

# Guide to Instruments of Corporate Responsibility

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An overview of 16 key tools for labour fund trustees

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## Introduction

The last fifteen years have witnessed a remarkable proliferation of corporate responsibility tools – ethics codes, principles, guidelines, standards and other instruments. Over 300 currently exist worldwide. These tools of corporate responsibility serve two primary purposes. First, they seek to promote corporate practice that is more responsible and accountable. Second, these tools strive to establish a clear and common understanding of central concepts such as ‘sustainable development’ and ‘corporate social responsibility’.<sup>1</sup>

While the use of these tools is mostly voluntary, several could emerge as industry standards that supply the legitimacy, consistency and comparability demanded by corporations and its stakeholders. For many corporate executives, the question is no longer whether to use these tools, but which ones to use and how. There is much confusion and uncertainty regarding the role, function and quality of many corporate responsibility tools.<sup>2</sup> This dilemma is similarly faced by institutional investors pursuing improved corporate responsibility practice in their equity holdings. This guidebook provides an overview of today’s leading corporate responsibility instruments, principles, codes and standards for pension fund trustees.

Many issues must be considered by management and institutional investors alike in this regard. Should a national, regional or global framework be used? Is it better to employ one comprehensive standard or a series of issue-specific standards? What metrics should be measured, audited and reported on? Companies often employ several tools simultaneously to address their varying needs. For example, of the instruments herein profiled, Shell uses the Global Reporting Initiative’s (GRI) Sustainability Reporting Guidelines, the UN Global Compact and the Greenhouse Gas (GHG) Protocol. Nike employs the AA1000 Framework, the GRI and the UN Global Compact. In combination or alone these tools can provide normative clarity, legitimacy, functionality, enable learning, communication and materiality.

The tools profiled in this guidebook include:

- AccountAbility 1000 Assurance Standard (‘AA1000’)
- Ceres Principles
- Equator Principles
- Extractive Industries Transparency Initiative (EITI)
- Global Reporting Initiative Sustainability Reporting Guidelines (‘GRI’)
- Global Sullivan Principles
- Greenhouse Gas Protocol (‘GHG Protocol’)
- International Labour Organization Declaration on Fundamental Principles and Rights at Work (‘ILO Declaration’)
- ISO 14000
- MacBride Principles
- Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises (‘OECD Guidelines’)
- Social Accountability 8000 (‘SA8000’)

- United Nations Global Compact ('GC')
- United Nations Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights ('UN Norms')
- Universal Declaration of Human Rights ('UDHR')
- Voluntary Principles on Security and Human Rights

The tools above were selected on the basis of several factors including: frequency of use in shareholder resolutions, citation in corporate responsibility guides, citation in voting proxy guidelines, multi-stakeholder support and particular relevancy for Canada. The table below summarizes which of the tools profiled in this publication have been cited by different organizations and guidebooks.

	Dow Jones Sustainability Index (most used) <sup>3</sup>	G8	Account-Ability's Global Eight <sup>4</sup>	World Business Council for Sustainable Development <sup>5</sup>	Centre for Research on MNCs <sup>6</sup>	UN Norms Report <sup>7</sup>	Corporate Responsibility Code Book <sup>8</sup>	Sandra Waddock <sup>9</sup>
Publication Date	2005		2003	October 2004	April 2005	Feb. 2005	October 2003	April 2005
<b>AA1000</b>			✓	✓			✓	✓
<b>Ceres Principles</b>							✓	
<b>EITI</b>		✓				✓		
<b>Equator Principles</b>								
<b>GHG Protocol</b>								✓
<b>Global Compact</b>	✓	✓	✓	✓	✓	✓	✓	✓
<b>GRI</b>		✓	✓	✓		✓	✓	✓
<b>ILO Declaration</b>	✓	✓	✓			✓	✓	✓
<b>ISO 14000</b>			✓	✓			✓	✓
<b>MacBride Principles</b>								✓
<b>OECD Guidelines</b>		✓	✓	✓	✓	✓	✓	✓
<b>SA8000</b>			✓	✓		✓	✓	✓
<b>Sullivan Principles</b>			✓			✓	✓	✓
<b>UN Norms</b>				✓	✓	✓	✓	
<b>Universal Declaration</b>	✓	✓					✓	✓
<b>Voluntary Principles</b>						✓	✓	

## **Labour Pension Fund Corporate Engagement**

This guidebook is intended to both provide an overview of the selected tools as well as document how institutional investors have used these tools in the past to promote corporate responsibility. It must be underscored that there a multitude of ways an institutional investor can use the profiled tools to promote corporate responsibility. Each of the ‘methods’ listed below of promoting corporate responsibility have been utilized by institutional investors as detailed throughout this guidebook.

In their relations with corporations or fund managers in their equity portfolios, institutional investors can:

- Establish investment principles that incorporate corporate governance and corporate responsibility criteria. Some of these criteria could be based on corporate responsibility tools.
- Create voting proxy guidelines that encompass and refer corporate responsibility tools to guide both voting and proposing shareholder resolutions.
- Vote proxies employing corporate responsibility tools as a basis.
- Write letters to company management, board members and fund managers to express concerns and/or support for actions taken. The tools herein profiled can provide the basis or framework of such a conversation.
- Meet with company management, board members and fund managers to express their concern or support for actions taken. The tools herein profiled can provide the basis or framework of such a conversation.

With regards relations with government actors, institutional investors can:

- Lobby politicians and civil servants to use corporate responsibility tools as a basis for eligibility of corporations to take part in tendering processes and public procurement and to receive government subsidies and export credits.
- Lobby politicians and civil servants to enact mandatory social and environmental disclosure based on corporate responsibility tools outlining reporting and accounting processes.
- Lodge complaints with the Canada’s OECD National Contact Point regarding corporate deviation from the OECD Guidelines for Multinational Enterprises, if applicable.
- Lobby politicians and civil servants to mandate the disclosure of pension fund proxy votes and any social or environmental criteria employed in the investment policy.
- Lobby securities regulators to mandate and encourage corporate disclosure with regards to social and environmental performance.

Labour pension funds can also act in concert with other institutional investors by:

- Participate in institutional investor corporate responsibility and corporate governance coalitions, conferences and summits – which often coalesce around or endorse a given corporate responsibility tool – to send a clear signal of their expectations of corporations.

Labour pension funds can also be key contributors to civil society organizations and standards setting bodies by:

- Participating in the creation and development of corporate responsibility tools to ensure broader legitimacy. This could include becoming a supporting or board member of a standard setting body, making suggestions and voicing concerns to that body and being an active participant in multi-stakeholder discussions.
- Working with other union pension funds and civil society organizations in public awareness campaigns that are issue-specific or company specific.
- Stimulate independent buy-side research

Internally, labour pension funds can:

- Utilize tools of corporate responsibility standards that are applicable to them.
- Disclose corporate governance policy, proxy voting guidelines, proxy voting record, explanation of proxy votes in important cases, corporate engagement activities, list of equity holdings, resources allocated to implementing governance policy, social and environmental criteria for investment policy and conflicts of interest.

Depending on the size and nature of the fund, some of the above actions may well involve outsourcing to or consulting with specialized service providers. It must also be underscored that measuring the impact of engagement on actual corporate behavior is notoriously difficult to ascertain for two chief reasons. First, companies are often reluctant to admit that shareholder and stakeholder pressure was the cause of a change in a given policy. Second, causation is difficult to establish because there are a multitude of potential causing factors for action or inaction on a given issue.

Some key resources in exploring these various methods of engagement include the International Corporate Governance Network's 'Statement on Institutional Shareholder Responsibilities' ([www.icgn.org](http://www.icgn.org)), the Shareholder Association for Research and Education ([www.share.ca](http://www.share.ca)), the Interfaith Center on Corporate Responsibility ([www.iccr.org](http://www.iccr.org)), the Investor Responsibility Research Center ([www.irrc.org](http://www.irrc.org)) and Ceres ([www.ceres.org](http://www.ceres.org)). In June 2005, the Global Compact Office and the UNEP Finance Initiative launched the development process of the 'Principles for Responsible Investment.'

### **Classification of Corporate Responsibility Tools**

Corporate responsibility tools can and have been classified in various manners. They can be categorized by purpose, geographical reach, issues addressed or by method of development. For our present purposes, the classification approach employed by Ernst Ligteringen and Simon Zadek will be employed.<sup>10</sup> They divide the emerging corporate responsibility architecture into three types of tools. First, normative frameworks '[p]rovide substantive guidance on what constitutes good or acceptable levels of performance.' Second, process guidelines '[e]nable measurement, assurance and communication of performance.' Third, management systems '[p]rovide integrated or

issue specific management frameworks to guide the ongoing management of environmental and social impacts.’

#### Normative frameworks

- Ceres Principles
- EITI
- Equator Principles
- Global Compact
- Global Sullivan Principles
- ILO Declaration
- MacBride Principles
- OECD Guidelines
- UN Norms
- Universal Declaration
- Voluntary Principles on Security and Human Rights

#### Process Guidelines

- AA1000
- Ceres Principles
- EITI
- Equator Principles
- GHG Protocol
- GRI
- MacBride Principles

#### Management Systems

- AA1000
- ISO 14001
- SA8000

### **Other Corporate Responsibility Instrument Guides**

As mentioned, this guidebook was not designed to be exhaustive. There are several other guides and manuals (not designed for institutional investors in particular) that provide overviews of corporate responsibility instrument guides.

- *Workers’ Tool or PR ploy? A Guide to Codes of International Labour Practice*<sup>11</sup>  
by Ingeborg Wick, 2003
- *The Corporate Responsibility Code Book*  
by Deborah Leipziger, Greenleaf Publishing, 2003
- *Issue Management Tool*<sup>12</sup>  
by AccountAbility for the World Business Council on Sustainable Development,  
October 2004
- *Mapping Instruments for Corporate Social Responsibility*  
by the European Commission, Employment and Social Affairs, April 2003

- *Living Corporate Citizenship: Strategic routes to socially responsible business* by Malcolm McIntosh, Ruth Thomas, Deborah Leipziger, Gill Coleman, October 2002
- ‘Global Reporting Initiative and other CSR Tools’<sup>13</sup> by Global Reporting Initiative

The full text of the instruments profiled in this guidebook and several dozen others are available at:

- *Compendium of Ethics Codes and Instruments of Corporate Responsibility*<sup>14</sup> by Kevin McKague, Schulich School of Business, York University, January 2005

## Notes

<sup>1</sup> Ligteringen, Ernst and Zadek, Simon, ‘The Future of Corporate Responsibility Codes, Standards and Frameworks’, 20 April 2005. Available at: <[http://www.globalreporting.org/upload/Landscape\\_Final.pdf](http://www.globalreporting.org/upload/Landscape_Final.pdf)>

<sup>2</sup> Oldenziel, Joris: ‘However, the increasing number of initiatives has also led to confusion among the different actors and lack of common starting points for discussion’ in ‘The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments’, Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 8. Available at: <[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>3</sup> Ricard, J.E., Rodríguez, M.A. and P. Sánchez, ‘Sustainability in the boardroom: An empirical examination of Dow Jones Sustainability World Index leaders’, *Corporate Governance*, 5(3), 2005, p. 24.

<sup>4</sup> AccountAbility, ‘International Standards for Corporate Responsibility’. Available at: <<http://www.accountability.org.uk/resources/default.asp?pageid=74>>

<sup>5</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>6</sup> Oldenziel, Joris, ‘The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments’, Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 8. Available at: <[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>7</sup> Report of the United Nations High Commissioner on Human Rights on the responsibilities of transnational corporations and related business enterprises with regard to human rights, E/CN.4/2005/91, 15 February 2005. Available at: <<http://www.ohchr.org/english/bodies/chr/docs/61chr/E.CN.4.2005.91.doc>>

<sup>8</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003.

<sup>9</sup> Waddock, Sandra, ‘Creating Corporate Accountability: Foundational Principles to Make Corporate Citizenship Real’, *Journal of Business Ethics*, 50, April 2004, pp. 313-327; Waddock, Sandra, ‘What Will it Take to Create a Tipping Point for Corporate Responsibility?’, Available at: <<http://www2.bc.edu/~waddock/TpgPtPpr.doc>>

<sup>10</sup> Ligteringen, Ernst and Zadek, Simon, ‘The Future of Corporate Responsibility Codes, Standards and Frameworks’, 20 April 2005. Available at: <[http://www.globalreporting.org/upload/Landscape\\_Final.pdf](http://www.globalreporting.org/upload/Landscape_Final.pdf)> Several other authors and guidebooks have offered a somewhat similar categorization approach. For example, Sandra Waddock divides corporate responsibility instruments into (1) ‘foundational principles, values and guidelines’, (2) ‘audit and reporting guidelines’ and (3) ‘verification, monitoring and certification systems’.

