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FOREIGN DIRECT INVESTMENT AND THE ENVIRONMENT: THE ROLE OF VOLUNTARY CORPORATE ENVIRONMENTAL MANAGEMENT

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1. Introduction

1. Foreign direct investment (FDI), like any direct investment, can have an impact on the environment of the host country and beyond. The issue of the environmental impacts of FDI attracts particular interest, however, partly because investment projects may be of a larger scale and have a higher public profile than domestic-sourced investment in many small to medium sized countries. Multinational enterprises are also thought to have greater possibilities either to introduce leading-edge environmental technologies and practices on the one hand, or to be able to exert pressure for reduced environmental performance standards on the other. They are therefore, paradoxically, the subject of both higher expectations and greater fears with respect to the environment in the public at large.

2. Given rapid rates of growth of FDI, and increased pressure from stakeholders such as shareholders, communities, employees, NGOs, financiers as well as regulators for improved corporate environmental performance, there is an increasing amount of scrutiny of the environmental consequences of foreign direct investment. A growing number of companies and industries are responding in advance of host government mandatory requirements in addressing environmental aspects of their international operations through voluntary approaches.

3. These voluntary approaches, their strengths and weaknesses, and the emerging best practice in these fields, are the subject of this paper.

Voluntary approaches: What are they ?

4. The main voluntary approaches examined here are voluntary codes, or statements, of corporate conduct for the environment and corporate environmental reporting. Environmental management systems will also be mentioned very briefly. So-called 'voluntary agreements', whereby companies or industries reach agreements with governments over how they will tackle a particular environmental issue are not covered here.

5. Voluntary approaches of course stand in contrast to *mandatory* approaches to addressing the environmental effects of investment, which predominantly takes the form of host country policy and regulation. Environmental policy will still be the most important way for most countries of ensuring that direct investment takes place in a way that guarantees acceptable levels of environmental protection. While it can be argued that the internationalisation of markets is reducing the effectiveness of national

policy in some areas, basic domestic environmental protection need not necessarily be one of those areas. Laws and regulation, along with market-based instruments such as taxes and charges, still form the basic framework of domestic environmental protection. Voluntary approaches are in the vast majority of countries a complement, not a substitute, for basic government policy.

6. So why do inter-governmental organisations, national and international business associations, industry groups and companies make the effort to undertake voluntary initiatives on the environmental aspects of their operations? At the inter-governmental level, governments have clearly believed there is suasion value in setting down their expectations or hopes as to how they would like multinational enterprises to act with respect to the environment. Aside from agreeing to multilateral environmental agreements on specific environmental issues, this is the way that governments have sought to put in place some form of indicative standards for international actors in the absence of a binding set of international rules governing them. Agenda 21 is the leading example of this. Others include the OECD Guidelines on Multinational Enterprises, and UNEP codes of conduct.

7. International business associations have sometimes taken the lead in promoting an environmentally responsible approach for their membership through voluntary environmental principles, guidelines or codes. While there is certainly a public relations aspect to approaches such as environmental codes of conduct, there has also been a recognition that the environmental area is one where business in general is being increasingly held to account by the public, international environmental groups, financial institutions, shareholders, host governments and employees.

8. Business associations can therefore provide their members with a valuable service by collectively addressing, and being seen to address, environmental issues of importance to stakeholders. This has particularly been the case in industries with environmental public relations problems such as chemicals and mining. Industry associations have sought not only to improve the environmental image of their member companies, but also to stave off regulation and also to actually improve environmental performance.

9. From a corporate point of view, there are likely to be several kinds of benefit to adopting voluntary approaches to the environment. Public relations, image, reputation can be enhanced by creating a socially and environmentally responsible image. More concretely, better environmental performance can often be synonymous with improved quality control of final products, of improved plant operating efficiency with less resource use and less waste, leading to increased profitability. The resource productivity or eco-efficiency school of environmentally aware business which advocates and implements this win-win situation seems to be gaining in strength. Voluntary approaches going beyond compliance with government regulatory requirements underpin this approach.

10. For the public, there is still significant scepticism of voluntary approaches by business to the environment. Highly publicised controversial environmental incidents have a longer life in the public imagination than any amount of good policy and practice. However, a corporate code of conduct will be viewed as preferable to none. It demonstrates a willingness to be held publicly accountable for its efforts with respect to the environment. The more stakeholder involvement a company allows for in policy development and implementation, the more credible will be voluntary approaches. Companies have traditionally underestimated the degree to which community and stakeholder involvement in environmental aspects of their operations is essential for improving their reputations and credibility. Also, the more that quantifiable, measurable environmental performance targets are set by corporations, and externally verified, the more credible their efforts. Linked closely to these two points is the degree of transparent public reporting of environmental performance measures and targets.

2. Voluntary codes of conduct or guidelines for the environment

11. Corporate or industry codes of conduct are generally not specifically directed at either the process of making a particular investment or the ongoing operation of foreign installations. One exception is that of the Japan Federation of Economic Organisations (*Keidanren*) "Environmental Guidelines for Japanese Enterprises Operating Abroad". However, as codes of conduct are predominantly adopted by multinational enterprises (MNEs) they are relevant to FDI because they cover the global operations of the enterprise.

12. Environmental conditions more directly related to the investment process include the World Bank Environmental Guidelines and similar environmental performance requirements of some regional development banks and some national export credit agencies. These are, however, of the nature of contractual conditions attached to loans or insurance rather than voluntary approaches, and are not further discussed here. Also, while individual companies have a range of particular initiatives with respect to environmental and social programmes, *e.g.* employee or community awards, education projects, health programmes *etc.*, they are not the subject of this paper.

13. There is a wide range of voluntary codes of environmental conduct currently in the marketplace. The earliest dates from the 1970s, but the majority of activity seems to have arisen around the 1992 UNCED at Rio. They range from inter-governmental, to international and national business declarations, to industry-based codes to individual corporate policy statements. The subject matter, the level of detail, the degree of commitment required by these statements varies enormously. Some statements are written in terms of the environment, whereas some of the newer ones have adopted the broader newer concept of sustainable development, incorporating both environmental protection and social equity aspects.

14. Agenda 21 is particularly important because it is a statement that most Governments have already subscribed to, and it was prepared with wide community and business input. It dedicates a chapter to business and addresses other recommendations throughout the document to enterprises. The Chapter addressed to the behaviour of enterprises is reproduced at Annex 1 of this paper.

15. The OECD also has Guidelines for Multinational Enterprises which, since 1991, have contained a chapter on the environment. The Guidelines date from 1976, and they are still the only international code of conduct for multinational enterprises endorsed by governments as well as business and labour representatives (*i.e.* by BIAC and TUAC, the OECD's advisory bodies of employers and trade unions, respectively). The Guidelines have been considered an important component of the overall set of OECD principles and decisions concerning investment. This broader set of legal instruments includes rules on non-discriminatory treatment of foreign-owned enterprises. Each OECD Member country has agreed to recommend these guidelines to their enterprises, and has established a contact point in its administration to deal with inquiries *etc.* Argentina, Brazil and Chile have also adopted the OECD investment instruments, including the non-binding guidelines.

16. These OECD Guidelines are currently the subject of a periodic review within the OECD. The review, initiated in June 1998, will be aimed *inter alia* at modernising the environmental chapter. The review process will include consultations with all stakeholders, including NGOs. The environmental chapter is reproduced at Annex 2.

17. Also of particular interest are two leading international business codes of environmental conduct, namely the Business Charter for Sustainable Development of the International Chamber of Commerce (ICC) and the CERES principles. The former is the most widespread and well known of the

generic codes of environmental conduct. The latter is the most ambitious and demanding of the general statements.

18. The Business Charter for Sustainable Development, sponsored by the International Chamber of Commerce (ICC), is the most well-known business statement on the environment. More than 2000 companies have endorsed the Charter, many of them large MNEs, and the ICC covers all business sectors. The Charter consists of 16 principles that are described as a framework to help industries and individual corporations define their own more specific environmental policies.

19. The following table shows the 16 principles of the Charter and indicates where the OECD Guidelines for Multinational Enterprises and Agenda 21 cover their subject matter. The full text of the Charter is presented in Annex 3.

