutely crucial for companies to identify, understand and manage their water risks if they care about being successful long term," notes PepsiCo's Bena.

Coca-Cola's involvement has helped the WWF play a bigger role at the Yangtze River Forum, a bi-annual conference for various stakeholders, according to Williams. The multinational invited its industry peers to participate in a special meeting for the private sector at the forum. One result was that the companies agreed on a united recommendation to deliver to the Chinese government for implementing pollution regulation. "Regulation of polluters in China is fairly uneven," Williams states. "It is such a nascent regulatory structure and there is some concern about how new laws could be applied." He adds that the forum has also been a good venue for companies to work together to develop joint solutions. "There has not been as much follow-through as there should have been, but we are working to make those commitments a reality."

Cooperation is essential, PepsiCo's Bena agrees. "Governments, NGOs, academics and corporations -- even competitors -- have come to the realization that the nature of the water, climate and food security crises we face are of such a magnitude that collaboration is the only way we will make a dent in them."

For a number of years, PepsiCo and Coca-Cola (as well as other beverage companies) have already been joining forces in a group called the Beverage Industry Environmental Roundtable (BIER). The group was set up to explore how a collective industry voice could be used to inform water policy and education. Each year, BIER participants anonymously share water efficiency data to compare and improve their practices.

PepsiCo and Coca-Cola also endorse the CEO Water Mandate, an offshoot of the United Nations Global Compact designed to assist companies in the development of water sustainability policies. Since the mandate's creation three years ago, significant progress has been made in raising the profile of national water policies among G-8 leaders, notes Bena, who serves on its steering committee.

Next on the Agenda

There is plenty still to do. Coca-Cola is now working with the WWF, for example, to reduce water use in its supply chains through the Better Sugar Cane Initiative. Since the company uses 4% of the world's sugar, one of the goals of the partnership in China is to find an entry point to work with the Chinese sugar industry. The goal is not to tell farmers or millers how to run their operations, but rather to improve production methods and reduce water use, according to Kevin Ogorzalek, the WWF's global coordinator of the sugar cane program.

Overall, Klop is optimistic, while acknowledging that efforts to improve water use efficiency have only just begun. The technology exists to do much better, but the economic incentive is not yet there, he states, because the cost to supply water to municipalities, irrigation authorities and other users is nowhere near the point that it should be, based on factors such as scarcity. "I am asked very often if water is the next oil," Klop says. "If only it were, because oil is at least priced according to its scarcity value."

Orts believes that if companies are seen as tackling these problems with government bodies and other partners in a legitimate fashion while keeping public interests in mind, they will not only help to find solutions but will also manage their reputational risks better. Adds Klop: "When multinationals like Coca-Cola decide to get on top of a problem like water scarcity, they have the resources to quickly [become] better informed than many government and international agencies are."

For their part, environmental groups sometimes put their own reputations on the line when working with companies that the public -- rightly or wrongly -- considers to be the culprits. Partnering with a large multinational such as Coca-Cola is not always well received, Ogorzalek concedes. "My fellow environmentalists can sometimes give us a hard time, but we're doing things with [the multinationals] that wouldn't be achievable without this partnership."