<sup>11</sup> Available at: <<http://www.suedwind-institut.de/Workers-tool-2003.pdf>>

<sup>12</sup> Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>



<sup>13</sup> Available at: <<http://www.globalreporting.org/about/initiatives.asp>>

<sup>14</sup> Available at: <<http://www.yorku.ca/csr>>

## AA1000 Assurance Standard

**Summary** The AA1000 Assurance Standard addresses all assurance aspects of an organization's disclosure and performance. It integrates stakeholder engagement into a cycle of planning, auditing, accounting, reporting and assurance.

**Who?** The AA1000 Assurance Standard was developed through an international multi-stakeholder process by AccountAbility, a not-for-profit and member-based institution founded in London in 1996.

AccountAbility is governed by an international multi-stakeholder Council which includes representatives from business, NGOs, consultancies and academia. The Council annually elects members of the Operating Board which has legal responsibilities for the organization's activities. In addition, there is a Technical Committee that oversees development of the AA1000 Series.

**Issues** Stakeholder engagement, assurance, reporting

**Overview & Operation** The AA1000 Assurance Standard is aimed at promoting organizational accountability for sustainable development by ensuring the quality of non-financial accounting, auditing and reporting. The AA1000 approach is designed to provide information that is timely, reliable and that is material to company performance in order to address investor and stakeholder assurance needs. By including stakeholders in the process that determines a company's scope of responsibility, AA1000 challenges traditional models in which only the company or assurance provider determine the scope and materiality of the assurance process.

Three principles govern the AA1000 process including materiality, completeness and responsiveness which are in turn underpinned by inclusivity. Adherence to these principles promote the credibility that is often lacking in many corporate sustainability reports.

The AA1000 Assurance Standards does not specify the issues on which a company should report – rather, it guides the development of a stakeholder engagement process that addresses completeness and requires governance structures.<sup>1</sup> Reports must outline how management is addressing stakeholder expectations and rights.

The importance of independent assurance is underscored by the AA1000 Assurance Standards. AccountAbility offers training programs certifying both internal and external practitioners in applying the standard. An assurance provider evaluates if the organization has identified and understood the material aspects of its sustainability performance and must

also disclose the scope of the audit. Furthermore, the assurance provider must disclose any factors that may detract from their independence in the audit. In January 2005, AccountAbility and the International Register of Certified Auditors launched the world's first individual certification scheme.<sup>2</sup>

AccountAbility provides continuously updated Guidance Notes to aid implementing companies and assurance providers. The AA1000 Assurance Standard is non-proprietary and open-sourced.

### **Strengths**

- Engages stakeholders: The AA1000 Assurance Standard is premised on effective engagement with stakeholders to determine their concerns and expectations.
- Member companies influence standard: The standard is continuously being shaped by the experiences and input of member companies.
- Focus on management systems that enable performance: By not pre-determining the substantive issues to be addressed, the AA1000 Assurance Standard facilitates a process by which companies identify factors that are material to performance.

### **Weaknesses**

- More costly and involved than traditional forms of assurance
- Vulnerable to misuse: The nature of the standard is such that there is no 'in accordance' model and capacity to accredit trainers and practitioners is underdeveloped. 'This undermines its credibility for users and stakeholders.'<sup>3</sup>
- No stakeholder consultation in determining audit scope: Two authors view stakeholder input into the audit's scope as important 'if he or she is going to be able to tell stakeholders whether the report has adequately covered...'<sup>4</sup>

### **Relationship with other instruments**

The AA1000 Assurance Standard is designed to be compatible with performance standards such as SA8000 and with process standards such as the Global Reporting Initiative (GRI).<sup>5</sup> AccountAbility and GRI have collaborated closely to ensure the two standards are mutually reinforcing.

### **Comments**

'AA1000 sets out useful guiding principles for reporters and assurance providers but it is not a standard in a true sense. While we seek to use AA1000 principles in our assurance work, too many companies are taking a cosmetic approach to assurance. This often reflects a lack of robust management and reporting systems for corporate social responsibility issues and, perhaps, the lack of a clear business case internally.' Geoff Lane, PriceWaterhouseCoopers<sup>6</sup>

'Use of the AA1000 Assurance Standard provides a practical option for companies to manage and understand performance and risk beyond the traditionally accepted boundaries of materiality. Evidence of use suggests that it advances the quality of assurance without imposing a compliance regime.' World Business Council for Sustainable Development report<sup>7</sup>

‘There is a danger that the A1000 Assurance Standard will become the “Betamax of sustainability standards” – technically advanced but beaten in the marketplace by cheaper and more ubiquitous options.’ World Business Council for Sustainable Development report<sup>8</sup>

**Companies involved** Over 100 organizations use the AA1000 Assurance Standard with the majority of them being companies. These include AstraZeneca, British Airways, Barclays, BHP Billiton, Bristol-Myers Squibb, BP, BT Group, Canon, Coca-Cola, HSBC, IBM, Intel, Imperial Tobacco, SABMiller, Novo Nordisk, Toshiba and Unilever. In Canada, Barrick Gold, Citizens Bank of Canada and VanCity employ the standard.<sup>9</sup>

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### **The AA1000 Assurance Standard in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
Co-operative Financial Services (CFS)		Uses the AA1000 Assurance Standard in its 2003 and 2004 reports. <sup>10</sup>
VanCity – Vancouver City Savings Credit Union	\$10.5 billion <sup>11</sup>	Have used AA1000 Series since 2000. <sup>12</sup>  VanCity also sponsors The Accountability Project which conducts workshops based on the AA1000. <sup>13</sup>

### **Notes**

<sup>1</sup> Adams, Carol A. and Evans, Richard. ‘Accountability, Completeness, Credibility and the Audit Expectations Gap’, JCC 14, Summer 2004, p. 101.

<sup>2</sup> Blyth, Alex, ‘Sustainability – Finding the Measure’, Accountancy. London: February 2005, 135(1338), p. 28.

<sup>3</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 26. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>4</sup> Carol A. Adams and Richard Evans. 'Accountability, Completeness, Credibility and the Audit Expectations Gap', JCC 14, Summer 2004, p. 104.

<sup>5</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 26. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>6</sup> Geoff Lane, Head of Sustainability at PriceWaterhouseCoopers, as quoted in Alex Blyth, 'Sustainability – Finding the Measure', Accountancy. London: February 2005, 135(1338), p. 28.

<sup>7</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 26. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>8</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p.27 Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>9</sup> For updated figures see: <<http://www.accountability.org.uk/aa1000/default.asp?pageid=122>>

<sup>10</sup> AccountAbility, 'AA1000 Series Uses and Users', 2005 interim. Available at: <<http://www.accountability.org.uk/aa1000/default.asp?pageid=122>>

<sup>11</sup> VanCity, 'About us'. Available at: <<https://www.vancity.com/MyMoney/AboutUs/>>

<sup>12</sup> AccountAbility, 'AA1000 Series Uses and Users', 2005 interim. Available at: <<http://www.accountability.org.uk/aa1000/default.asp?pageid=122>>. Also, see VanCity's website at <<https://www.vancity.com>>

<sup>13</sup> The Accountability Project website: <<http://www.theaccountabilityproject.ca>>



## Ceres Principles

**Summary** The Ceres Principles, formerly known as the Valdez Principles, are a 10-point code of environmental conduct that obligates companies to report periodically on environmental management structures and results.

**Who?** The Ceres Principles were developed in 1989 in the wake of the *Exxon Valdez* accident.<sup>1</sup> The Coalition for Environmentally Responsible Economies (Ceres) is a non-profit coalition of investors, foundations, public pension funds, unions, and environmental, religious, and public interest groups.

**Issues** Environmental issues – Protection of biosphere, sustainable resource use, energy conservation, product safety, workplace health and safety.

**Overview & Operation** Endorsement of the Ceres Principles by companies entails a formal dedication to environmental awareness and accountability as well as an active commitment to continuous improvement, dialogue and public reporting. In addition to the other intangible and tangible benefits of pursuing this path, companies endorsing the principles get access to Ceres' expert network.

The principles obligate companies to make ongoing improvements in (1) protecting the biosphere, (2) sustainable use of natural resources, (3) waste reduction and disposal, (4) energy conservation, (5) risk reduction, (6) safe products and services, (7) environmental restoration, (8) reporting to stakeholders on issues that affect them, (9) demonstrated environmental commitment in management and the board of directors and (10) environmental reporting. Although the principles deal mostly with environmental matters, they also create a direct link with several human rights issues such as workplace safety and health and product safety.

The Ceres Principles also include an explicit disclaimer that they are not 'intended to create new legal liabilities, expand existing rights or obligations, waive legal defenses, 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.'

**Strengths**

- Environmental reporting vastly improved: While causation is clearly difficult to establish, the Ceres Principles played an important role in improving corporate environmental reporting over the past 15 years.
- Ongoing dialogue: A company cannot unilaterally endorse the Ceres Principles. There is an ongoing dialogue with the Ceres Board of Directors and other stakeholders (including institutional investors) on how the Principles specifically apply to the

	<ul style="list-style-type: none"> <li>company.<sup>2</sup></li> <li>• Explicit protection for whistleblowers: This is unique amongst corporate responsibility instruments.<sup>3</sup></li> </ul>
<b>Weaknesses</b>	<ul style="list-style-type: none"> <li>• Corporate environmental performance: While the Ceres Principles have been acknowledged as having played an important role in promoting environmental reporting performance, the same does not necessarily hold for environmental performance. For example, in 2002, prominent endorsers GM and Ford were part of the ultimately successful lobbying effort to thwart improvement of fuel efficiency standards.</li> </ul>
<b>Relationship with other instruments</b>	Ceres and the UNEP launched the Global Reporting Initiative (GRI) in 1997.
<b>Comments</b>	<p>‘Ceres principles, launched by the US Social Investment Forum in 1989, are the best general statement of environmental good practice for the corporate sector.’ Russell Sparkes<sup>4</sup></p> <p>‘Although not widely adopted, the Ceres Principles have increased international public awareness on corporate environmental accountability and served as a model for future initiatives.’ Romina Picolotti and Jorge Daniel Taillant<sup>5</sup></p> <p>‘More and more of the players who shape the global business and financial landscape... have endorsed the Ceres Principles.’ William Thompson, New York City Pension Funds<sup>6</sup></p>
<b>Companies involved</b>	Over 50 companies have endorsed the Ceres principles with 13 of them being in the Fortune 500. For example, General Motors has been a member since 1994 and Ford since 2000.
<b>Contact details</b>	<p>Coalition for Environmentally Responsible Economies (Ceres)  11 Arlington Street, 6th Floor  Boston, MA  02116-3411  USA</p> <p>Tel: 617-247-0700  Fax: 617-267-5400</p> <p>Website: <a href="http://www.ceres.org">www.ceres.org</a></p>

## The Ceres Principles in Corporate Engagement

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
AFL-CIO	N/A	The AFL-CIO published Proxy Voting Guidelines in the wake of the corporate scandals in 2001 and 2002. They include a reference to the Ceres principles as a basis for creating and voting proxy shares. <sup>7</sup>
Connecticut Retirement Plans and Trust Funds	US\$ 21.7 billion <sup>8</sup>	Under its Voting Proxy Guidelines, the funds vote for proposals based on the Ceres Principles. <sup>9</sup>
Connecticut Retirement Plans and Trust Funds, New York City Pension Funds, AFL-CIO, F&C Asset Management, Vermont State Treasurer's Office and other investors	US\$300 billion (as of 2003) <sup>10</sup>	Ceres Coalition Members – there do not appear to be any Canadian investors involved at this time.
Fonds Bâtirente	\$587 million <sup>11</sup>	Affirms commitment to the Ceres Principles. <sup>12</sup>
NCPERS		In its model proxy voting guidelines for public pension boards, NCPERS references the Ceres Principles. <sup>13</sup>
New York City Pension Funds <sup>14</sup>	US\$ 87 billion <sup>15</sup>	The New York City funds are active members of the board of Ceres and also were founding members Ceres.
Ontario Municipal Employees Retirement System (OMERS)	\$34 billion <sup>16</sup>	'Encourages' companies to adopt the Ceres Principles. <sup>17</sup>
Ontario Public Service Employees Union (OPSEU)	\$10.5 billion <sup>18</sup>	Supports shareholder proposals concerning the Ceres Principles as per the Proxy Voting Guidelines revised in 2005. <sup>19</sup>
Shareholder Association for Research and Education (SHARE)	N/A	Recommends supporting shareholder resolutions that ask companies to use the Ceres Principles in its Model Voting Proxy Guidelines. <sup>20</sup>



Various institutional investors      N/A

The Ceres Principles have been the focus of many shareholder proposals since 1990. In recent years the number of Ceres Principles proposals has decreased.