Table 1

**ICC Business Charter for Sustainable Development and
its overlap with the OECD Guidelines for MNEs and Agenda 21**

ICC Business Charter for Sustainable Development	OECD Guidelines for MNEs	Agenda 21
<p>1. Corporate priority</p> <p>To recognise environmental management as among the highest corporate priorities and as a key determinant to sustainable development; to establish policies, programmes and practices for conducting operations in an environmentally sound manner</p>	No	Yes
<p>2. Integrated management</p> <p>To integrate these policies, programmes and practices fully into each business as an essential element of management in all its functions</p>	No	No
<p>3. Process of improvement</p> <p>To continue to improve corporate policies, programmes and environmental performance, taking into account technical developments, scientific understanding, consumer needs and community expectations, with legal regulations as a starting point; and to apply the same environmental criteria internationally.</p>	No	Partly
<p>4. Employee education</p> <p>To educate, train and motivate employees to conduct their activities in an environmentally responsible manner.</p>	Yes	No

<p>5. <i>Prior assessment</i></p> <p>To assess environmental impacts before starting a new activity or project and before decommissioning a facility or leaving a site.</p>	Partly	No
<p>6. <i>Products and services</i></p> <p>To develop and provide products or services that have no undue environmental impact and are safe in their intended use, that are efficient in their consumption of energy and natural resources, and that can be recycled, reused, or disposed of safely.</p>	No	Yes
<p>7. <i>Customer advice</i></p> <p>To advise, and where relevant educate, customers, distributors and the public in the safe use, transportation, storage and disposal of products provided; and to apply similar considerations to the provision of services</p>	No	No
<p>8. <i>Facilities and operations</i></p> <p>To develop, design and operate facilities and conduct activities taking into consideration the efficient use of energy and materials, the sustainable use of renewable resources, the minimisation of adverse environmental impact and waste generation, and the safe and responsible disposal of residual wastes</p>	No	Yes
<p>9. <i>Research</i></p> <p>To conduct or support research on the environmental impacts of raw materials, products, processes, emissions and wastes associated with the enterprise and on the means of minimising such adverse impacts.</p>	No	Yes
<p>10. <i>Precautionary approach</i></p> <p>To modify the manufacture, marketing or use of products or services or the conduct of activities, consistent with scientific and technical understanding, to prevent serious or irreversible environmental degradation.</p>	No	No
<p>11. <i>Contractors and suppliers</i></p> <p>To promote the adoption of these principles by contractors acting on behalf of the enterprise, encouraging and, where appropriate, requiring improvements in their practices to make them consistent with those of the enterprise; and to encourage the wider adoption of these principles by suppliers</p>	No	No

<p>12. <i>Emergency preparedness</i></p> <p>To develop and maintain, where significant hazards exist, emergency preparedness plans in conjunction with the emergency services, relevant authorities and the local community, recognising potential transboundary impacts.</p>	Yes	Yes
<p>13. <i>Transfer of technology</i></p> <p>To contribute to the transfer of environmentally sound technology and management methods throughout the industrial and public sectors</p>	Partly – in general terms not specific to environment	Yes
<p>14. <i>Contributing to the common effort</i></p> <p>To contribute to the development of public policy and to business, governmental and inter-governmental programmes and educational initiatives that will enhance environmental awareness and protection.</p>	Partly – in general terms not specific to environment	Yes
<p>15. <i>Openness to concerns</i></p> <p>To foster openness and dialogue with employees and the public, anticipating and responding to their concerns about the potential hazards and impacts of operations, products, wastes or services, including those of transboundary or global significance</p>	Yes	Yes
<p>16. <i>Compliance and reporting</i></p> <p>To measure environmental performance; to conduct regular environmental audits and assessments of compliance with company requirements, legal requirements and these principles; and periodically to provide appropriate information to the Board of Directors, shareholders, employees, the authorities and the public.</p>	Partly	Yes

20. There is not as much overlap between the Business Charter and Agenda 21 as might have been expected, given the participation of the ICC in the formulation of Agenda 21. The different perspectives of policy makers and business perhaps explain this. Agenda 21 seems to cover the role of business in the broader community more than the Business Charter, which tends to focus more on the internal activities of enterprises.

21. The Coalition for Environmentally Responsible Economies (CERES) was formed in 1989. It brought together fifteen major US environmental groups and an array of socially responsible investors and public pension funds representing more than US\$150 billion in invested funds¹. This Coalition designed

¹ www.ceres.org/about

the ten principles, originally known as the Valdez Principles, but now called the CERES Principles. CERES endorsers are businesses and other organisations which have publicly committed to the CERES Principles. According to the CERES website, 46 companies and organisations have endorsed the CERES Principles including General Motors, Polaroid, Bethlehem Steel, the Body Shop, Aveda, Sun Oil and H.B. Fuller.

22. The ten principles are briefly stated and they aim high. They cover the substantive environmental issues of protection of the biosphere (emissions and biodiversity), sustainable use of resources, disposal of wastes, energy conservation, risk reduction, safe products and services and environmental restoration, as well as the process issues of public information, management commitment, and audits and reports. They recognise explicitly that companies endorsing the Principles pledge to go voluntarily beyond the requirements of the law. The Principles are reproduced in Annex 4.

23. Apart from the substantive content, the CERES Principles are also the high water mark in terms of commitment to monitoring implementation and reporting on progress. Endorsers commit to complete a CERES report on progress in implementing the Principles annually and to make it public. In addition, CERES has a 'Global Reporting Initiative' which is attempting to bring together the various initiatives world-wide on corporate environmental reporting and to turn them into one set of coherent, consistent global standards. The aim is to generate standard environmental information akin to existing standard financial information.

24. Industry associations across resources, manufacturing and services industries are adopting codes of environmental conduct to guide their constituent member companies. They can be international industry associations, national industry associations, or national cross-sectoral business associations. Some prominent examples are listed below².

- The chemical industry's Responsible Care[®] programme is the most sophisticated and advanced voluntary approach to environmental matters in a particular industry. Responsible Care[®] exists in international, regional and national versions. Around 40 countries have national programmes run by the national chemical industry associations. Responsible Care consists of a basic commitment to pursue continuous improvement of environmental, health and safety practices, and enhance public outreach. This is to be achieved through the adoption of guiding principles and the implementation of various specific management practice codes covering the whole production chain, namely Community Awareness and Emergency Response (CAER), pollution prevention, process safety, distribution, employee health and safety, and product stewardship. Self-assessment against the requirements of Responsible Care[®] is a mandatory part of all national programmes, but these do not have to be disclosed. Some attention has started to be given to third party verification in recent years³.
- The "UNEP Statement by Financial Institutions on the Environment and Sustainable Development", revised in 1997 with about 115 signatories. Similarly, UNEP has worked with insurance companies to

² A longer list is contained in "Voluntary Industry Codes of Conduct for the Environment", UNEP Technical Report No.40. This Technical Report provides guidance to industry associations and others on how to develop and use voluntary codes.

³ For a critique of Responsible Care, see Janice Mazurek "The Use of Unilateral Agreements in the United States: The Responsible care Initiative", paper presented to an OECD Workshop on the use of voluntary Approaches in Environmental Policy, 1-2 July 1998. The author is a consultant with Resources for the Future (RFF) in Washington D.C.

develop the “Statement of Environmental Commitment by the Insurance Industry”⁴. This was officially launched in November 1995 and about 75 insurance companies have signed the statement.

- The 1993 International Council on Metals and the Environment (ICME) Environmental Charter⁵.
- The 1996 Australian Minerals Industry Code for Environmental Management⁶, reproduced at Annex 5.
- World Travel and Tourism Council, “Green Globe” environmental guidelines⁷.
- The Japan Federation of Economic Organisations (Keidanren), Keidanren Global Environmental Charter. The Keidanren also has “Environmental Guidelines for Japanese Enterprises Operating Abroad”.

25. Large numbers of individual companies have published corporate environmental policies, value statements or reports of some kind. They can range from ethics statements which lay down expected standards of behaviour of employees, via value statements which give an organisation’s operating philosophy and dedicated environmental policy statements to highly sophisticated published environmental accounts and reports.

26. The 1991 UNCTAD Benchmark Survey of around 170 MNEs found that 43 per cent of all respondents had a published international environmental policy statement: 70 per cent of North American respondents, 41 per cent of European respondents, and 18 per cent of Asian respondents. It also found that MNEs in the top-third sales group were almost twice as likely to have a policy statement as MNEs in the bottom-third sales group. The extractive-based sector was found to be the sector that was by far the most represented at 60 per cent of the total⁸.

27. These statistics underpin the fact that voluntary codes of conduct are prevalent mainly in the US, the UK, Scandinavia, Canada, Australia, the Netherlands and to a lesser extent, Japan. Their incidence is spreading however. Interesting examples of codes in non-OECD countries are in the Philippines and Brazil. Other developing countries are also gradually adopting such codes, often through the influence of environmental business associations and multinational corporations⁹.

28. The content and nature of corporate policy statements which refer to environmental issues varies substantially, and it is therefore difficult to generalise. They range from simplistic generalisations to detailed guidelines and targets. It does seem, however, that the emphasis is more often placed on internal corporate environmental, health and safety issues than on environmental issues more broadly. Protecting the immediate environment surrounding a production facility seems to come next in frequency, followed

⁴ See www.unep.ch/eteu/insura/statemen.htm

⁵ See www.icme.com

⁶ See www.minerals.org.au

⁷ See www.wttc.org

⁸ *Environmental Management in Transnational Corporations: Report on the Benchmark Corporate Environmental Survey*, United Nations, Geneva, 1993, p.13

⁹ “Environmental Codes in Industry”, Fritz Balkau, Principle Officer, UNEP Programme on Industry and Environment, Paris. Paper presented to the Australian Minerals Industry Conference “The Code: Delivering Results”, October 1998, Melbourne.

by more general environmental commitments. Not surprisingly, companies in industries with the traditionally largest public relations problems in the environmental area such as chemicals, petrochemicals, energy and resources companies have the most far-reaching policy statements.

29. The UNCTAD Benchmark Survey noted that the level of detail varied, with decentralised and diversified companies producing more general statements than more centralised, focused companies. It found that “in general, the statements covered the following issues: a definition of environmental protection (preventative, integrative, international validity), research and development, aspects of process and product safety, health protection, production technology, environmental protection technology, control and environmental information instruments, responsibility of employees, environmental management practices, environmental protection measures, emergency plans, information to the public, and relations with customers.”¹⁰

30. Some policy statements also spell out implementation procedures. Some specify the appropriate officer in the company to whom suspected breaches of the codes or policies are to be reported. Others have annual systems of reporting where each level of management seeks written confirmation from their subordinates of adherence to the policy. Royal Dutch/Shell Group for example, had an independent auditor¹¹ verify the fact that its revised “General Business Principles” had been formally adopted by all Shell companies world-wide.