**Case Brief: CalPERS**

The largest pension fund in the US, the California public employees' retirement system (CalPERS) was one of Ceres founders in the wake of the 1989 *Exxon Valdez* spill.

In 2002, CalPERS employed the Ceres principles, amongst others, as a criterion in determining in which emerging markets it would invest.<sup>21</sup>

**Shareholder Proposal example**<sup>22</sup>

**Filed with: Aetna, Albertson's, Allstate, Dana, Gap, Home Depot, K-Mart, Raytheon, UAL**

ENDORSE CERES PRINCIPLES

WHEREAS:

Leaders of industry in the United States now acknowledge their obligation to pursue superior environmental performance and to disclose information about the performance to their investors and other stakeholders.

The integrity, utility, and comparability of environmental disclosure depend on using a common format, credible metrics, and a set of generally accepted standards. This will enable investors to assess environmental progress within and across industries.

The Coalition for Environmentally Responsible Economies (Ceres) - a ten-year partnership between large investors, environmental groups, and corporations - has established what we believe is the most thorough and well-respected environmental disclosure form in the United States. Ceres has also taken the lead internationally, convening major organizations together with the United Nations Environment Programme in the Global Reporting Initiative, which has produced guidelines for standardizing environmental disclosure worldwide.

Companies that endorse the Ceres Principles engage with stakeholders in transparent environmental management and agree to a single set of consistent standard for environmental reporting. That standard is set by the endorsing companies together with Ceres.

The Ceres Principles and Ceres Report have been adopted by leading firms in various industries: Arizona Public Service, Bank America, BankBoston, Baxter International, Bethlehem Steel, Coca-Cola, General Motors, Interface, ITT Industries, Northeast Utilities, Pennsylvania Power and Light, and Polaroid, and Sun company.

We believe endorsing the Ceres Principles commits a company to the prudent oversight of its financial and physical resources through: 1) protection of the biosphere; 2) sustainable use of natural resources; 3) waste

reduction; 4) energy conservation; 5) risk reduction; 6) safe products/services; 7) environmental restoration; 8) informing the public; 9) management commitment; 10) audits and reports. (The full text of the Ceres Principles and accompanying Ceres Report form are obtainable from Ceres, 11 Arlington Street, Boston, Massachusetts 02116, (617) 247-0700/ www.Ceres.org.)

**RESOLVED:**

Shareholders request that the company endorse the Ceres Principles as a reasonable and beneficial component of their corporate commitment to be publicly accountable for environmental performance.

**SUPPORTING STATEMENT:**

Recent studies show that the integration of environmental commitment into business operations provides competitive advantage and improves long-term financial performance for companies. In addition, the depth of a firm's environmental commitment and the quality with which it manages its environmental performance are indicators of prudent foresight exercised by management.

Given investors' needs for credible information about a firm's environmental performance and given the number of companies that have already endorsed the Ceres Principles and adopted its report format, it is a reasonable, widely accepted step for a company to endorse these Principles if it wishes to demonstrate its seriousness about superior environmental performance.

Your vote FOR this resolution serves the best interests of our Company and its shareholders.

**Notes**

<sup>1</sup> Crompton, Linda and Voorhes, Meg, 'Using Corporate Engagement to Raise Firm-Level Standards: Six Case Studies of Pension Fund Activism in the United States', 15 November 2002.

<sup>2</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 254.

<sup>3</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 254.

<sup>4</sup> Sparkes, Russell, *Socially Responsible Investment: A Global Revolution*, John Wiley & Sons, Ltd., 2002, p. 148.

<sup>5</sup> Piccolotti, Romina and Taillant, Jorge Daniel, 'Accountability of private businesses: a question of sustainable development and human rights', 2002, International Council on Human Rights Policy

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<<http://72.14.207.104/search?q=cache:T5r9gEBurjIJ:www.ichrp.org/ac/excerpts/75.doc+%22Ceres+Principles%22+weaknesses&hl=en>>

<sup>6</sup> Thompson, William C., Welcoming Remarks at the 2003 Ceres Conference. Available at:

<<http://www.comptroller.nyc.gov/press/speeches/CERES-4-10-03.shtm>>

<sup>7</sup> AFL-CIO, Proxy Voting Guidelines 2003. Available at:

<[http://www.aflcio.org/corporatewatch/capital/upload/proxy\\_voting\\_guidelines.pdf](http://www.aflcio.org/corporatewatch/capital/upload/proxy_voting_guidelines.pdf)>

<sup>8</sup> Value as of July 31, 2005. Available at:

<<http://www.state.ct.us/ott/pensiondocs/fundperf/fundperformance.pdf>>

<sup>9</sup> State of Connecticut, Office of the Treasurer, 'Global Proxy Voting Policies', 10 May 2000. Available at:

<<http://www.state.ct.us/ott/pensiondocs/proxyvoting/globalvotingpolicies.PDF>>

<sup>10</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 254.

<sup>11</sup> Fonds Bâtirente, Communiqué to Members, 22 June 2005. Available at:

<[http://www.batirente.qc.ca/en/pdf/CRA795A\\_200506v3.pdf](http://www.batirente.qc.ca/en/pdf/CRA795A_200506v3.pdf)>

<sup>12</sup> Fonds Bâtirente, Annual Report 2004. Available at:

<<http://www.batirente.qc.ca/en/pdf/AnnualReport2004.pdf>>

<sup>13</sup> NCPERS, Model Proxy Voting Guidelines, 4 December 2004. Available at:

<[http://www.ncpers.org/artman/uploads/ncpers\\_model\\_proxy\\_voting\\_guidelines.pdf](http://www.ncpers.org/artman/uploads/ncpers_model_proxy_voting_guidelines.pdf)>

<sup>14</sup> These include five different New York City employee pensions funds: New York City Employees' Retirement System (NYCERS); the Teachers' Retirement System of the City of New York (TRS), the New

York City Police Pension Fund Subchapter 2 (POLICE ); New York City Fire Department Pension Fund Subchapter Two (FIRE); and the New York City Board of Education Retirement System (BERS).

<sup>15</sup> Value of the five funds as at March 31, 2005. Available at:

<[http://www.comptroller.nyc.gov/bureaus/bam/pension\\_funds.shtm](http://www.comptroller.nyc.gov/bureaus/bam/pension_funds.shtm)>

<sup>16</sup> Value as per: <<http://www.omers.com/English/OMERS-leads-in-Socially-Responsible-Investing.html>>

<sup>17</sup> OMERS, 'OMERS Leads in Socially Responsible Investing'. Available at:

<<http://www.omers.com/English/OMERS-leads-in-Socially-Responsible-Investing.html>>

<sup>18</sup> OPSEU Pension Trust, 'History and Profile'. Available at:

<[http://www.optrust.com/aboutus/history\\_profile.asp](http://www.optrust.com/aboutus/history_profile.asp)>

<sup>19</sup> OPSEU Trust, 'Proxy Voting Guidelines'. Available at:

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<sup>20</sup> Shareholder Association for Research and Education (SHARE), *Model Proxy Voting Guidelines 2005*.

Available at: <<http://www.share.ca/files/pdfs/2005%20Proxy%20Guidelines.pdf>>

<sup>21</sup> Clark, Gordon L. and Hebb, Tessa, 'Why do they care? The market for corporate global responsibility and the role of institutional investors', 16 June 2004, p.1. Available at:

<[http://www.havenscenter.org/real\\_utoopias/2004documents/ClarkHebbPaper.pdf](http://www.havenscenter.org/real_utoopias/2004documents/ClarkHebbPaper.pdf)>

<sup>22</sup> Available at: <[http://www.iccr.org/shareholder/proxy\\_book/env\\_res/Ceres.htm](http://www.iccr.org/shareholder/proxy_book/env_res/Ceres.htm)>



## Equator Principles

- Summary** The Equator Principles are a set of guidelines for the management of social and environmental issues in the financing of development projects.
- Who?** The Equator Principles were launched in June 2003 by ten leading private financial institutions: ABN AMRO Bank, N.V., Barclays plc, Citigroup, Crédit Lyonnais, Credit Suisse First Boston, HVB Group, Rabobank Group, The Royal Bank of Scotland, WestLB AG, and Westpac Banking Corporation.<sup>1</sup>
- Issues** Project financing – social and environmental issues. These issues include: sustainable development, human health, cultural properties, biodiversity, dangerous substances, occupational health and safety, fire prevention, socio-economic impacts, land acquisition and use, involuntary resettlement, impacts on indigenous peoples, cumulative impacts of existing projects and proposed project, participation of affected parties in design, review and implementation of the project, consideration of environmentally and socially preferable alternatives, efficient production, delivery and use of energy, pollution prevention and waste minimization, pollution controls and solid and chemical waste management.<sup>2</sup>
- Overview & Operation** The Equator Principles comprise ‘a set of categorisation, assessment and management standards designed to identify and address any potential environmental and social risks that a proposed project may present.’<sup>3</sup> The Principles are applied to loans above \$50 million, which covers 97% of project financing.<sup>4</sup>
- Projects are assigned ratings of A, B or C (high, medium, low) depending on the potential environmental and social impact of the project which takes into account the type, location, sensitivity and scope of the project. For A and B projects, the borrower must undertake an Environmental Impact Assessment (EIA) to address issues that were identified in the screening process and through stakeholder consultation an environmental plan is created. Category C project require no further assessment beyond the initial screening.
- The Equator Principles outline a range of issues that the EIA must take into account including: host country law, environmental impact, indigenous communities impact and the consideration of alternative environmental and social approaches. At the heart of the EIA is compliance with the standards of the World Bank and International Finance Corporations (IFC) for projects in developing countries.
- Banks must create an Environmental Management Plan (EMP) that flows

from the conclusions of the EIA. Lending institutions must be satisfied that the borrower or other relevant party has consulted with affected stakeholders. The EIA must be publicly available for a reasonable time for comment in the appropriate language. The EIA and EMP of category A projects are subject to independent review.

Prior to drawing on the loan, borrowers should undertake to comply with the EMP throughout the project's life and report on EMP compliance. Breach of these undertakings should give rise to default after a grace period.<sup>5</sup>

### **Strengths**

- Practitioner based: The Equator Principles were primarily drafted by the institutions that must ultimately implement them.
- Covers most project lending: The 31 endorsing institutions are estimated to cover about 80% of project lending.
- Implementation mechanisms: F&C Asset Management comments that 'the prospect of non-compliance and loan default has prompted tighter standards and resulted in some deals not proceeding' and that a 'number of banks will not undertake non-compliant deals either as syndicate members or as lead managers.'<sup>6</sup>
- Beyond Projects: Equator banks have been encouraged to use the Principles for corporate lending in general. Indeed, Citigroup, JPMorgan Chase and HSBC are already doing so to a certain extent.<sup>7</sup>

### **Weaknesses**

The Equator Principles have received heightened attention from civil society organization, especially because a coalition of NGOs had earlier drafted a declaration regarding financial institutions and sustainability.<sup>8</sup> The weaknesses of the Principles according to these organizations relate to their lack of accountability and transparency:<sup>9</sup>

- Implementation concerns: Critics contend that there is no mechanism in place to ensure that banks complied with the principles. There is no secretariat to set and ensure minimum accountability systems (e.g. disclosure requirements). This lack of transparency disables any scrutiny of the implementation of the Equator Principles.
- Only applies to project finance: Other socially and environmentally sensitive sectors such as mining and forestry are not included because they are not project financed.
- Vague language: For example, projects need to be 'generally consistent' with International Finance Corporation criteria.
- Weak on social issues.
- Limit more advanced standards: There are standards adopted by various financial institutions in specific areas such as dams or forest that are seen as more stringent than the Equator Principles. Some critics fear that the Equator Principles will displace such

standards.

- Misplaced responsibility and lack of recourse: Most of the responsibility for assessments is on the borrower rather than the financial institution(s). Also, there is no mechanism for affected stakeholders for any recourse where standards are not being met.

**Comments** ‘As presently configured, the Equator Principles, while not meeting all the concerns of critics, is still an important voluntary step in expanding corporate citizenship of global financial institutions.’ Thomas A. Hemphill<sup>10</sup>

‘BankTrack continues to believe that the EPs can be used as an instrument to promote sustainability and better development outcomes, but so far there is little proof that this is happening on a systemic level.’ Michelle Chan-Fishel<sup>11</sup>

‘Some banks will be best practice implementers, and other banks could just sign and do nothing...Because the principles don’t have clear enforcement or review mechanisms, how are the best practitioners going to police the system to ensure that free riders don’t undermine it?’ Elizabeth Elliot McGeveran<sup>12</sup>

**Companies involved** There are 31 financial institutions involved – 29 banks, one export credit agency and one insurance company. Collectively these institutions are oversee an estimated 80% of project lending. The Canadian institutions involved include CIBC, the Royal Bank and as of January 2005, Scotiabank.

**Contact details** Email: [secretariat@equator-principles.com](mailto:secretariat@equator-principles.com)  
Website: [www.equator-principles.com](http://www.equator-principles.com)

**The Equator Principles in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
Co-operative Financial Services		Engaged with several financial institutions regarding the Equator Principles. <sup>13</sup>
Ethical Funds Company	\$2 billion <sup>14</sup>	Cites the Equator Principles in Proxy Voting Guidelines. <sup>15</sup>  Filed a 2005 shareholder proposal with the Bank of Montreal requesting endorsement of the Equator Principles (see below).
F&C Asset Management	£127.6 billion <sup>16</sup>	See ‘Case Brief’ below
Fonds Bâtirente Fonds Esther-Blondin	\$587 million <sup>17</sup>	Affirms commitment to the Equator Principles. <sup>18</sup>

## **Case Brief: F&C Asset Management**

F&C Asset Management is an investment company listed on the London Stock Exchange with about £127.6 billion under management.<sup>19</sup> It is the fourth largest asset manager in the UK and is a top ten manager of European institutional pension funds. (Note: F&C Asset Management is the company that emerged from an October 2004 merger between F&C Management and ISIS Asset Management).

F&C's involvement with the Equator Principles dates back to the drafting stages in early 2003. They provided feedback on a draft version of the Principles during detailed meetings and written correspondence with Citigroup (one of the initiative's founding institutions).<sup>20</sup> Letters were written to eleven European banks not involved with the drafting process to bring the Equator Principles to their attention. Two of these banks – HVB Group and Credit Suisse Group – eventually became involved in the consultation process and were among the ten initial signatories of the Principles.<sup>21</sup> After June 2003 launch of the Equator Principles, F&C commented on the banks' achievement and the challenges that lay ahead.<sup>22</sup>

ISIS welcomes the Equator Principles, because they represent the most ambitious effort to emerge from the banking sector, and have been developed by practitioners for practitioners. They set demanding standards, and place compliance with environmental and social standards at the heart of the business drivers of finance... However, we do not underestimate the challenges, that lie ahead in implementation. These include:

- Certain signatory banks claim that the Principles reflect what they are already doing. In the experience of ISIS, this is seldom the case, and so there is a danger of inaction through complacency. The Principles' successful implementation will require additional commitment in staff time, training and consultant fees and may result in slower completion and fewer approvals; some banks appear unprepared for this.
- The Principles must be backed up by real internal capacity for social and environmental risk assessment. Some banks acknowledge that they will need to develop in-house skills through specialist training, after initially relying on specialist external advice – which may be charged to clients. Other banks believe they already have sufficient internal expertise and capacity.
- Whether all banks will be prepared to shoulder the additional financial burdens, or risk losing market share if their competitors fail to comply with the Principles, remains to be seen.
- Although the Principles carry no reporting requirement, signatory banks will need to demonstrate success, including evidence of proper training and incentive structures for staff, engagement with stakeholders and disclosure.
- The Principles will need to adapt to emerging demands. Already, one issue that remains conspicuously absent from the existing standards is human rights.

After the June 2003 launch, F&C wrote to the ten original signatory institutions to commend them on their commitment to the Principles. Moreover, efforts to both encourage endorsement by other banks and implementation of the Equator Principles by non-endorsers continued. Several of the banks to whom F&C wrote regarding the Principles eventually endorsed them including ING, Dresdner and HSBC.<sup>23</sup> In its third quarter of 2003, F&C outlined its next steps agenda vis-à-vis the Equator Principles:

Going forward, we intend to focus our attention on how effectively the signatory banks are implementing their commitment to the Principles. This will include understanding whether banks are training staff internally to recognise and assess environmental and social impacts, or whether they are bringing in specialist external advice, how responsive borrowers are to risk assessments of this nature and how the

banks are able to demonstrate success in fulfilling their commitment. We will also be interested to learn about the reactions of borrowers to these new requirements and how they may impact project design and implementation.

By second quarter 2004, F&C had engaged with over 20 banks worldwide regarding endorsing and implementing the Principles. In the same quarter, the company reflected on a report by the Bank Track, a watchdog NGO, regarding the Principle's first anniversary:<sup>24</sup>

[Bank Track] calls on the Equator banks to go beyond fine words by: providing proof that the Principles are affecting banks' decisions to lend money to high-risk projects; developing greater levels of transparency; committing to the continuous improvement of international policies and standards; engaging more widely with stakeholders; and agreeing to a compliance mechanism. ISIS believes these recommendations have merit, particularly as concerns have grown that Equator banks are facing challenges in building up in-house skills to carry out proper due diligence. However, we recognise that comprehensive integration of the Principles will take time and we differ on the extent of detailed disclosure that can reasonably be achieved, not least for reasons of commercial confidentiality.

Dialogue with Equator banks is ongoing. For example, in the final quarter of 2004, F&C met with representatives of the Royal Bank of Scotland, Citigroup and HSBC regarding their implementation of the Principles.<sup>25</sup> This commitment to ongoing dialogue is encapsulated in F&C's objectives in the banking sector:<sup>26</sup>

Encourage companies to fully integrate social and environmental credit risk assessments in their lending decisions with a specific focus on:

- Adoption and implementation of Equator Principles for project finance
- Adoption of F&C good practice recommendations on Environmental Credit Risk Assessment (ECRA) and human rights
- Encourage brokerage community (a.k.a. sell-side analysts) to include consideration of social, environmental and governance issues in their evaluation of companies.

### **Shareholder Proposal example**

The following is a 2005 shareholder proposal filed with the Bank of Montreal by the Ethical Funds Company.<sup>27</sup> The resolution was withdrawn after the bank agreed to adopt the principles by 31 October 2005.<sup>28</sup>

**Filed with: Bank of Montreal**

**Filed by: Ethical Funds**

**Whereas:** At the 2004 annual general meeting, a Shareholder Proposal asking the Bank of Montreal to detail "how it evaluates and manages risks associated with environmental liability" received the support of Management and over 90% of the shareholder vote. In recommending support for the Proposal, the Bank reiterated its commitment to the principles of sustainable development and agreed to provide greater detail on environmental lending practices, including disclosure of the Bank's environmental policy and implementation of appropriate measurement and reporting systems.

The Equator Principles provide a globally recognized framework for determining, assessing, and managing environmental and social risks associated with project financing, consistent with the principles of sustainable development. Based on international standards developed by the International Finance Corporation -- the private sector lending arm of the World Bank -- the Equator Principles are achieving the



status of industry standard. More than 25 financial institutions that account for approximately 80% of all global project financing have adopted the Equator Principles, including two Canadian banks – The Canadian Imperial Bank of Commerce and Royal Bank of Canada. Additional information on the Equator Principles can be found at <http://www.equator-principles.com>.

Adoption of the Equator Principles presents a unique opportunity for the Bank to solidify its commitment to environmentally sound lending and risk management practices and to participate in educational and training sessions to ensure effective implementation of standard industry environmental risk management procedures.

**Be it Resolved That** the Board of Directors issue a report (at reasonable cost and omitting proprietary information) to shareholders by October 2005 assessing the risks and opportunities associated with endorsement of the Equator Principles.

## Notes

<sup>1</sup> Hemphill, Thomas A, 'Monitoring Global Corporate Citizenship: Industry Self-regulation at a Crossroads', *The Journal of Corporate Citizenship*, Summer 2004, 14, p. 87.

<sup>2</sup> Hemphill, Thomas A, 'Monitoring Global Corporate Citizenship: Industry Self-regulation at a Crossroads', *The Journal of Corporate Citizenship*, Summer 2004, 14, pp. 87-88.

<sup>3</sup> Allens Arthur Robinson, 'The Equator Principles', August 2005. Available at: <[http://www.equator-principles.com/documents/aar\\_article.pdf](http://www.equator-principles.com/documents/aar_article.pdf)>

<sup>4</sup> Hemphill, Thomas A, 'Monitoring Global Corporate Citizenship: Industry Self-regulation at a Crossroads', *The Journal of Corporate Citizenship*, Summer 2004, 14, p. 82.

<sup>5</sup> Allens Arthur Robinson, 'The Equator Principles', August 2005, pp. 1-4. Available at: <[http://www.equator-principles.com/documents/aar\\_article.pdf](http://www.equator-principles.com/documents/aar_article.pdf)>

<sup>6</sup> F&C Asset Management, Responsible Engagement Overlay, 2<sup>nd</sup> Quarter 2005, p. 15. Available at: <[http://www.fandc.com/uploadfiles/co\\_gsri\\_reo\\_public\\_report\\_q2\\_2005.pdf](http://www.fandc.com/uploadfiles/co_gsri_reo_public_report_q2_2005.pdf)>

<sup>7</sup> Allens Arthur Robinson, 'The Equator Principles', August 2005, p. 4. Available at: <[http://www.equator-principles.com/documents/aar\\_article.pdf](http://www.equator-principles.com/documents/aar_article.pdf)>; F&C Asset Management, Responsible Engagement Overlay, 2<sup>nd</sup> Quarter 2005, p. 15. Available at:

<[http://www.fandc.com/uploadfiles/co\\_gsri\\_reo\\_public\\_report\\_q2\\_2005.pdf](http://www.fandc.com/uploadfiles/co_gsri_reo_public_report_q2_2005.pdf)>

<sup>8</sup> The 'Collevocchio Declaration on Financial Institutions and Sustainability' was drafted by Friends of the Earth (USA and UK), Rainforest Action Network (USA), WWF (UK), Amazon Watch (USA), Berne Declaration (Swiss), Urgewald (Germany) and Campagna Reforma el Banco Mundial (Italy)

<sup>9</sup> [http://www.ran.org/news/equator\\_ngo.html](http://www.ran.org/news/equator_ngo.html)

<sup>10</sup> Hemphill, Thomas A, 'Monitoring Global Corporate Citizenship: Industry Self-regulation at a Crossroads', *The Journal of Corporate Citizenship*, Summer 2004, 14, p. 93.

<sup>11</sup> Michelle Chan-Fishel, 'Unproven Principles – the Equator Principles at year two', p. 17, June 2005, BankTrack. Available at:

<[http://www.banktrack.org/fileadmin/user\\_upload/documents/E\\_Publications\\_and\\_Reports/BankTrack\\_publications/050606\\_Unproven\\_Principles\\_\\_anniversary\\_assessment.pdf](http://www.banktrack.org/fileadmin/user_upload/documents/E_Publications_and_Reports/BankTrack_publications/050606_Unproven_Principles__anniversary_assessment.pdf)>

<sup>12</sup> McGeeran, Elizabeth Elliot, Vice-President Governance & Socially Responsible Investment, ISIS Asset Management, quoted in [socialfunds.com](http://socialfunds.com), 5 June 2003.