31. Despite these efforts of the leading companies, implementation of corporate and industry environmental codes is clearly their weak point. Too often, no implementation procedures are spelled out. In the absence of effective implementation, voluntary codes may well simply add to public scepticism of the *bona fides* of business and industry with respect to the environment. Even if codes are implemented, this often means that good environmental policies and management processes have been put in place. Of themselves, they are not likely to inspire solid public confidence in the absence of quantifiable performance targets against which actual environmental *performance* can be monitored, assessed, externally verified and publicly reported on.

Corporate environmental reporting

32. Policy statements or codes of conduct therefore are increasingly only the background against which real efforts in terms of corporate environmental management takes place. Real efforts are now being made by the most progressive companies in the more concrete areas of environmental accounting. Policy statements are being converted into measurable performance targets, which are set, measured, audited and publicly reported upon. An even more advanced version includes social reporting as well. The philosophy behind these efforts is that actions are more convincing than words, and, in business, anything has to be measurable if it is to be taken seriously.

33. An important element of corporate environmental management therefore is setting performance targets in various environmental indicators such as emissions, energy usage, waste generation, and material use. Progress in improving environmental performance can then be measured against the targets, and that information made available to the public. Many large companies, particularly in the

¹⁰ *Environmental Management in Transnational Corporations: Report on the Benchmark Corporate Environmental Survey*, United Nations, Geneva, 1993, p.15

¹¹ The auditors were KPMG Accountants and Price Waterhouse. See <http://www.shell.com/shellreport/pages/audit.htm>.

manufacturing, energy and resources industries, now compile annual environmental reports which contain environmental data such as emissions to air, land and water; hazardous and other waste generation; energy efficiency; environmental technology improvements; site remediation projects, environmental research programmes; employee incentive schemes or prizes for environmental improvement, *etc.* These reports are increasingly being independently audited and verified, to meet the demands of shareholders, customers, and the general public for rigour and accountability on environmental performance.

34. An environmental consultancy firm, SustainAbility, in co-operation with UNEP, has compiled a survey of 100 selected company environmental reports and ranked them against 50 reporting criteria¹² The survey found a seven-fold increase in the proportion of company environmental reports, which were independently verified from the initial 1993-94 survey¹³ to the most recent 1997 survey (of a different sample of 100 companies). Independent verification was, however, still only performed by 28 per cent of the companies in the survey. This survey provides a lot of very interesting company-specific information on environmental reporting, including the rating of the 100 selected companies. The Body Shop is awarded the highest score for its environmental reporting. Environmental reporting is, of course, not the same as environmental performance – there could be very full reporting of bad performance – although full reporting is more likely to promote good environmental performance.

35. An even more ambitious kind of environmental accounting is being attempted by some leading companies. This involves developing sustainability performance indicators from both an environmental and a social perspective, and plotting progress against these indicators. It is called ‘triple bottom line performance’ in the SustainAbility/UNEP report referred to above. The aim is to augment traditional financial bottom line measurements with environmental and social measurements. This methodology is very much in its infancy, but demonstrates the need felt in the corporate community to make environmental policy statements increasingly quantifiable and verifiable, and to operationalise commitments to sustainable development by taking social factors into account as well as environmental ones. For example, Royal Dutch/Shell Group is currently working on how to devise and report a triple bottom line performance, as is The Body Shop and others.

36. As well as individual company efforts, there is work underway in several international business fora on how companies can quantify and assess sustainable development indicators. For example, the World Business Council for Sustainable Development (WBCSD) is working on a project called Corporate Social Responsibility (CSR), which is aimed at adding consideration of the social side of sustainable development to the economic and environmental sides. As part of the project, fifteen organisations with a code or principles document, including the OECD Guidelines, were examined. The documents were analysed and six common primary values were distilled: human rights, worker rights, environment, community involvement, supplier relations and monitoring. Building on this, environmental and social ‘ledgers’ have been developed which set out performance indicators, performance measurements and evaluation mechanisms. The environmental performance indicators are in four areas: material use, energy consumption, non-product output, and pollutant releases. The social ledger has four areas of performance

¹² “Engaging Stakeholders: The 1997 Benchmark Survey – The Third International Progress Report on Company Environmental Reporting”, Report prepared by UNEP, SustainAbility. 1997. See also www.sustainability.co.uk.

¹³ “Company Environmental Reporting – A Measure of the Progress of Business & Industry Towards Sustainable Development”, UNEP Technical Report No. 24, 1994.

requirements: employment practices, community relations, ethical sourcing, and the social impact of the product¹⁴.

37. On another front, environmental management systems such as ISO 14000 can also be seen as a way in which companies can put their environmental policy statements into practice. Such environmental management systems, of course, only concern management systems and process questions, not environmental performance itself. Nevertheless, the two are likely to be closely related, and should be seen as complementary. If a code of conduct specifies the environmental objectives of a company, an environmental management system can provide the procedural mechanisms for implementing those objectives.

3. Emerging best practice ?

38. While the style and content of the various industry and corporate codes vary significantly, some generalisations about what constitutes best practice approaches in environmental codes can be made as follows.

- Firstly, state-of-the-art codes commit companies to sustainable development and to managing their activities such that economic, social and environmental considerations are integrated into decision making and management.
- Second, commitments are made to setting measurable goals for improving environmental performance,
- Third, monitoring, assessment and independent verification of environmental performance is included.
- Fourth, newer, more progressive, codes place a greater emphasis on public reporting of environmental information. They are moving to greater transparency
- Fifth, community consultation and partnership are emphasised.
- Sixth, a culture of environmental responsibility is encouraged through activities such as environmental management systems and staff training, rather than focusing solely on concrete performance issues like emissions and materials use.
- Seventh, compliance with relevant legislation is the minimum starting point, with the focus on continuous improvement and best practice.
- Eighth, corporate standards are applied on a world-wide basis.
- Ninth, they specify how implementation of the policy is to be monitored.

39. Building on these approaches, the following set of illustrative environmental guidelines has been developed by the author to indicate the main areas where progressive corporate codes are making commitments. This is a synthesis of issues dealt with in different codes, and all the elements listed here

¹⁴ See www.wbcsd.org for a summary of the “Corporate Social Responsibility Stakeholder Dialogue Session” held in the Netherlands on September 6-8, 1998; the environmental and social ledgers, and other information on the CSR project.

are most probably not found in any one single code. Broader Codes such as the OECD Guidelines on Multinational Enterprises contain elements not specifically directed at the environment but covering issues of importance to environmental management. For example, the OECD Guidelines cover issues such as the promotion of technology diffusion and public openness in chapters of more general scope.

Best practice principles for environmentally responsible corporate behaviour

Sustainable development

Enterprises should establish world-wide policies on sustainable development.

Integrated environmental management – a corporate priority

Enterprises should recognise environmental management as among the highest corporate priorities and as a key determinant of sustainable development. They are encouraged to implement recognised environmental management systems, such as ISO 14000 and EMAS. Environmental and social factors should be integrated into all strategies, decisions and activities.

Corporate-wide environmental policies and practices

Enterprises should apply the same corporate-wide environmental policies across their international operations. Particular environmental practices and performance standards should be adapted to suit the local environment, but should reflect the higher of home country or international best practice as concerns the management of harmful substances and wherever else this is practicable.

Environmental impact assessment

Enterprises should assess and take into account the full environmental impact of activities or projects prior to their commencement. Monitoring and assessment should be ongoing.

Sustainable use of natural resources and clean production

Enterprises should use energy and materials in an efficient manner and conserve non-renewable natural resources and biodiversity. They should minimise the generation of wastes in production processes and emissions to the environment. The objective should be pollution and waste avoidance rather than clean-up. Measurable targets should be set, and performance measured against them regularly.

Accident prevention and emergency preparedness

Enterprises should take all possible action to prevent accidents which cause health or environmental damage, and should develop emergency contingency plans in conjunction with relevant authorities and communities, recognising potential transboundary impacts.

Life cycle approach to products and services

Enterprises should develop and provide products and services that have no undue environmental impact and are safe in their intended use, that are efficient in their consumption of energy and natural resources, and that can be (preferably) recycled or re-used, or (at least) disposed of safely.

Precautionary principle

Enterprises should act to prevent serious or irreversible environmental degradation even in the face of scientific uncertainty.

Research

Enterprises should conduct or support research on the environmental impacts of raw materials, products, processes, emissions and wastes associated with the enterprise and on ways to minimise adverse environmental effects.

Environmental education and training

Enterprises should educate, train and motivate employees to conduct their activities in an environmentally responsible manner.

Technology diffusion

Enterprises should contribute to the diffusion of environmentally sound goods, services and technologies throughout the private and public sectors, particularly in developing countries.

Supply chain management

Enterprises should encourage and assist their suppliers and customers to adopt best environmental practices and to conform to these Guidelines.

Multilateral environmental agreements

Enterprises should comply with the requirements of multilateral environmental agreements and do their best to move toward targets and objectives as quickly as possible.

Contribution to public policy

Enterprises should contribute to the development of sound environmental policy and to activities in industry and the community that contribute to increased environmental protection and awareness.

Environmental reporting and auditing

Enterprises should conduct environmental audits to measure the environmental impact of their activities and make this information publicly available through annual company environmental reports, through providing information for toxic release registers and through information dissemination to employees, shareholders, directors, the authorities and the public.