<sup>13</sup> CFS, Annual Report 2004. Available at:

<<http://www.cfs.co.uk/images/pdf/cfssustainabilityreport2004.pdf>>

<sup>14</sup> See Ethical Funds Company website at: <[http://www.ethicalfunds.com/do\\_the\\_right\\_thing/about\\_ef/](http://www.ethicalfunds.com/do_the_right_thing/about_ef/)>

<sup>15</sup> Proxy Voting Guidelines available at:

<[http://www.ethicalfunds.com/pdf2/sri/proxy\\_voting\\_guidelines.pdf](http://www.ethicalfunds.com/pdf2/sri/proxy_voting_guidelines.pdf)>

<sup>16</sup> Funds under management as of 30 June 2005. For updated figures see:

<<http://www.fandc.com/aboutus.asp?pageID=1.1.2>>

<sup>17</sup> Value as May 31, 2005. Available at: <[http://www.batirente.qc.ca/en/pdf/CRA795A\\_200506v3.pdf](http://www.batirente.qc.ca/en/pdf/CRA795A_200506v3.pdf)>

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- <sup>25</sup> F&C Asset Management, 'Focus on: Update on the Equator Principles for Project Finance', Responsible Engagement Overlay, 4<sup>th</sup> Quarter 2004, p. 35. Available at:  
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- <sup>28</sup> Langton, James, 'Activists' agenda and the banks', 2005. Available at:  
<<http://www.torontothebetter.net/2tgbd-coagm2005.htm>>

## **Extractive Industries Transparency Initiative (EITI)**

**Summary** The Extractive Industries Transparency Initiative (EITI) is a multi-stakeholder coalition formed in 2003 that supports the full disclosure and verification of company payments and government revenues in the oil, gas and mining sectors. Comprised of governments, companies, civil society organizations and investors, the EITI endeavours to minimize the increased incidence of conflict, poverty and corruption in resource rich countries.

**Who?** The EITI was launched by the United Kingdom in 2002 at the World Summit on Sustainable Development in Johannesburg. The EITI Secretariat is currently based out of the UK's Department for International Development. It works in closely with the World Bank (which managed a multi-donor EITI trust fund) and the International Monetary Fund (IMF). It is funded by the implementing governments, large oil and mining companies and civil society organizations operating the umbrella of the Publish What You Pay Coalition.

An International Advisory Group that will chart the future of the EITI was recently established. It consists of a small number of representatives from implementing countries, companies, civil society organizations, investors and donors.

**Issues** Corruption, disclosure, anti-bribery, transparency

**Overview & Operation** The EITI aims to increase transparency of payments and revenues related to the extractive sector through a voluntary reporting by the host country underpinned by independent third party auditing. Underlying this endeavour is an attempt to lessen the opportunities for corruption which has in the past has squandered billions of public dollars in developing countries and adversely affected the local investment climate. Determining what governments receive on the one hand and what companies pay on the other, is the vital first step on holding host country decision-makers accountable for the expenditure of public funds.

The 12 principles underpinning the EITI were agreed to in June 2003. Participants firstly affirm the importance of managing natural resource extraction in a sustainable fashion and for the benefit of the country's citizens. They commit to transparency in order to ultimately enhance public accountability of public expenditure of royalty revenues and to improve the national investment climate. Such transparency must be achieved through an effective disclosure system of payments and revenues involving all the extractive companies operating in a given country. Finally, the principles affirm the importance of effectively engaging stakeholders.

The criteria for operationalizing these principles were agreed to in March 2005. They require regular and comprehensive disclosure of payments by extractive companies, including state-owned enterprises, to governments. These disclosures must be audited and reconciled by an independent using international standards. This process must involve the active participation, scrutiny and support of civil society and international financial institutions. Companies and countries consult the EITI Source Book for guidance in implementing the initiative.

In November 2004, Azerbaijan became the first country to implement the EITI and will serve as a model.

The EITI was endorsed by the G8 in 2005. The G8 has also provided some funding for the initiative.

**Strengths**

- **Broad acceptance:** There is a broad consensus amongst the stakeholders involved that achieving transparency in extractive industries revenues and payments is a key objective. In a relatively short period of two years the initiative has managed to secure the support of a significant number of institutional investors and major extractive companies.

**Weaknesses**

- **Voluntary approach is not enough:** There is a concern that the voluntary approach to reporting taken by the EITI will not work in those countries where it is most needed. These critics argue that the voluntary approach must be reinforced by linking bilateral and multilateral development assistance, loans and export credits to good governance in host countries.
- **Key countries not on board:** Countries where many extractive companies are based, such as Canada and the US, as well as countries in which they operate, such as the OPEC countries are not actively participating in the EITI.
- **Deficient benchmarking ability:** ‘At present there is no way for EITI stakeholders to tell who is truly implementing the EITI in letter and spirit, and who is merely going through the motions.’<sup>1</sup>

**Comments**

‘For investors, the EITI is a means of lowering country risk... to put it bluntly, it means that your cost of capital will fall with every operation you have in an EITI country. And this can happen much better and faster if you, the oil and mining companies on the ground, make it your business to make the EITI a success.’ Howard Carter, F&C Asset Management<sup>2</sup>

‘A new analysis by Save the Children has revealed that the G8 member whose regulatory regime does the most to promote transparency is, in fact, Canada. It is ironic that its government is not yet participating in the EITI. We hope that Canada might now join the Initiative and share that experience, and that other governments will follow its legislative example.’ Global Witness<sup>3</sup>

**Companies involved** The companies that have endorsed the EITI thus far include: Amerada Hess, Anglo American, BG group, BP, ChevronTexaco, ExxonMobil, Marathon, Newmont, Repsol YPF, Rio Tinto, Shell, Statoil, Talisman Energy, TOTAL and Woodside.

Eight countries including Azerbaijan, Republic of Congo, Ghana, Kyrgyz Republic, Nigeria, Sao Tome and Principe, Timor Leste and Trinidad & Tobago are actively implementing the EITI. Moreover, 11 other countries have endorsed the initiative and are considering how to proceed with implementation.<sup>4</sup>

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**Key Resources** EITI Sourcebook -  
<http://www.eitransparency.org/docs/sourcebookmarch05.pdf>

### **The EITI in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
Ethical Funds Company	\$2 billion <sup>5</sup>	Includes the EITI in its Proxy Voting Guidelines. <sup>6</sup>
F&C Asset Management	£127.6 billion <sup>7</sup>	See ‘Case Brief’ below
Various Institutional Investors, including Canada-based:	\$8.3 trillion	Publicly declared support for EITI in joint press release by institutional investors. <sup>8</sup>
Bâtirente	\$0.6 billion	
Ethical Funds Company	\$2 billion	
Hospitals of Ontario Pension Plan	\$21.1 billion	

## **Case Brief: F&C Asset Management**

F&C Asset Management is an investment company listed on the London Stock Exchange with about £127.6 billion under management.<sup>9</sup> It is the fourth largest asset manager in the UK and is a top ten manager of European institutional pension funds. (Note: F&C Asset Management is the company that emerged from an October 2004 merger between F&C Management and ISIS Asset Management).

As part of its comprehensive socially responsible investment strategy, F&C has promoted the EITI on a number of levels. The company has laid out the business case for supporting the EITI: 'good governance is good for business and good for shareholders. My business, and that of my fellow signatories from the investment community, is to generate the highest possible and most stable returns for our pensioners and savers.'<sup>10</sup> The lack of transparency and accountability in many resource rich countries only served to increase the cost of capital as companies and shareholders alike would favour investing in countries with good governance.

Accordingly, F&C has firstly encouraged companies to support and actively participate in the EITI's implementation. This engagement has been carried out in several ways. Companies that have already expressed support for the EITI are commended, through letters, for their commitment to transparency and urged to become more actively involved. With other EITI endorsers such as ExxonMobil, BP and Rio Tinto, it has maintained ongoing discussions and contact. Through discussions, F&C has actively urged larger and mid-sized companies to publicly support the EITI, including Canada-based Talisman Energy. It has sent letters to over a dozen mid-sized and smaller extractive companies regarding the EITI.

Second, F&C has led a group of 60 investment institutions with US\$8.3 trillion collectively under management in backing the EITI. In February 2004, this group released the *Investors' Statement on Transparency in the Extractives Sector*.<sup>11</sup> Three Canadian institutional investors were amongst this group including Bâtirente (\$0.6 billion under management), Ethical Funds Company (\$2 billion) and the Hospitals of Ontario Pension Plan (\$21.1 billion). Others in the group included the pension funds CalPERS (US), Hermes Investment Management Limited (UK), State of Connecticut (US), TIAA-CREF (US), Universities Superannuation Scheme (UK).

Finally, F&C has been formally involved in shaping the EITI through being the investor representative on the initiative's steering group. It is imperative to note that at this time F&C has publicly ruled out divesting in companies that fail to support the EITI.<sup>12</sup> F&C reports on progress on all these company engagement fronts, as well as its broader SRI activities, on a quarterly and annual basis.

## Notes

<sup>1</sup> Save the Children (UK) and Global Witness, 'Making it Add Up: A constructive critique of the EITI Reporting Guidelines and Source Book', 2005, p. 1. Available at:

<<http://www.globalwitness.org/reports/download.php/00214.pdf>>

<sup>2</sup> Extract from speech of 17 March 2005 to the inter-governmental meeting on EITI by Howard Carter, Chief Executive, F&C Asset Management

<sup>3</sup> Global Witness, press release 'EITI on the right track: let's go further and faster', 16 March 2005.

Available at: <[http://www.globalwitness.org/press\\_releases/display2.php?id=280](http://www.globalwitness.org/press_releases/display2.php?id=280)>

<sup>4</sup> Extractive Industries Transparency Initiative, 'Country EITI Implementation Updates'. Available at:

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<sup>5</sup> See Ethical Funds Company website at: <[http://www.ethicalfunds.com/do\\_the\\_right\\_thing/about\\_ef/](http://www.ethicalfunds.com/do_the_right_thing/about_ef/)>

<sup>6</sup> Proxy Voting Guidelines available at:

<[http://www.ethicalfunds.com/pdf2/sri/proxy\\_voting\\_guidelines.pdf](http://www.ethicalfunds.com/pdf2/sri/proxy_voting_guidelines.pdf)>

<sup>7</sup> Funds under management as of 30 June 2005. For updated figures see:

<<http://www.fandc.com/aboutus.asp?pageID=1.1.2>>

<sup>8</sup> 'Investors Statement on Transparency in the Extractives Sector', Marcy 2005. Available at:

<<http://www.publishwhatyoupay.org/english/pdf/relstatements/investors.pdf>>

<sup>9</sup> At June 30<sup>th</sup>, 2005. See <http://www.fandc.com>

<sup>10</sup> Statement by Howard Carter, Chief Executive of F&C Asset Management, quoted in 'Shareholders make the investment case for EITI', EITI Newsletter, July 2005. Available at:

<<http://www.eitransparency.org/newsletter/eitinewsletterjuly05.pdf>>

<sup>11</sup> EITI, July Newsletter. Available at: <<http://www.eitransparency.org/newsletter/eitinewsletterjuly05.pdf>>

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<<http://www.fandc.com/newsDetail.asp?newsID=406>>

## Global Reporting Initiative (GRI)

**Summary** The Global Reporting Initiative is a multi-stakeholder process and institution that has set out to develop and promote a globally applicable framework for reporting on sustainability issues. The GRI guidelines set out reporting principles and specific indicators to guide the development of sustainability reports for companies and other organizations.

**Who?** The GRI was launched in 1997 by the US-based non-governmental organization Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Program (UNEP) in order to develop a global sustainable reporting framework. In 2002, the GRI became an independent institution headquartered in Amsterdam.

Ultimate fiduciary responsibility for the GRI guidelines rests with the 16-member Board. Comprised of distinguished individuals from several countries and supported by the Secretariat, the Board is elected by the 60-member Stakeholder Council comprised of representatives from unions, NGOs and businesses. The Stakeholder Council in turn is mostly elected by the Organizational Stakeholders which are membership fee paying organizations committed to the long-term improvement and promotion of the GRI. Finally, the Technical Advisory Committee appointed by the Board provides detailed technical guidance for the guidelines.