Public openness, partnership and dialogue

Enterprises should foster openness, partnership and dialogue with employees and the public, anticipating and responding to their concerns about the potential hazards and impacts of operations, products, services or wastes, including those of transboundary or global significance.

Monitoring implementation of these principles

Enterprises should construct methods to ensure these principles are implemented and should make regular assessments of their performance against these principles.

The following table gives some examples of existing environmental statements that relate to the best practice principles set out above. This is done to illustrate that precedents exist for these principles. Text that has been reproduced above or in the annexes, namely Agenda 21 provisions, the ICC Business Charter and CERES, is referred to by paragraph, and other examples are set out in full. A legend for these other codes is at the bottom of this table.

Table 2

Examples from existing codes illustrating best practice principles

<p>1. Sustainable development:</p> <p>Agenda 21 (30.22)</p> <p>Australian Minerals Industry Code, Principle 1</p>
<p>2. Environmental management and integrated decision-making:</p> <p>ICC Principles 1 and 2;</p> <p>Agenda 21, 30.3:</p> <p>CERES Principle 9;</p> <p>Australian Minerals Industry Code, Principle 5</p> <p>“Make environmental management a high corporate priority and the integration of environmental policies, programmes and practices an essential element of management” <i>ICME</i></p>
<p>3. Corporate-wide environmental policies and practices</p> <p>Agenda 21, 30.22, 19.52d and 20.29;</p> <p>ICC Principle 3;</p> <p>“The code encompasses member country operations both inside and outside Canada.” <i>Responsible Care, CCPA</i>.</p> <p>“Make environmental protection a priority at overseas sites and, as a minimum requirement, abide by the environmental standards of the host country. Apply Japanese standards concerning the management of harmful substances.” <i>Keidanren</i>.</p>
<p>4. Environmental impact assessment</p> <p>“Conduct a full environmental assessment before starting overseas business operations. After the start of activities, try to collect data, and if necessary, conduct an assessment”, <i>Keidanren</i></p>

<p>“Conduct regular environmental reviews or assessments and act on the results”, <i>ICME</i></p>
<p>5. Resource use, cleaner production and performance targets</p> <p>Agenda 21, 30.6, 30.12, 20.18b, CERES Principles 1, 2, 3 and 4. Australian Minerals Code, Principle 6.</p> <p>“To commit to reduce overall emission and waste generation; To economically develop and produce natural resources and to conserve those resources by using energy efficiently.”, <i>American Petroleum Industry</i></p>
<p>6. Emergency preparedness</p> <p>Agenda 21, 19.49h; OECD 8.3e; ICC Principle 12; CERES Principle 5;</p> <p>“Each member company research and development, manufacturing, distribution and waste management site shall have an active community awareness and emergency response programme”, <i>Responsible Care, CCPA</i>.</p>
<p>7. Life cycle approach</p> <p>Agenda 21, 30.26 CERES Principle 6</p> <p>“Encourage product design and uses that promote the recyclability and the recycling of metal products”, <i>ICME</i></p>
<p>8. Precautionary principle</p> <p>“We support the precautionary approach to environmental management, which strives to anticipate and prevent potential environmental degradation.” <i>UNEP</i></p>

9. Research

Agenda 21, 30.25

“To make safety, health and environmental considerations a priority in our planning, and our development of new products and processes. To extend knowledge by conducting or supporting research on the safety, health and environmental effects of our raw materials, products, processes and waste materials” *American Petroleum Institute*.

“Support research to expand scientific knowledge and develop improved technologies to protect the environment”, *ICME*

10. Environmental education and training

OECD

ICC Principle 4;

“Provide adequate resources, staff , and requisite training so that employees at all levels are able to fulfil their environmental responsibilities”, *ICME*;

11. Technology diffusion

OECD Guidelines, Chapter 9.

Agenda 21, 34.27, 30.22

“Promote the international transfer of technologies that mitigate adverse environmental effects, and use technologies and practices which take due account of local cultures and customs and economic and environmental needs”, *ICME*

“Confer fully with the parties concerned at the operational site and co-operate with them in the transfer and local application of environment-related Japanese technologies and know-how.”, *Keidanren*

12. Supply chain management

Agenda 21, 30.12;

ICC Principle 11;

“We will seek to form business relations with suppliers and sub-contractors who follow similarly high environmental standards” *UNEP Statement by Financial Institutions on the Environment and Sustainable Development.*;

13. Multilateral environmental agreements

“Companies shall play an active role when the private sector’s help is sought to implement international environmental measures, including work to solve the problems of poverty and overpopulation in developing countries” *Keidanren*.

“Comply with all international Conventions in relation to the environment” *Pacific Asia Travel Association*

14. Contribution to public policy

ICC Principle 14;

“Participate with Governments and others in creating responsible laws, regulations and standards to safeguard the community, work-place and environment.”, *Responsible Care, CMA*

“Encourage relevant authorities to identify areas worthy of conservation and to determine the level of development if any which would ensure those areas are conserved.”, *Pacific Asia Travel Association*

15. Environmental reporting

Agenda 21, 30.10b, 20.22a,

CERES Principle 10.

Australian Minerals Industry Code, principle 9.

“Develop an inventory of significant releases to air, water, and land; identify their sources, and evaluate their impact on human health and the environment.”, *American Petroleum Institute*.

“Provide the local community with information on environmental measures on a regular basis”, *Keidanren*

16. Public openness and partnership

Agenda 21, 30.26; 20.14f

CERES Principle 8.

“To recognise and respond to community concerns about our raw materials, products and operations”
American Petroleum Institute;

“To co-operate with local organisations in the vicinity of operational installations as a good neighbour to the local community” *International Union of producers and Distributors of Electrical energy;*

“Be sensitive and responsive to community concerns about manufacturing operations”, *CCPA Responsible Care*

Australian Minerals Industry Code, Principle 3.

“Recognise local communities a stakeholders and engage with them in an effective process of consultation and communication”, *ICME.*

Legend:

- American Petroleum Institute, *Environmental, Health and Safety Mission and Guiding Principles*
- CCPA, Canadian Chemical Producers Association, *Responsible Care*[®]
- CMA, Chemical Manufacturers Association, *Responsible Care*[®]
- ICME, International Council on Metals and the Environment, *Environmental Charter.*
- International Union of Producers and Distributors of Electrical Energy; *Statement and Code of Conduct on Environmental Policy.*
- *Keidanren*, (Japan Federation of Economic Organisations), *Ten-Points Environmental Guidelines for the Japanese Enterprises operating Abroad,*
- Pacific Asia Travel Association, *Code for Environmentally Responsible Tourism.*
- UNEP, *Statement by Financial Institutions on the Environment & Sustainable Development*

Implementation and enforcement

40. The most impressive words in the world will not lead to anything without implementation. Even implementation within an enterprise will not yield the desired public recognition if there is no mechanism to monitor assess and report on this implementation, preferably with some kind of third-party verification system.

41. In terms of implementation mechanisms, as noted above, the CERES principles require externally audited regular reports on how a signatory is meeting the principles. This is a substantial commitment to performance measurement and public accountability. Similarly, the 1996 Australian Minerals Industry Code for Environmental Management stipulates that signatories should produce a public report within two years of signature of both the enterprise's environmental performance and its implementation of the Code. This report is to be subjected to an independent auditing process.

42. Responsible Care illustrates the evolution of efforts to monitor and assess implementation of voluntary approaches. Initially Responsible Care entailed a self-assessment procedure. The industry association merely provided self-assessment forms for participating companies to complete themselves. This was already relatively advanced in terms of voluntary codes of conduct, but still fell short of the overall goal of demonstrating improved environmental performance. In recent years verification procedures have come into being in some Responsible Care programmes such as the US and Canada. Now the system envisages a small person verification team made up of industry peers and community representatives to verify that the ethic, systems and practices which the company claims are in place are indeed in place. This is still in its infancy.

43. These are examples of current best practice in including follow-up procedures for assessing how well signatories are implementing the code commitments. However, requiring signatories to report on implementation progress does not of itself ensure the credibility and effectiveness of a code. Usually there are no agreed indicators of how to assess the level of implementation of code commitments. Individual company reports can not therefore be compared even against the same code.

44. Furthermore, there are usually no ultimate sanctions or institutionalised forms of peer pressure to deal with serious cases of non-compliance and to encourage better implementation and environmental performance. Industry associations which administer codes, such as Responsible Care, do not engage in policing or punishing non-performers. They are reluctant to exert significant peer pressure or publicly expose shortcomings. Their mission is simultaneously to promote the environmental image of the industry, fight off governmental regulation, and promote Responsible Care. Some commentators have argued that there is an irresolvable internal conflict in this situation where membership of the code of conduct is a prerequisite for membership of the industry association. An industry association needs to speak and work for all its members, not just the progressive leaders, so it will not want to criticise laggards and will tend to adopt a lowest common denominator approach¹⁵.

45. If codes are to play a role in improving corporate environmental management and performance, and are to be seen as credible and effective by the public, there will still need to be more focus on the monitoring of code implementation and environmental performance assessment.

Corporate environmental reporting

46. As noted above, it is in the area of corporate environmental reporting that the most progress is probably to be made in terms of making voluntary approaches really work. Corporate environmental reporting can be a powerful mechanism for both improving environmental performance and at the same time getting public acceptance and recognition that this is actually happening. Performance measurement and information disclosure are a concrete demonstration that a company is taking its environmental

¹⁵ Neil Gunningham, "Environment, Self-Regulation and the Chemical Industry: Assessing Responsible Care", Australian centre for Environmental Law, Australian National University.

challenges seriously. It is also the basis for setting targets for how performance will be improved, and allowing for this to be monitored publicly.

47. Third-party external verification of corporate environmental accounts is a key element of best practice. It takes a great change in corporate culture to be able to compile, have externally verified and disclose environmental information that can be used by environmental groups and regulators to evaluate a company's environmental performance. It is also a complex and expensive undertaking for large diversified multinationals. Shell Group of companies estimated that their undertaking an external verification of its environmental data cost in the order of US\$2 million¹⁶. There is no doubt, however, that this action lends a large degree of credibility to the company's environmental efforts, and also reveals a lot of information to the company itself on how its environmental information is compiled.

48. Setting ambitious but realistic targets for improvement in an enterprise's environmental performance is also a key element of best practice in this area. While a few companies, such as 3M, have been doing this for many years now, the vast majority have not. Once again, learning to set themselves voluntarily to measurable targets requires a leap for most companies from a feeling of vulnerability on environmental matters to a culture of constructive engagement with the community.

49. Engagement with the community is in itself another key element of best practice in this area. Constructive dialogue with the local community and environmental groups can help a company understand how stakeholders see the environmental issues, which may not be as the company had expected. Consultation and dialogue allows for improved understanding from all sides, and a joint approach to issues such as performance targets and monitoring. Process issues such as consultation and community input to performance targets are probably more important to stakeholders than many corporate environmental managers realise.

¹⁶ Royal Dutch/Shell Group of Companies Health, Safety and Environment Report 1998, p.15.

50. UNEP and SustainAbility attached so much importance to this issue that they titled their 1997 Benchmark Survey of company environmental reporting “Engaging Stakeholders”. This report is essential reading for anyone interested in companies’ efforts in the field of environmental reporting. The report identifies ten transitions that typify moves to best practice in corporate environmental reporting¹⁷. They are reproduced below:

THE TEN TRANSITIONS		
Established Focus	?	Emerging Focus
1. One-way passive communication	?	Multi-way, active dialogue
2. Verification as option	?	Verification as standard
3. Single company progress reports	?	Benchmarkability
4. Management Systems	?	Life cycles, business design, strategy
5. Inputs and outputs	?	Impacts and outcomes
6. Ad-hoc operating standards	?	Global operating standards
7. Public relations	?	Corporate governance

¹⁷ “Engaging Stakeholders: The 1997 Benchmark Survey – The Third International Progress Report on Company Environmental Reporting”, Report prepared by UNEP, SustainAbility. 1997, p.5.

8. Voluntary Reporting ?	Mandatory Reporting
9. Company determines Boundaries ?	Boundaries set by stakeholder dialogue
10. Environmental Performance ?	Triple Bottom Line Performance

The Reports' recommendations for companies, industry federations and governments are as follows¹⁸:

Companies:

- Account for the triple bottom line of sustainable development
- Spotlight real issues, impacts and priorities
- Develop SMART (specific, measurable, attainable, relevant and trackable) targets – and verify
- Integrate your reporting
- Link your CER with your annual report
- Focus on financial market users
- Quantify and monetise
- Communicate, communicate, communicate
- Use the Internet – but don't go paperless

Industry federations:

- Help develop – and use – sustainability indicators
- Engage – and re-engage – stakeholders

Governments:

- Review the need for new mandatory reporting requirements

¹⁸ “Engaging Stakeholders: The 1997 Benchmark Survey – The Third International Progress Report on Company Environmental Reporting”, Report prepared by UNEP, SustainAbility. 1997, p.4.

51. The “Engaging Stakeholders” report builds on earlier work also done jointly by UNEP and SustainAbility, referred to in footnote 15 below. The initial 1994 report sets out 50 reporting ingredients which, it considers, make up a state of the art company environmental report. The subsequent benchmark surveys then assess various company reports against these 50 reporting ingredients.

52. Various other efforts are also underway to attempt to provide guidance and some degree of systematic approach to corporate environmental reporting. The CERES Global Reporting Initiative has already been mentioned. Some national versions of Responsible Care have adopted reporting guidelines, for example the European Chemical Industry Council.

53. Another is the Public Environmental Reporting Initiative (PERI). PERI was launched in 1993 by a group of nine leading North American companies. Its reporting guidelines set out nine components for comprehensive reporting on environmental performance, namely company profile, environmental policy, environmental management, environmental releases, environmental risk management, environmental compliance, product stewardship, employee recognition and stakeholder involvement.

54. Another attempt at promoting and guiding environmental reporting is the Global Environmental Management Initiative (GEMI). GEMI has produced an Environmental Self-Assessment Programme (ESAP) designed to allow companies to evaluate systematically their performance for each of the 16 ICC Business Charter principles against four compliance levels (compliance, systems development, integration and total quality). These self-assessments are not, however, designed to be made public, and are more about environmental management systems than environmental performance indicators and targets¹⁹.

4. Conclusions

55. The environmental impact of foreign direct investment is bound to continue to increase in public importance as investment increases, environmental concern increases, and information on environmental issues is so rapidly transmitted around the globe through the Internet. In the absence of international regulation, voluntary approaches are being relied upon by the private sector for various internal management and external relations reasons, and are consequently being increasingly scrutinised by the public and the environmental community.

56. The necessarily limited survey undertaken in this paper of a very large field nevertheless reveals some interesting trends. Increasing numbers of corporations and industry associations are devoting efforts to developing and publicising voluntary environmental policy statements, guidelines or codes. The most progressive of them pay attention to:

- sustainable development, not just environmental performance;
- stakeholder participation;
- setting down implementation mechanisms and monitoring and reporting on the implementation of the codes;

¹⁹ “Company Environmental Reporting – A Measure of the Progress of Business & Industry Towards Sustainable Development”, UNEP Technical Report No. 24, 1994, p.89.

- setting quantifiable environmental performance indicators and setting measurable targets for improved environmental performance;
- moving beyond compliance to best practice; to fuller transparency of environmental information; and
- integrating environmental and social factors into the central structures and cultures of their organisations.

57. At the same time, environmental policies and management systems are being considered by the most progressive as the necessary basis for best practice environmental management, but not sufficient in itself. Demonstrated improvement in actual environmental outcomes is increasingly recognised as necessary to gain the trust of stakeholders, including shareholders and financiers. Corporate environmental reporting is a mechanism both for implementing policy commitments to transparency made in environmental codes, and for setting ambitious but achievable performance targets. These efforts will be more successful the more that stakeholders are engaged in the process of setting, monitoring and continually improving these performance objectives. External verification is a crucial component of making these voluntary efforts credible and reliable.

58. Future efforts are likely to focus on better and more widespread external verification, and harmonisation of reporting and verification systems. These efforts, if taken seriously by a large enough portion of international business, should gradually work to overcome the latent distrust that the public and environmental groups have of voluntary approaches. Codes of conduct without mechanisms to monitor implementation will not be very successful in gaining outside respect, even if they do have a beneficial effect on changing the internal culture of organisations. Inter-governmental efforts at voluntary codes of conduct, including the OECD Guidelines, therefore need to continue to improve their efforts at engaging the broader community, including environmental NGOs, in both their continued development and in their implementation. Process issues like effective stakeholder involvement and dialogue, and external verification of data, are probably more important than many corporate environmental practitioners realise.

ANNEX I
AGENDA 21, CHAPTER 30

STRENGTHENING THE ROLE OF BUSINESS AND INDUSTRY

Introduction

30.1 Business and industry, including transnational corporations, play a crucial role in the social and economic development of a country. A stable policy regime enables and encourages business and industry to operate responsibly and efficiently and to implement longer-term policies. Increasing prosperity, a major goal of the development process, is contributed primarily by the activities of business and industry. Business enterprises, large and small, formal and informal, provide major trading, employment and livelihood opportunities. Business opportunities available to women are contributing towards their professional development, strengthening their economic role and transforming social systems. Business and industry, including transnational corporations, and their representative organisations should be full participants in the implementation and evaluation of activities related to Agenda 21.

30.2 Through more efficient production processes, preventive strategies, cleaner production technologies and procedures throughout the product life cycle, hence minimising or avoiding wastes, the policies and operations of business and industry, including transnational corporations, can play a major role in reducing impacts on resource use and the environment. Technological innovations, development, applications, transfer and the more comprehensive aspects of partnership and co-operation are to a very large extent within the province of business and industry.

30.3 Business and industry, including transnational corporations, should recognise environmental management as among the highest corporate priorities and as a key determinant to sustainable development. Some enlightened leaders of enterprises are already implementing "responsible care" and product stewardship policies and programmes, fostering openness and dialogue with employees and the public and carrying out environmental audits and assessments of compliance. These leaders in business and industry, including transnational corporations, are increasingly taking voluntary initiatives, promoting and implementing self-regulations and greater responsibilities in ensuring their activities have minimal impacts on human health and the environment. The regulatory regimes introduced in many countries and the growing consciousness of consumers and the general public and enlightened leaders of business and industry, including transnational corporations, have all contributed to this. A positive contribution of business and industry, including transnational corporations, to sustainable development can increasingly be achieved by using economic instruments such as free market mechanisms in which the prices of goods and services should increasingly reflect the environmental costs of their input, production, use, recycling and disposal subject to country-specific conditions.