**Issues** Environmental, economic and social reporting

**Overview & Operation** The GRI's Sustainability Reporting Guidelines are intended to become the 'generally accepted, broadly adopted, worldwide framework for preparing and communicating information about organizational sustainability performance.'<sup>1</sup> The initiative was a response to the immense variety in format and content found in the estimated 2,000 annual reports published worldwide by companies that incorporate social and environmental performance information.<sup>2</sup>

The guidelines are thus available on a non-proprietary basis and provide a standardized framework to report on aspects of an organization's economic, environmental and social performance. A result of extensive consultations with various stakeholders, the GRI framework is organized into five components: Vision and Strategy, Organizational Profile, Governance, GRI Index and Performance Indicators.

At the heart of the GRI's utility are this last component, the performance indicators. These encompass a range of information and measures against various aspects of performance. Examples of indicators are 'total payroll and benefits broken down by country or region' (economic), 'direct energy usage segmented by primary source' (environmental) and



‘standard injury, lost day, and absentee rates and number of work-related fatalities’ (social).

The Vision and Strategy section involves answering questions regarding the goals of sustainable development and their relationship to the organization’s policies and priorities. It helps both new and veteran reporters identify where sustainable development fits into the overall goals of the organization. The Organizational Profile includes information typically included in an organization’s annual report in addition to the scope of the organization’s commitment to sustainable development.

The Governance section aids organizations in detailing the contours of their organization’s decision-making structure including stakeholder input processing as well as the policies, processes and procedures in place to address social, environmental and economic issues. Finally, the GRI Content index establishes a ‘key to which aspects of the GRI framework have been used and where they are located in a sustainability report.’<sup>3</sup>

The GRI also provides advice on the principles of reporting, assurance, technical issues and linking non-financial and financial measures. The reporting principles include inclusiveness, auditability, transparency, completeness, relevance, sustainability context, accuracy, neutrality, comparability, timeliness and clarity. Several of these principles require companies to systematically engage with stakeholders and also stress the importance of independent assurance – both factors which severely diminish the credibility of most companies’ existing sustainability reports.<sup>4</sup>

It is important to note that most current GRI reporters are not fully in accordance with the entire GRI framework. Indeed while the guidelines invite companies to report on the full scope of their activities and stakeholder issues, the framework does explicitly provide – through an annex providing guidance – for implementing the guidelines in an incremental fashion. Nonetheless, companies employing this incremental approach, must still disclose the Vision and Strategy, Organizational Profile, Governance elements of the framework as well as explain the failure to report on a given performance indicator.<sup>5</sup>

Recognizing that a one-size-fits-all framework lacked the specificity required by some sectors, the GRI began creating specialized sector supplements (e.g. automotive, mining) to supplement the guidelines. Moreover, technical protocols are being developed to provide detailed guidance on addressing specific indicators. Ultimately, most of the GRI’s indicators will be supported by such a protocol.

#### Third Generation (G3) guidelines – expected in 2006<sup>6</sup>

The third generation of GRI guidelines will involve two major transitions.

First, it will involve incorporating the lessons learned since the second generation was released. Second, the Amsterdam-based organization itself will transition into a new business model in order to become increasingly self-sufficient.

Improving the GRI guidelines firstly involves the technical task of making them more auditable and compatible with accounting concepts while, at the same time, not increasing the number of indicators or creating significant transition costs from the previous guideline versions. The other important facet is an increased emphasis on developing technical protocols that provide detailed guidance (e.g. indicator's intention, scope, terms definition, data collection methods etc.) on how to respond to a given indicator in order to minimize the misinterpretation that affected previous versions of the guidelines.

Another set of improvements lies in developing a 'tiered approach' to reporting that would enable reporters to determine their progress and identify what steps should be taken to improve their performance. Further clarifying linkages to other corporate social responsibility tools is another strategic objective of the third generation of the GRI guidelines. Individual indicators will be tagged to correlate to specific sections of instruments such as the UN Norms and the ILO Declaration on Fundamental Principles and Rights and Work. The GRI also plans to provide easier access to the guidelines by using a digital format. A digitized report registration system will also enable comparison of indicators between companies and across sectors.

Finally, with the G3 generation guidelines in place, the GRI will develop a global education and accreditation program for both reporters and information seekers (e.g. civil society or SRI fund managers).

### **Strengths**

- Facilitates comparisons between companies and across time: Standardizing the sustainability reporting process allows for an enhanced ability to benchmark across companies, sectors and time.<sup>7</sup>
- Multi-stakeholder process: The governance structure of the GRI is such that the development of the guidelines is driven by a broad range of stakeholders and is thus reflective of their concerns and objectives. Thus, the GRI guidelines are the product of a consensus which increases their legitimacy and applicability.
- Flexibility: the GRI framework can facilitate an incremental approach to sustainability reporting. Thus, organizations can set manageable challenges while maintaining transparency regarding those areas which they are not ready to report on.

### **Weaknesses**

- Not a management tool: The GRI is intended to be mainly used

for shaping reporting processes. Thus, a separate internal management system for the issues being reported on still needs to be in place. The challenge lies in ensuring that the GRI is easily compatible with such day-to-day management systems.

- Overly general: There is a tension between creating guidelines that are both generally applicable and material to the needs of reporters and information seekers. There has been an attempt to address this by the GRI through the sector supplements.
- Many indicators: The large number of performance indicators can be challenging to select for a small or mid-size firm.<sup>8</sup>
- Business case not yet clear: Implementing the GRI guidelines can be quite costly. It is not yet clear what benefits will accrue from reporting in accordance with the guidelines, especially in light of the risk that other voluntary or imposed reporting systems will supersede the GRI. Indeed, wider uptake of the guidelines is dependent upon establishing such a business case.<sup>9</sup>

**Relationship with other instruments**

A concerted effort has been made to place the GRI guidelines within the larger context of corporate codes and instruments. The GRI and the UN Global Compact work in co-operation with the GRI guidelines seen as one aspect of operationalizing the Global Compact's principles. The GRI guidelines are seen as particularly useful in creating Communication on Progress required by the Global Compact.

The GRI and AccountAbility (which authors the AA1000 Assurance Standard) have cooperated on linking sustainability reporting and the assurance of that reporting.

The OECD Guidelines are seen as complimentary to the GRI. While the former is a code of conduct, the latter is a sustainability reporting framework. Thus, the GRI indicators can be used to measure and report on behavior that the Guidelines endeavor to encourage. The GRI has published a guide that matches the Guideline's principles with potential GRI indicators.<sup>10</sup>

The GRI views the ISO 14000 series of standards as complimentary in that they focus mainly on environmental management systems while the GRI guidelines focus on the reporting of environment (and social) performance. Similarly the SA8000 is complimentary in that it involves a verification system for workplace standards whereas GRI provides the disclosure framework for such standards and many others.

Finally, the Greenhouse Gas (GHG) Protocol is incorporated into the GRI reporting framework.

**Comments**

'GRI-style sustainability reporting will increasingly become a welcome and efficient supplement to the questionnaires, interviews, press releases, media reports and other

sources of information traditionally used for screening in investment decision making – social/ethical and mainstream.’ Alan Willis<sup>11</sup>

‘[T]he GRI Sustainability Guidelines are intended to provide the basis for credibility and precision in non-financial reporting that complements GAAP.’ David Crawford<sup>12</sup>

‘The GRI... guidelines are likely to be overtaken by more prescriptive national, regional and international directives as governments see that voluntary agreements are both flouted and difficult to monitor.’ Peter F Smith and Sally Durcan<sup>13</sup>

‘It has become the main point of reference for companies that produce sustainability reports, although only a minority are able to claim their reports are “in accordance” with the [GRI] Guidelines.’ World Business Council for Sustainable Development<sup>14</sup>

**Companies involved**

Of the 714 organizations that currently use the GRI guidelines, 93% are businesses.<sup>15</sup> Canada is underrepresented, particularly compared to European countries, with only 23 organizations represented. These include Agrium, Alcan, Bell, Enbridge, Hydro Quebec, Nexen, Petro-Canada, Placer Dome, PotashCorp, Shell Canada, Talisman Energy, Teck Cominco, TransAlta.

There are four Canadian ‘Organizational Stakeholders’ whom provide more active financial and consultative support and thereby receive enhanced voting rights for the Stakeholder Council: BC Hydro, International Institute for Sustainable Development (IISD), Suncor Energy and VanCity Credit Union, International.

According to a survey of 200 companies listed on the Toronto Stock Exchange (TSE) and TSX Venture Exchange which was commissioned by the Certified General Accountants (CGA) of Canada, only 24.8% of respondents were aware of the GRI. Of those companies that are aware of the GRI, over 75% were supportive of it. Nonetheless, only 43.8% of respondents whom were aware of the GRI wanted to see it adopted by standards-setting accounting bodies. Amongst the larger companies – whom presumably are more knowledgeable about the initiative – support for such adoption was even lower.

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## The GRI in Corporate Engagement

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
Allianz Group and World Wildlife Fund	N/A	Recommends that financial institutions ask companies to use GRI and GHG Protocol as an accounting and report standard. <sup>16</sup>
CGA-Canada	N/A	The organization views the GRI Guidelines as the ‘best approach for achieving the goal of standardized sustainability reporting.’ At the same time, the CGA argues that Canada is not ready for mandatory reporting standards at this time. <sup>17</sup>
Ethical Funds Company	\$2 billion <sup>18</sup>	Cites the GRI in Proxy Voting Guidelines. <sup>19</sup>  Filed shareholder proposals in 2005 requesting GRI compliant reports from Cott Corporation and Encana. <sup>20</sup>
Fonds Bâtirente Fonds Esther-Blondin	\$587 million <sup>21</sup>	Submitted shareholder proposal asking companies to implement GRI <sup>22</sup>
New York City Pension Funds <sup>23</sup>	US\$ 87 billion <sup>24</sup>	Used the GRI in shareholder proposals since 2003. In 2003, the Funds asked that several companies including Dell, Du Pont, FedEx, General Mills, IBM, Intel, MacDonalds, Microsoft and Pepsi sign on to the GRI.
Shareholder Association for Research and Education (SHARE)	N/A	Recommends supporting shareholder resolutions that ask companies to use the GRI in its Model Voting Proxy Guidelines. <sup>25</sup>
Social Investment Organization (SIO)	N/A	The Canada-based SIO recommends that investors vote for shareholder proposals that ask companies to adopt a recognized reporting framework such as the GRI. <sup>26</sup>

## **Case Brief: Fonds Batirente**

Below is an extended excerpt of the shareholder proposal filed by the Quebec-based Fonds Bâtirente and supported by Fonds Esther-Blondin at the 27 April 2005 Annual General Meeting of Sears Canada. The proposal requested that the company produce a sustainable development report based on the GRI guidelines. After negotiating for several months to include the proposal in its management circular, the issues was raised at the meeting and received the support of one third of the voting shares that were not controlled by Sears Holdings (USA), the majority shareholder. Although management recommended against the proposal, they did show a willingness to continue discussing the mater and committed to report on the issue in August 2005.<sup>27</sup>

The Fonds Bâtirente commitment to promoting the GRI specifically and socially responsible investing in general goes beyond this particular proposal. In 2005, Bâtirente issued its annual report in accordance with the GRI guidelines. In doing so, the intention was both to promote the cause of sustainable development and to put into practice that which they ask of companies securities portfolio such as Sears Canada.<sup>28</sup> In the annual report, the President of the Board noted: ‘More than a simple reduction of risks, the introduction of criteria other than financial helps to forecast long-term organizational performances.’ Bâtirente’s Board of Directors approved its socially responsible investment policy in January 2005. Their proxies are voted in accordance with this policy under a service agreement with Fairvest, a specialist in proxy circulars and governance matters. Moreover, the company has also joined the Carbon Disclosure Project – an initiative aimed at encouraging the world’s largest companies to actively engage and manage the greenhouse gas emissions issue. To this end, Bâtirente has launched a letter writing campaign to Canadian companies which have failed to provide information to the Carbon Disclosure Project’s surveys.

## **Shareholder Proposal example**<sup>29</sup>

**Filed by: Fonds Bâtirente and Fonds Esther-Blondin**

**Filed with: Sears Canada**

RESOLVED:

Shareholders request the Board of Directors to prepare and issue a sustainability report in accordance with the Global Reporting Initiative Sustainability Reporting Guidelines by April 1, 2006.

Supporting statement

According to the Dow Jones Sustainability Group ([www.sustainability-indexes.com](http://www.sustainability-indexes.com)), ‘‘Corporate Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments’’. Implementing appropriate risks management tools can help the company prevent financial losses and therefore upgrade the shareholder’s long term economic interests.