30.4 The improvement of production systems through technologies and processes that utilise resources more efficiently and at the same time produce less wastes - achieving more with less - is an important pathway towards sustainability for business and industry. Similarly, facilitating and encouraging inventiveness, competitiveness and voluntary initiatives are necessary for stimulating more varied, efficient and effective options. To address these major requirements and strengthen further the role of business and industry, including transnational corporations, the following two programmes are proposed.

Programme areas

A. Promoting cleaner production

Basis for action

30.5 There is increasing recognition that production, technology and management that use resources inefficiently form residues that are not reused, discharge wastes that have adverse impacts on human health and the environment and manufacture products that when used have further impacts and are difficult to recycle, need to be replaced with technologies, good engineering and management practices and know-how that would minimise waste throughout the product life cycle. The concept of cleaner production implies striving for optimal efficiencies at every stage of the product life cycle. A result would be the improvement of the overall competitiveness of the enterprise. The need for a transition towards cleaner production policies was recognised at the UNIDO-organised ministerial-level Conference on Ecologically Sustainable Industrial Development, held at Copenhagen in October 1991. 1/

Objectives

30.6 Governments, business and industry, including transnational corporations, should aim to increase the efficiency of resource utilisation, including increasing the reuse and recycling of residues, and to reduce the quantity of waste discharge per unit of economic output.

Activities

30.7 Governments, business and industry, including transnational corporations, should strengthen partnerships to implement the principles and criteria for sustainable development.

30.8 Governments should identify and implement an appropriate mix of economic instruments and normative measures such as laws, legislations and standards, in consultation with business and industry, including transnational corporations, that will promote the use of cleaner production, with special consideration for small and medium-sized enterprises. Voluntary private initiatives should also be encouraged.

30.9 Governments, business and industry, including transnational corporations, academia and international organisations, should work towards the development and implementation of concepts and methodologies for the internalisation of environmental costs into accounting and pricing mechanisms.

30.10 Business and industry, including transnational corporations, should be encouraged:

- (a) To report annually on their environmental records, as well as on their use of energy and natural resources;
- (b) To adopt and report on the implementation of codes of conduct promoting the best environmental practice, such as the Business Charter on Sustainable Development of the International Chamber of Commerce/(ICC) and the chemical industry's responsible care initiative.

30.11 Governments should promote technological and know-how co-operation between enterprises, encompassing identification, assessment, research and development, management marketing and application of cleaner production.

30.12 Industry should incorporate cleaner production policies in its operations and investments, taking also into account its influence on suppliers and consumers.

30.13 Industry and business associations should co-operate with workers and trade unions to continuously improve the knowledge and skills for implementing sustainable development operations.

30.14 Industry and business associations should encourage individual companies to undertake programmes for improved environmental awareness and responsibility at all levels to make these enterprises dedicated to the task of improving environmental performance based on internationally accepted management practices.

30.15 International organisations should increase education, training and awareness activities relating to cleaner production, in collaboration with industry, academia and relevant national and local authorities.

30.16 International and non-governmental organisations, including trade and scientific associations, should strengthen cleaner production information dissemination by expanding existing databases, such as the UNEP International Cleaner Production Clearing House (ICPIC), the UNIDO Industrial and Technological Information Bank (INTIB) and the ICC International Environment Bureau/(IEB), and should forge networking of national and international information systems.

B. Promoting responsible entrepreneurship

Basis for action

30.17 Entrepreneurship is one of the most important driving forces for innovations, increasing market efficiencies and responding to challenges and opportunities. Small and medium-sized entrepreneurs, in particular, play a very important role in the social and economic development of a country. Often, they are the major means for rural development, increasing off-farm employment and providing the transitional means for improving the livelihoods of women. Responsible entrepreneurship can play a major role in improving the efficiency of resource use, reducing risks and hazards, minimising wastes and safeguarding environmental qualities.

Objectives

30.18 The following objectives are proposed:

- (a) To encourage the concept of stewardship in the management and utilisation of natural resources by entrepreneurs;
- (b) To increase the number of entrepreneurs engaged in enterprises that subscribe to and implement sustainable development policies.

Activities

30.19 Governments should encourage the establishment and operations of sustainably managed enterprises. The mix would include regulatory measures, economic incentives and streamlining of administrative procedures to assure maximum efficiency in dealing with applications for approval in order to facilitate investment decisions, advice and assistance with information, infrastructural support and stewardship responsibilities.

30.20 Governments should encourage, in co-operation with the private sector, the establishment of venture capital funds for sustainable development projects and programmes.

30.21 In collaboration with business, industry, academia and international organisations, Governments should support training in the environmental aspects of enterprise management. Attention should also be directed towards apprenticeship schemes for youth.

30.22 Business and industry, including transnational corporations, should be encouraged to establish world-wide corporate policies on sustainable development, arrange for environmentally sound technologies to be available to affiliates owned substantially by their parent company in developing countries without extra external charges, encourage overseas affiliates to modify procedures in order to reflect local ecological conditions and share experiences with local authorities, national Governments and international organisations.

30.23 Large business and industry, including transnational corporations, should consider establishing partnership schemes with small and medium-sized enterprises to help facilitate the exchange of experience in managerial skills, market development and technological know-how, where appropriate, with the assistance of international organisations.

30.24 Business and industry should establish national councils for sustainable development and help promote entrepreneurship in the formal and informal sectors. The inclusion of women entrepreneurs should be facilitated.

30.25 Business and industry, including transnational corporations, should increase research and development of environmentally sound technologies and environmental management systems, in collaboration with academia and the scientific/engineering establishments, drawing upon indigenous knowledge, where appropriate.

30.26 Business and industry, including transnational corporations, should ensure responsible and ethical management of products and processes from the point of view of health, safety and environmental aspects. Towards this end, business and industry should increase self-regulation, guided by appropriate codes, charters and initiatives integrated into all elements of business planning and decision-making, and fostering openness and dialogue with employees and the public.

30.27 Multilateral and bilateral financial aid institutions should continue to encourage and support small- and medium-scale entrepreneurs engaged in sustainable development activities.

30.28 United Nations organisations and agencies should improve mechanisms for business and industry inputs, policy and strategy formulation processes, to ensure that environmental aspects are strengthened in foreign investment.

30.29 International organisations should increase support for research and development on improving the technological and managerial requirements for sustainable development, in particular for small and medium-sized enterprises in developing countries.

Means of implementation

Financing and cost evaluation

30.30 The activities included under this programme area are mostly changes in the orientation of existing activities and additional costs are not expected to be significant. The cost of activities by Governments and international organisations are already included in other programme areas.

ANNEX 2
CHAPTER 8 OF THE OECD GUIDELINES ON MULTINATIONAL ENTERPRISES

Environmental protection

Enterprises should, within the framework of laws, regulations and administrative practices in the countries in which they operate, and recalling the provisions of paragraph 9 of the Introduction to the Guidelines that, *inter alia*, multinational and domestic enterprises are subject to the same expectations in respect of their conduct whenever the Guidelines are relevant to both, take due account of the need to protect the environment and avoid creating environmentally related health problems. In particular, enterprises, whether multinational or domestic, should:

- 1) Assess, and take into account in decision making, foreseeable environmental and environmentally related health consequences of their activities, including siting decisions, impact on indigenous natural resources and foreseeable environmental and environmentally related health risks of products as well as from the generation, transport and disposal of waste;
- 2) Co-operate with competent authorities, *inter alia*, by providing adequate and timely information regarding the potential impacts on the environment and environmentally related health aspects of all their activities and by providing the relevant expertise available in the enterprise as a whole;
- 3) Take appropriate measures in their operations to minimise the risk of accidents and damage to health and the environment, and to co-operate in mitigating adverse effects, in particular:
 - a) by selecting and adopting those technologies and practices which are compatible with these objectives;
 - b) by introducing a system of environmental protection at the level of the enterprise as a whole including, where appropriate, the use of environmental auditing;
 - c) by enabling their component entities to be adequately equipped, especially by providing them with adequate knowledge and assistance;
 - d) by implementing education and training programmes for their employees;
 - e) by preparing contingency plans; and
 - f) by supporting, in an appropriate manner, public information and community awareness programmes.

ANNEX 3
**THE INTERNATIONAL CHAMBER OF COMMERCE'S BUSINESS CHARTER FOR
SUSTAINABLE DEVELOPMENT**

PRINCIPLES FOR ENVIRONMENTAL MANAGEMENT

Foreword

There is widespread recognition today that environmental protection must be among the highest priorities of every business.

In its milestone 1987 report, "Our Common Future," the World Commission on Environment and Development (Brundtland Commission) emphasised the importance of environmental protection to the pursuit of sustainable development.

To help business around the world improve its environmental performance, the International Chamber of Commerce created this Business Charter for Sustainable Development. It comprises sixteen Principles for environmental management which, for business, is a vitally important aspect of sustainable development. This Charter assists enterprises in fulfilling their commitment to environmental stewardship in a comprehensive fashion, in line with national and international guidelines and standards for environmental management. It was formally launched in April 1991 at the Second World Industry Conference on Environmental Management in Rotterdam, and continues to be widely applied and recognised around the world.

Introduction

Sustainable development involves meeting the needs of the present without compromising the ability of future generations to meet their own needs. Economic growth provides the conditions in which protection of the environment can best be achieved, and environmental protection, in balance with other human goals, is necessary to achieve growth that is sustainable.

In turn, versatile, dynamic, responsive and profitable businesses are required as the driving force for sustainable economic development and for providing the managerial, technical and financial resources to contribute to the resolution of environmental challenges. Market economies, characterised by entrepreneurial initiatives, are essential to achieve this.

Business thus shares the view that there should be a common goal, not a conflict, between economic development and environmental protection, both now and for future generations.

Making market forces work in this way to protect and improve the quality of the environment -- with the help of standards such as ISO 14000, and judicious use of economic instruments in a harmonious regulatory framework -- is an on-going challenge that the world faces in entering the 21st century.

This challenge was recognised by the nations of the world at the 1992 United Nations Conference on Environment and Development, which called on the co-operation of business in tackling it. To this end, business leaders have launched initiatives in their individual enterprises as well as through sectoral and cross-sectoral associations.

In order that more businesses join this effort and that their environmental performance continues to improve, the International Chamber of Commerce continues to call upon enterprises and their associations to use the following Principles as a basis for pursuing such improvement and to express publicly their support for them.

Individual programmes to implement these Principles will reflect the wide diversity among enterprises in size and function.

The objective remains that the widest range of enterprises commit themselves to improving their environmental performance in accordance with these Principles, to having in place management practices to effect such improvement, to measuring their progress, and to reporting this progress as appropriate internally and externally.

Note: The term environment as used in this document also refers to environmentally related aspects of health, safety and product stewardship.

Principles

1. *Corporate priority*

To recognise environmental management as among the highest corporate priorities and as a key determinant to sustainable development; to establish policies, programmes and practices for conducting operations in an environmentally sound manner.

2. *Integrated management*

To integrate these policies, programmes and practices fully into each business as an essential element of management in all its functions.

3. *Process of improvement*

To continue to improve corporate policies, programmes and environmental performance, taking into account technical developments, scientific understanding, consumer needs and community expectations, with legal regulations as a starting point; and to apply the same environmental criteria internationally.

4. *Employee education*

To educate, train and motivate employees to conduct their activities in an environmentally responsible manner.

5. *Prior assessment*

To assess environmental impacts before starting a new activity or project and before decommissioning a facility or leaving a site.

6. *Products and services*

To develop and provide products or services that have no undue environmental impact and are safe in their intended use, that are efficient in their consumption of energy and natural resources, and that can be recycled, reused, or disposed of safely.

7. *Customer advice*

To advise, and where relevant educate, customers, distributors and the public in the safe use, transportation, storage and disposal of products provided; and to apply similar considerations to the provision of services.

8. *Facilities and operations*

To develop, design and operate facilities and conduct activities taking into consideration the efficient use of energy and materials, the sustainable use of renewable resources, the minimisation of adverse environmental impact and waste generation, and the safe and responsible disposal of residual wastes.

9. *Research*

To conduct or support research on the environmental impacts of raw materials, products, processes, emissions and wastes associated with the enterprise and on the means of minimising such adverse impacts.

10. *Precautionary approach*

To modify the manufacture, marketing or use of products or services or the conduct of activities, consistent with scientific and technical understanding, to prevent serious or irreversible environmental degradation.

11. *Contractors and suppliers*

To promote the adoption of these principles by contractors acting on behalf of the enterprise, encouraging and, where appropriate, requiring improvements in their practices to make them consistent with those of the enterprise; and to encourage the wider adoption of these principles by suppliers.

12. *Emergency preparedness*

To develop and maintain, where significant hazards exist, emergency preparedness plans in conjunction with the emergency services, relevant authorities and the local community, recognising potential transboundary impacts.

13. *Transfer of technology*

To contribute to the transfer of environmentally sound technology and management methods throughout the industrial and public sectors.

14. *Contributing to the common effort*

To contribute to the development of public policy and to business, governmental and intergovernmental programmes and educational initiatives that will enhance environmental awareness and protection.

15. *Openness to concerns*

To foster openness and dialogue with employees and the public, anticipating and responding to their concerns about the potential hazards and impacts of operations, products, wastes or services, including those of transboundary or global significance.

16. *Compliance and reporting*

To measure environmental performance; to conduct regular environmental audits and assessments of compliance with company requirements, legal requirements and these principles; and periodically to provide appropriate information to the Board of Directors, shareholders, employees, the authorities and the public.

Support for the Charter

The ICC undertakes to encourage member companies and others to express their support and implement the Charter and its Principles. A list of these companies can be obtained from ICC Headquarters. The ICC also publishes regularly a Charter bulletin which provides more specific information on the Charter's Principles and different interpretations possible - an attribute of the Charter that has been widely commended.

The first edition of Business Charter for Sustainable Development was adopted by the ICC Executive Board on 27 November 1990, and first published in April 1991. It was prepared and revised by the ICC Working Party for Sustainable Development. *Chairman:* Peter Scupholme (British Petroleum) *Vice-Chairman:* W. Ross Stevens III (Du Pont)

The ICC is indebted to numerous companies and business organisations for their input in preparing and revising the Charter.

The Business Charter for Sustainable Development provides a basic framework of reference for action by individual corporations and business organisations throughout the world. It has been recognised as a complement to environmental management systems. To this end, the ICC, the United Nations Environment Programme(UNEP) and the International Federation of Consulting Engineers (FIDIC) have developed a kit to help enterprises integrate environmental management systems in the daily management practices, a step consistent with the objectives set out in this Charter. The Business Charter has been published in over 20 languages, including all the official languages of the United Nations.

ANNEX 4
THE CERES PRINCIPLES

By adopting these Principles, we publicly affirm our belief that corporations have a responsibility for the environment, and must conduct all aspects of their business as responsible stewards of the environment by operating in a manner that protects the Earth. We believe that corporations must not compromise the ability of future generations to sustain themselves.

We will update our practices constantly in light of advances in technology and new understandings in health and environmental science. In collaboration with CERES, we will promote a dynamic process to ensure that the Principles are interpreted in a way that accommodates changing technologies and environmental realities. We intend to make consistent, measurable progress in implementing these Principles and to apply them to all aspects of our operations throughout the world.

Protection of the biosphere

We will reduce and make continual progress toward eliminating the release of any substance that may cause environmental damage to the air, water, or the earth or its inhabitants. We will safeguard all habitats affected by our operations and will protect open spaces and wilderness, while preserving biodiversity.

Sustainable use of natural resources

We will make sustainable use of renewable natural resources, such as water, soils and forests. We will conserve non-renewable natural resources through efficient use and careful planning.

Reduction and disposal of wastes

We will reduce and where possible eliminate waste through source reduction and recycling. All waste will be handled and disposed of through safe and responsible methods.

Energy conservation

We will conserve energy and improve the energy efficiency of our internal operations and of the goods and services we sell. We will make every effort to use environmentally safe and sustainable energy sources.

Risk reduction

We will strive to minimise the environmental, health and safety risks to our employees and the communities in which we operate through safe technologies, facilities and operating procedures, and by being prepared for emergencies.

Safe products and services

We will reduce and where possible eliminate the use, manufacture or sale of products and services that cause environmental damage or health or safety hazards. We will inform our customers of the environmental impacts of our products or services and try to correct unsafe use.

Environmental restoration

We will promptly and responsibly correct conditions we have caused that endanger health, safety or the environment. To the extent feasible, we will redress injuries we have caused to persons or damage we have caused to the environment and will restore the environment.

Informing the public

We will inform in a timely manner everyone who may be affected by conditions caused by our company that might endanger health, safety or the environment. We will regularly seek advice and counsel through dialogue with persons in communities near our facilities. We will not take any action against employees for reporting dangerous incidents or conditions to management or to appropriate authorities.

Management commitment

We will implement these Principles and sustain a process that ensures that the Board of Directors and Chief Executive Officer are fully informed about pertinent environmental issues and are fully responsible for environmental policy. In selecting our Board of Directors, we will consider demonstrated environmental commitment as a factor.

Audits and reports

We will conduct an annual self-evaluation of our progress in implementing these Principles. We will support the timely creation of generally accepted environmental audit procedures. We will annually complete the CERES Report, which will be made available to the public.

These Principles establish an environmental ethic with criteria by which investors and others can assess the environmental performance of companies. Companies that endorse these Principles pledge to go voluntarily beyond the requirements of the law. The terms may and might in Principles one and eight are not meant to encompass every imaginable consequence, no matter how remote. Rather, these Principles obligate endorsers to behave as prudent persons who are not governed by conflicting interests and who possess a strong commitment to environmental excellence and to human health and safety. These Principles are not intended to create new legal liabilities, expand existing rights or obligations, waive legal defences, or otherwise affect the legal position of any endorsing company, and are not intended to be used against an endorser in any legal proceeding for any purpose.

ANNEX 5
AUSTRALIAN MINERALS INDUSTRY CODE FOR ENVIRONMENTAL MANAGEMENT
December 1996

More than in any other way, the community judges the minerals industry by its environmental performance. Recognising the need to achieve environmental excellence and to be open and accountable to the community. Australia's minerals industry has developed a Code for Environmental Management. The Code has been strengthened by contributions from government and non-government organisations.

The Code is the centrepiece of a new commitment to respond to community concerns through consultation, demonstrated environmental performance, continual improvement and public reporting.

Adoption of the Code is voluntary and open to all minerals companies. Signatories will be required to demonstrate their commitment to environmental excellence and provide leadership to the minerals industry for the broad adoption of the Code. Irrespective of whether a company becomes a signatory, the Code provides a basis for improving environmental performance through progressive implementation of the Code's principles.