The United Nations Environment Program Finance Initiative ([www.unepfi.org](http://www.unepfi.org)) in association with a dozen financial institutions such as Citigroup Asset Management, HSBC AM and BNP Paribas AM published a study entitled «The materiality of social Environmental and Corporate Governance Issues to Equity

Pricing» in June 2004. According to the study, these issues are critical elements in equity volatility and companies' long term value.

Sears Canada's Code of Business Conduct and Buying Policy did not prevent the company from being tied up to the human rights violations revealed in Oxfam International's February 2004 report ([www.oxfam.org](http://www.oxfam.org)) showing the challenges of such policies' controls and demonstrating the necessity for an auditing and reporting process. Sears Canada must stay competitive in matter of sustainable development. Many of Sears Canada's most important retail competitors already publish information on their social and environmental performance.

For example, the Swedish retailer company H&M, which recently came into the Canadian market, emphasizes its corporate social responsibility actions in its marketing.

...

The issuance of such a report by Sears Canada will efficiently complement its financial reports allowing shareholders and other financial market participants, especially those with fiduciary duties, to better assess Sears' future performance and their risk exposure. According to the GRI, first time reporters may adopt an incremental approach to reporting, so that the process is not onerous.

## **Notes**

<sup>1</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 22. Available at: <<http://www.wbcds.org/web/publications/accountability-codes.pdf>>

<sup>2</sup> Gilbert, Sean, 'The Transparency Revolution', Washington, D.C.: The Environmental Law Institute, November/December 2002, p. 22. Available at: <<http://www.globalreporting.org/upload/Article%20Published%20in%20the%20Environmental%20Forum%20-%20Gilbert.pdf>>

<sup>3</sup> Hawke, Lewis, 'Walking the Talk on Sustainable Development in the Public Sector', *Public Administration Today*, September 2004, p. 53.

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<sup>6</sup> The following summary is based on: Gee, C. and Slater, A., 'Developing next-generation GRI guidelines', *Corporate Responsibility Management*, 1(5), Apr/May 2005, p. 30.

<sup>7</sup> Willis, Alan, 'The role of the Global Reporting Initiative's sustainability reporting guidelines in the social screening of investments', *Journal of Business Ethics*, March 2003, 43(3).

<sup>8</sup> Colman, Robert, 'Corporate Social Responsibility – Where Do We Really Stand?', *CMA Management*, 78(9), 1 February 2005, p. 28.

<sup>9</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 20. Available at: <<http://www.wbcds.org/web/publications/accountability-codes.pdf>>

<sup>10</sup> Global Reporting Initiative, *Synergies between the OECD Guidelines for Multinational Enterprises (MNEs) and the GRI 2002 Sustainability Reporting Guidelines*, June 2004. Available at: <<http://www.globalreporting.org/about/OECDsynergies.pdf>>

<sup>11</sup> Willis, Alan, 'The role of the Global Reporting Initiative's sustainability reporting guidelines in the social screening of investments', *Journal of Business Ethics*, March 2003, 43(3), p. 233.

<sup>12</sup> Crawford, David, 'Managing and Reporting Sustainability', *CMA Management*, February 2005, 78(9), p. 22.

<sup>13</sup> Smith, P.F. and Durcan, S., 'Creating business-relevant CR reports', *Corporate Responsibility Management*, Oct/Nov 2004, 1(2), p. 30.

<sup>14</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 20. Available at: <<http://www.wbcds.org/web/publications/accountability-codes.pdf>>

- <sup>15</sup> Current as of August 31, 2005. See <[www.globalreporting.org](http://www.globalreporting.org)>
- <sup>16</sup> Allianz Group and WWF, *Climate Change & the Financial Sector: An Agenda for Action*, June 2005, p. 49. Available at: <[http://www.wwf.org.uk/filelibrary/pdf/allianz\\_rep\\_0605.pdf](http://www.wwf.org.uk/filelibrary/pdf/allianz_rep_0605.pdf)>
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- <sup>18</sup> See Ethical Funds Company website at: <[http://www.ethicalfunds.com/do\\_the\\_right\\_thing/about\\_ef/](http://www.ethicalfunds.com/do_the_right_thing/about_ef/)>
- <sup>19</sup> Proxy Voting Guidelines available at:  
<[http://www.ethicalfunds.com/pdf2/sri/proxy\\_voting\\_guidelines.pdf](http://www.ethicalfunds.com/pdf2/sri/proxy_voting_guidelines.pdf)>
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- <sup>22</sup> Full text of proposal available at:  
<<http://www.sedar.com/csfsprod/data53/filings/00748885/00000001/C%3A%5CSEDAR%5CFILINGS%5C2005MPCENG.pdf>>
- <sup>23</sup> These include five different New York City employee pensions funds: New York City Employees' Retirement System (NYCERS); the Teachers' Retirement System of the City of New York (TRS), the New York City Police Pension Fund Subchapter 2 (POLICE); New York City Fire Department Pension Fund Subchapter Two (FIRE); and the New York City Board of Education Retirement System (BERS).
- <sup>24</sup> Value of the five funds as at March 31, 2005. Available at:  
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<<http://www.sedar.com/csfsprod/data53/filings/00748885/00000001/C%3A%5CSEDAR%5CFILINGS%5C2005MPCENG.pdf>>



## Global Sullivan Principles of Social Responsibility

**Summary** The Global Sullivan Principles of Social Responsibility are a global voluntary code of conduct that endeavours to guide companies in improving their social, economic and environmental performance.

**Who?** The original Sullivan Principles were authored by the Reverend Leon Sullivan in the 1970s to guide corporate behaviour in South Africa. These were updated to provide principles for global corporate social responsibility by the Reverend Sullivan in consultation with the Core Committee comprised of corporate leaders and business associations.

The Global Sullivan Principles were inaugurated at the United Nations in 1999.

**Issues** Human rights, environment, social justice

**Overview & Operation** The Global Sullivan Principles are voluntarily adopted and aim to encourage the exchange of ideas for the betterment of society. Endorsing companies are obligated to maintain an ongoing commitment to the principles in internal policymaking, training and reporting. All subsidiary and local branches of the parent company must also uphold the same standard of commitment.

The Principles are unique in encouraging corporations ‘to violate an unjust law.’<sup>1</sup>

**Strengths**

- Vision: The Principles outline a vision for companies as being key players in achieving social justice. They succeeded in capturing the imagination of many corporate leaders.<sup>2</sup>
- Broad application: Companies are required to promote the message of the Principles to customers, suppliers and other business participants.

**Weaknesses**

- Lack of a verification mechanism
- No definition for key terms: This includes phrases such as ‘female abuse’ and ‘basic needs’.<sup>3</sup>
- No reference to collective bargaining<sup>4</sup>

**Relationship with other instruments** In light of their aspirational nature, the Global Sullivan Principles should be used with process standards such as the AA1000 standards and the Global Reporting Initiative.<sup>5</sup>

**Companies involved** Almost 200, mostly US-based, companies have endorsed the Global Sullivan Principles including American Airlines, British Airways, Coca-Cola, Colgate-Palmolive, Ford, General Motors, Pfizer, Procter &

Gamble and Rio Tinto.<sup>6</sup>

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### **The Global Sullivan Principles in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
California Public Employees Retirement System (CalPERS)	US\$ 148.8 billion <sup>7</sup>	Supports shareholder proposals concerning the Global Sullivan Principles as per the Proxy Voting Guidelines revised in 2005. <sup>8</sup>
California Public Employees Retirement System (CalPERS)	US\$ 148.8 billion	The Global Sullivan Principles are a considered factor in CalPERS's emerging market screens (see below)
New York City Pension Funds <sup>9</sup>	US\$ 87 billion <sup>10</sup>	Apartheid related shareholder resolutions began in 1980 but only gained momentum with NYCERS Sullivan Principles based proposals beginning in 1985. <sup>11</sup>

#### **Case Brief: CalPERS**

CalPERS, one of the world's largest pension funds, has employed the Global Sullivan Principles as a factor in its emerging market screens since November 2000. The following is an excerpt from a paper by Tessa Hebb and Gordon Clark regarding these emerging market screens.<sup>12</sup>

Following the 1998 Asian financial crisis, CalPERS' officials realized that their increased exposure to emerging markets left them vulnerable to higher levels of risk in their investment portfolio. Again under the rubric of fulfilling their fiduciary duties, CalPERS took the decision to screen both countries and

companies in their emerging market portfolio for a variety of capital market, social and environmental risks in order to avoid investing in countries or companies prone to reputational attack.

...

In fact two of the three external money managers CalPERS uses in its emerging market screening have significantly outperformed their benchmarks since inception. Such out-performance speaks to both the value of active fund management and the value of reputation in these markets. Witness the adverse impact on FDI to the Philippines when CalPERS announced in 2002 that it would divest itself from that emerging market (Hebb and Wójcik 2004). It must be noted, however, that unlike its corporate governance campaigns, which have both domestic and global reach, CalPERS restricts its social and environmental concerns to firms domiciled in emerging markets. These concerns do not currently extend to either multinational enterprises in CalPERS' portfolio that face similar social and environmental risks in their global supply chains, nor to CalPERS' domestic equity holdings.

### **Shareholder Proposal example**

The following is a 2002 proposal urging Unocal to implement the Global Sullivan Principles (which it previously endorsed) in relation to its operations in Burma. In particular, the proposal urges that Unocal's social and ethical performance be linked to management's compensation.<sup>13</sup>

#### EXECUTIVE COMPENSATION

WHEREAS: We believe Unocal has violated its Guiding Principles by its association with the repressive government of Burma. Foreign governments, international organizations and human rights groups have criticized that Government for committing such human rights abuses as torture, abuse of women, summary and arbitrary executions, forced labor, forced relocation and arbitrary arrests and detentions.

WHEREAS: Judge Ronald W. Lew, U.S. District Judge confirmed that Unocal executives were aware of these violations in stating that "The evidence does suggest that Unocal knew that forced labor was being utilized and that the Joint Venturers [Unocal, Total, MOGE and PTT] benefited from the practice."

WHEREAS: Unocal has had historic and on-going environmental violations, especially at a number of California's pristine locations (e.g. Guadalupe spill, the largest in California, costing \$43.8M), Avila Beach spill (killing a town economically-costing up to \$200 million), San Francisco Bay spill (costing \$83 million with a possible \$50 million more), and Molycorp Mountain Pass Mine (failed to report toxic discharges). We believe this indicates a lack of concern for communities and the environment, has damaged Unocal's image and caused financial loss;

WHEREAS: We believe that Unocal has failed to obey its Guiding Principles which requires the Company to: "Conduct business in a way that engenders pride in our employees and respect from the world community...communicate openly and honestly...improve the quality of life in the communities where we do business...protect the environment...be a good corporate citizen and a good friend of the people of our host country."

WHEREAS: We also believe that Unocal has failed to conform to the Global Sullivan Principles, recently endorsed by Unocal, which explicitly commits endorsing companies to eight basic principles including the following: "We will express our support for universal human rights and particularly those of our employees, the communities within which we operate, and parties with whom we do business."

WHEREAS: One important way to insure that any company is serious about its own Code, or pursuing principles like the Global Sullivan Principles, is to provide incentives to executives through their compensation formula to meet those goals.

BE IT RESOLVED: That the Board of Directors appoint a special committee of the Board consisting solely of independent Board Members to review ways to link executive compensation with the Company's ethical and social performance, and in particular with Unocal's Guiding Principles and to report to the shareholders the results of this review. This report may omit confidential information and be prepared at a reasonable cost.

#### Supporting Statement

We believe linking the compensation and bonus packages of Unocal's executives to our Company's ethical and social performance is timely and necessary. It sends a message that Unocal is as serious about excellence in these areas as in meeting financial and business goals.

Many other companies, including Kodak, Bristol Myers Squibb, IBM and Proctor & Gamble, have social responsibility goals and performance reflected in their compensation formula.

#### Notes

<sup>1</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 69.

<sup>2</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 69.

<sup>3</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 69.

<sup>4</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 69.

<sup>5</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 69.