Effective environmental management within the minerals industry must take into account the physical, environmental, statutory, economic and social parameters relevant to each operation. Therefore, the Code provides a comprehensive framework for the development of effective systems and processes for each operation. It does not prescribe specific practices, standards or any particular local requirements as they cannot provide effective environmental management across diverse operations.

The Code does not set entry standards but requires signatories' commitment to continual improvement and public reporting of Code implementation and environmental performance. Signatories will progressively implement the Code's principles by putting in place systems and processes to achieve full implementation over time.

Signatories will apply the Code wherever they operate. The principles will guide signatories through each phase of mineral development, from exploration, through design and construction to mining, minerals processing, rehabilitation and decommissioning.

Signatories to the Code will:

- observe the policies, and respect the aspirations of State, Territory and sovereign governments relevant to mineral developments;
- facilitate community partnerships on environmental matters;
- report publicly on environmental performance and implementation of the Code.

The industry recognises that community, government and industry needs and expectations will change over time. The Code will continue to evolve with ongoing input from all stakeholders.

Statement of principles

Signatories to the Code are committed to excellence in environmental management through:

Sustainable development

Managing activities in a manner consistent with the principles of sustainable development such that economic, environmental and social considerations are integrated into decision making and management.

Environmentally responsible culture

Developing an environmentally responsible culture by demonstrating management commitment, implementing management systems, and providing the time and resources to educate and train employees and contractors.

Community partnership

Consulting the community on its concerns, aspirations and values regarding development and operational aspects of mineral projects, recognising that there are links between environmental, economic, social and cultural issues.

Risk management

Applying risk management techniques on a site-specific basis to achieve desirable environmental outcomes.

Integrated environmental management

Recognising environmental management as a corporate priority and integrating environmental management into all operations from exploration, through design and construction to mining, minerals processing, rehabilitation and decommissioning.

Performance targets

Setting environmental performance targets not necessarily limited to legislation, licence and permit requirements.

Continual improvement

Implementing management strategies to meet current and anticipated performance standards and regularly reviewing objectives in the light of changing needs and expectations.

Rehabilitation and decommissioning

Ensuring decommissioned sites are rehabilitated and left in a safe and stable condition, after taking into account beneficial uses of the site and surrounding land.

Reporting

Demonstrating commitment to the Code's principles by reporting the company's implementation of the Code and environmental performance to governments, the community and within the company.

Systems and processes

The systems and processes relevant to each Principle are:

Sustainable development

Managing activities in a manner consistent with the principles of sustainable development such that economic, environmental and social considerations are integrated into decision making and management.

- 1) Support activities to improve knowledge of the short- and long-term availability and use of mineral resources.
- 2) Promote reuse and recycling of mineral products and by-products to maximise their utility to current and future generations.
- 3) Pursue cleaner production through research, technological innovation, operational efficiencies and waste minimisation.
- 4) Recognise the maintenance of ecological and cultural heritage values as an important consideration in sustainable development.

Environmentally responsible culture

Developing an environmentally responsible culture by demonstrating management commitment, implementing management systems, and providing the time and resources to educate and train employees and contractors.

- 1) Develop, implement and communicate an environmental policy consistent with the Code.
- 2) Demonstrate management commitment through application of environmental management practices consistent with the Code.
- 3) Implement effective environmental education and training programmes for all employees and contractors.
- 4) Ensure that employees and contractors are provided with necessary company policies, goals, procedures, guidelines and practices for environmental and heritage protection.
- 5) Require employees and site contractors to comply with company practices and procedures.
- 6) Facilitate community education about the minerals industry and its environmental management.

Community partnership

Consulting the community on its concerns, aspirations and values regarding development and operational aspects of mineral projects, recognising that there are links between environmental, economic, social and cultural issues.

- 1) Identify directly and indirectly affected stakeholders, and their concerns.
- 2) Foster openness and dialogue with employees and the community, promote cross-cultural awareness, and specifically address concerns about environmental and social impacts.
- 3) Provide to the community technical information about potential effects of operations, products, waste and rehabilitation practices.

- 4) Establish community consultation relevant to each stage of operations.

Risk management

Applying risk management techniques on a site-specific basis to achieve desirable environmental outcomes.

- 1) Utilise environmental baseline studies as the basis for risk management.
- 2) Evaluate the risks of alternative project concepts, weighing the positive and negative consequences of the outcomes and provide opportunities for stakeholder participation.
- 3) Implement management strategies to mitigate environmental impacts of the preferred development option.
- 4) Adopt a proactive and cautious approach to reasonably foreseeable environmental risks.
- 5) Develop and implement contingency plans to address incidents and abnormal operating and environmental conditions.

Integrated environmental management

Recognising environmental management as a corporate priority and integrating environmental management into all operations from exploration, through design and construction to mining, minerals processing, rehabilitation and decommissioning.

- 1) Establish a management system which allocates management and employee responsibilities relevant to the organisation's activities and applicable legal requirements.
- 2) Address within an environmental management system:
 - applicable legal and regulatory requirements;
 - requirements under this Code and any other codes to which the company is a signatory;
 - company environmental policies, objectives and targets;
 - environmental management plans and procedures;
 - environmental monitoring procedures;
 - setting and testing of contingency and emergency response plans;
 - regular auditing of the environmental management system and environmental performance;
 - reporting procedures.
- 3) Periodically review the environmental management system to ensure that it remains effective and relevant to the company's evolving needs and changing community values and expectations.

Performance targets

Setting environmental performance targets not necessarily limited to legislation, licence and permit requirements.

- 1) Identify legal and other requirements applicable to the environmental aspects of the organisation's activities, products or services.
- 2) Set internal performance targets and periodically assess achievements to reinforce policy commitments and to enable demonstration of continual improvement.
- 3) Ensure that legal requirements and internal performance targets are effectively communicated to the employees who are accountable for the relevant activities.

Continual improvement

Implementing management strategies to meet current and anticipated performance standards and regularly reviewing objectives in the light of changing needs and expectations.

- 1) Regularly review and update corporate policies, programmes, and environmental performance to correct any deficiencies.
- 2) Assess and rank environmental issues in order to concentrate efforts in priority areas and where maximum gains are achievable.
- 3) Undertake, participate in, or support research on priority issues and facilitate transfer of information on technical developments, scientific understanding, consumer needs and community expectations.

Rehabilitation and decommissioning ensuring decommissioned sites are rehabilitated and left in a safe and stable condition, after taking into account beneficial uses of the site and surrounding land.

- 1) Incorporate rehabilitation and decommissioning options in the conceptual design of operations at the feasibility stage.
- 2) Develop clearly-defined rehabilitation plans, monitor and review rehabilitation performance and progressively refine such plans.
- 3) Determine and account for rehabilitation and decommissioning costs and periodically review their adequacy during the life of the operation.
- 4) Establish a programme of progressive rehabilitation commensurate with the nature of the operation and the rate of disturbance.
- 5) Periodically review the rehabilitation and decommissioning strategies over the life of the operation to incorporate changing legislative requirements, public expectations and environmental and cultural heritage information.
- 6) Address issues and programmes related to long-term responsibility for land management in the final decommissioning plan.

Reporting

Demonstrating commitment to the Code's principles by reporting the company's implementation of the Code and environmental performance to governments, the community and within the company.

- 1) Implement regular reporting of environmental performance to all stakeholders, including the Board of Directors, shareholders, employees, authorities and the community.
- 2) Provide an annual public environmental report.
- 3) Reports should describe the company's processes for:
 - communicating environmental policy;
 - communicating environmental performance;
 - community consultation and responding to concerns;
 - Code implementation.
- 4) Reports should also include, but not be limited to:
 - organisation profile, environmental policies and objectives;
 - environmental management processes;
 - establishment of benchmarks against which continual improvement can be measured;
 - opportunities/progress in improvements;
 - prosecutions and associated significant environmental incidents;
 - performance in relation to regulatory requirements and internal targets;
 - environmental and heritage issues to be addressed and strategies to implement them.

Code implementation

Companies committing to the Code will be listed on a register maintained by the Code Secretariat. Initially, the Secretariat will be provided by the Minerals Council of Australia.

Eligibility

All mining and minerals processing companies are eligible to become Code signatories, provided they commit to its implementation. Membership of an industry association is not a prerequisite to becoming a signatory. Similarly, being a signatory is not a prerequisite for association membership. State Minerals Councils, Chambers of Mines and other minerals industry associations may associate with the Code.

Signatory companies will use all reasonable endeavours to have the Code Principles applied to operations in which they hold a non-controlling interest.

Registration

Companies wishing to commit to the Code will advise the Code Secretariat by letter. Eligible companies will be added to the register which will be published and available for public inspection. Individual companies may choose to publicise their registration.

Performance review

Implementation of the Code will be evaluated by qualified, externally-accredited auditors from within the signatory company, or by accredited external auditors appointed by the company at least every three years.

Reporting

Signatories to the Code will produce annual public environmental reports in accordance with the Code's Reporting Principle. The first report is to be prepared within two years of registration.

The reports are expected to demonstrate the company's commitment to, and implementation of the Code and describe its performance in relation to the key Principles.

Companies are to make their annual environmental reports available to the public through their corporate and regional offices. Copies of each report, for public review, are to be lodged with the Code secretariat and in major libraries in jurisdictions within which the company operates.

Code review

The Code will be a living document and will continue to be refined and developed. Consultation with stakeholders will continue. The Code will be formally reviewed in 1999, when signatories will be invited to recommit to the Code.

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