<sup>6</sup> Global Sullivan Principles Charter Endorsers. Available at:  
<<http://www.thesullivanfoundation.org/gsp/endorsers/charter/default.asp>>

<sup>7</sup> Value as of 30 September 2004. Figures from *Pensions and Investments* magazine as quoted in Hodge, Scott A. and Dubay, Curtis S., 'Stock Market Investing: Good Enough for Public Employee and Union Pension Funds', 2 February 2005. Available at: <<http://taxfoundation.org/news/printer/111.html>>

<sup>8</sup> California Public Employees' Retirement System, 'Global Proxy Voting Guideilnes', 19 March 2001, revised 9 June 2005. Available at: <<http://www.calpers-governance.org/principles/global/globalvoting.pdf>>

<sup>9</sup> These include five different New York City employee pensions funds: New York City Employees' Retirement System (NYCERS); the Teachers' Retirement System of the City of New York (TRS), the New York City Police Pension Fund Subchapter 2 (POLICE ); New York City Fire Department Pension Fund Subchapter Two (FIRE); and the New York City Board of Education Retirement System (BERS).

<sup>10</sup> Value of the five funds as at March 31, 2005. Available at:  
<[http://www.comptroller.nyc.gov/bureaus/bam/pension\\_funds.shtm](http://www.comptroller.nyc.gov/bureaus/bam/pension_funds.shtm)>

<sup>11</sup> Crompton, Linda and Voorhes, Meg, 'Using Corporate Engagement to Raise Firm-Level Standards: Six Case Studies of Pension Fund Activism in the United States', 15 November 2002.

<sup>12</sup> Clark, Gordon L. and Hebb, Tessa, 'Why do they care? The market for corporate global responsibility and the role of institutional investors', June 2004. Available at:  
<[http://www.havenscenter.org/real\\_utoopias/2004documents/ClarkHebbPaper.pdf](http://www.havenscenter.org/real_utoopias/2004documents/ClarkHebbPaper.pdf)>

<sup>13</sup> [http://www.iccr.org/shareholder/proxy\\_book02/gca/execcomp\\_unocal.htm](http://www.iccr.org/shareholder/proxy_book02/gca/execcomp_unocal.htm)

# Greenhouse Gas Protocol



World Business Council for Sustainable Development



World Resources Institute

**Summary** The Greenhouse Gas Protocol Initiative (GHG Protocol) is aimed at the harmonization of global greenhouse gas accounting and reporting standards. The multi-stakeholder coalition develops standards and tools to enable a consistent approach amongst different trading schemes and climate change initiatives.

**Who?** Development of the GHG Protocol was initiated in 1998 by the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). The two organizations facilitated the development of the protocol by a broad coalition of representatives from business, civil society, government and inter-governmental organizations.

The Corporate GHG Accounting and Reporting Module was officially released on October 23, 2001 and revised in 2004.

**Issues** Greenhouse gas accounting and reporting

**Overview & Operation** The ultimate purpose of the GHG Protocol is to reduce the six greenhouse gases identified by Kyoto Protocol's negotiators as the prime contributors to climate change including carbon dioxide (CO<sub>2</sub>), methane (CH<sub>4</sub>), nitrous oxide (N<sub>2</sub>O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulfur hexafluoride (SF<sub>6</sub>).<sup>1</sup> It is aimed at tackling a significant obstacle to reducing greenhouse gas emissions: the variation of standards across borders, between companies and even within companies. Thus, the initiative designs, disseminates and promotes globally applicable accounting and reporting standards for GHG emissions. The idea is to 'help companies better understand their own position' as various national and supranational regulatory schemes take shape.<sup>2</sup>

The GHG Protocol Initiative consists of two modules: The Corporate GHG Accounting and Reporting Module and the soon to be released Project GHG Accounting and Reporting Module.

The Corporate GHG Accounting and Reporting Module endeavours to create both transparency and inclusiveness. Transparency involves enabling companies to account for greenhouse gases in much the same way as assets and liabilities are on a traditional balance sheet. Inclusiveness refers to the protocol's comprehensive scope – from resource extraction, to product consumption, to disposal. Emissions are divided into three scopes ranging from those produced directly by manufacturing facilities to more indirect sources of emissions such as employee travel.<sup>3</sup> The protocol is intended for use by organizations of disparate sizes.

The revised 2004 edition built on three years of experience with the first edition and provided additional guidance, case studies and appendices. No major changes were made to the protocol's methodology. The GHG Protocol is not a verification standard although some guidance is provided to make greenhouse gas inventories more easily auditable.

With a release date of November 2005, the GHG Protocol for Project Accounting is intended to assist companies and project developers quantify emissions from GHG reduction projects.

**Relationship with other instruments** The GHG Protocol is synchronized with the GRI and WWF's Climate Saver's Program.<sup>4</sup> Moreover, the International Organization for Standardization (ISO) has indicated that its standards will also be compatible with the GHG Protocol.<sup>5</sup> Indeed, the protocol meets the requirements of most reporting schemes.

**Comments** 'One of the strengths of the GHG Protocol is the fact that it serves as a model or basis for so many other emissions reporting, reduction, and trading programs.' William Baue<sup>6</sup>

'The Greenhouse Gas Protocol... has emerged as a common metric for emissions reporting...' Investor Network on Climate Risk<sup>7</sup>

'The GHG Protocol builds on the knowledge of and lessons learnt by many organizations, practitioners, and stakeholders to promote convergence of GHG accounting practices. It will reduce costs, improve comparability, and strengthen the capacity of managers to make informed decisions on carbon risks and opportunities. The protocol will also render reported information credible and reliable in the eyes of external stakeholders.' Greenhouse Gas Protocol Secretariat<sup>8</sup>

**Companies involved** There are about 90 companies known to be using the GHG Protocol through various voluntary initiatives including AstraZeneca, BP, Ford, General Electric, Volkswagen, Eastman Kodak, Johnson & Johnson, Sony, Sun Microsystems, Unilever. Four Canadian companies use the GHG Protocol including PowerComm, Royal Bank, Shell Canada and St. Lawrence Cement.

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### **The GHG Protocol in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
Allianz Group and WWF	N/A	Recommends companies use reporting frameworks such as the GRI and the GHG Protocol. <sup>9</sup>
Fairvest	N/A	Recommends that investors use a recognized reporting framework, such as the GHG Protocol, as a criterion in assessing a company's climate change risk. <sup>10</sup>
Investor Network on Climate Risk	N/A	Recommends that institutional investors urge companies to: (1) report using the GHG Protocol <sup>11</sup> (2) support the mandatory reporting of greenhouse gas emissions using the GHG protocol. <sup>12</sup> (3) Sponsor or co-filing resolutions and participate in letter writing campaigns supporting, amongst others, the GHG Protocol. <sup>13</sup>

### **Shareholder Proposal example**

The excerpted shareholder proposal below was filed with General Electric in 2005 by the Missionary Oblates of Mary Immaculate. It refers to several standards including the GHG Protocol and the Global Reporting Initiative.<sup>14</sup> Several institutional investors had actively engaged with management regarding climate change. This engagement was seen as at least partly responsible for General Electric's uptake of the GHG Protocol to report on its greenhouse gas inventories in 2002.<sup>15</sup>

**Filed by: The Missionary Oblates of Mary Immaculate and others**  
**Filed with: General Electric**

Companies in Australia, France, Japan, the U.K., and the U.S., have used a framework provided by the Global Reporting Initiative (GRI) to create and publish sustainability reports. The Global Reporting Initiative is a new, global effort to create cogent standards for organizational environmental management and disclosure. It asks that companies voluntarily incorporate some of these standards into their operations and reporting practices. The standards are included in the "GRI Guidelines," which the GRI organization has created through input from a variety of international stakeholders. The GRI is assisting a movement to establish sustainability reporting as a reporting norm. However, companies around the world, including in the U.S., have much farther to go before catching up to this standard. According to Social Investment Research Service data:

...

\*In GE's "Climate Change" section on its web site, GE discusses the completion of its first Greenhouse Gas (GHG) Inventory in 2003. The inventory provides both direct and indirect GHG emissions, using the World Resources Institute/ World Business Council for Sustainable Development (WRI/WBCSD) Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2001).

## Notes

<sup>1</sup> Baue, William, 'Greenhouse Gas Protocol Initiative Creates Global Emissions Standards', 11 July 2001. Available at: <<http://www.csrwire.com/sfarticle.cgi?id=703>>

<sup>2</sup> Greenhouse Gas Protocol, 'About the GHG Protocol.' Available at: <<http://www.ghgprotocol.org>>

<sup>3</sup> William Baue, 'Greenhouse Gas Protocol Initiative Creates Global Emissions Standards', 11 July 2001. Available at: <<http://www.csrwire.com/sfarticle.cgi?id=703>>

<sup>4</sup> Baue, William, 'Greenhouse Gas Protocol Initiative Creates Global Emissions Standards', 11 July 2001. Available at: <<http://www.csrwire.com/sfarticle.cgi?id=703>>

<sup>5</sup> Baue, William, 'Carbon Disclosure Project Report and Greenhouse Gas Protocol Release Second Editions', 19 May 2004. Available at: <<http://www.csrwire.com/sfarticle.cgi?id=1426>>

<sup>6</sup> Baue, William, 'Carbon Disclosure Project Report and Greenhouse Gas Protocol Release Second Editions', 19 May 2004. Available at: <<http://www.csrwire.com/sfarticle.cgi?id=1426>>

<sup>7</sup> Investor Network on Climate Risk, *Investor Guide to Climate Risk, Action Plan and Resource for Plan Sponsors, Fund Managers and Corporations*, July 2004. Available at: <[http://www.irrc.org/resources/Climate\\_Guide.pdf](http://www.irrc.org/resources/Climate_Guide.pdf)>

<sup>8</sup> Greenhouse Gas Protocol, 'About the GHG Protocol.' Available at: <<http://www.ghgprotocol.org>>

<sup>9</sup> Allianz Group and WWF, *Climate Change & the Financial Sector: An Agenda for Action*, June 2005. Available at: <[http://www.wwf.org.uk/filelibrary/pdf/allianz\\_rep\\_0605.pdf](http://www.wwf.org.uk/filelibrary/pdf/allianz_rep_0605.pdf)>

<sup>10</sup> [http://www.socialinvestment.ca/Climate\\_Risk\\_Workshop\\_Report\\_\(updated\).pdf](http://www.socialinvestment.ca/Climate_Risk_Workshop_Report_(updated).pdf)

<sup>11</sup> Investor Network on Climate Risk, *Investor Guide to Climate Risk, Action Plan and Resource for Plan Sponsors, Fund Managers and Corporations*, July 2004, p. 6. Available at: <[http://www.irrc.org/resources/Climate\\_Guide.pdf](http://www.irrc.org/resources/Climate_Guide.pdf)>

<sup>12</sup> Investor Network on Climate Risk, *Investor Guide to Climate Risk, Action Plan and Resource for Plan Sponsors, Fund Managers and Corporations*, July 2004, p. 10. Available at: <[http://www.irrc.org/resources/Climate\\_Guide.pdf](http://www.irrc.org/resources/Climate_Guide.pdf)>



<sup>13</sup> Investor Network on Climate Risk, *Investor Guide to Climate Risk, Action Plan and Resource for Plan Sponsors, Fund Managers and Corporations*, July 2004, p. 7. Available at:  
<[http://www.irrc.org/resources/Climate\\_Guide.pdf](http://www.irrc.org/resources/Climate_Guide.pdf)>

<sup>14</sup> Full text of proposal available at: <[www.issproxy.com/pdf/GeneralElectricSRIPolicy2005.pdf](http://www.issproxy.com/pdf/GeneralElectricSRIPolicy2005.pdf)>

<sup>15</sup> Investor Responsibility Research Center, 'Global Warming'. Available at:  
<<http://irrc.com/company/GlobalWarming.pdf>>

## **ILO Declaration on Fundamental Principles and Rights at Work**



**Summary** The ILO Declaration on Fundamental Principles and Rights at Work were issued in 1998 and establish the four 'core' labour rights. Unlike the various ILO Conventions, which are only applicable if a given country has ratified them, these four rights are seen as universally applicable to all ILO member states.

**Who?** The International Labour Organization is a UN agency which promotes social justice and human and labour rights. Founded in 1919, it is the remaining creation of the League of Nations. The organization creates global labour standards through Conventions and Recommendations. Employers, employees and governments play equal roles in its governing organs.

The ILO Declaration was adopted at the 1998 International Labour Conference by an overwhelming majority.

**Issues** Labour rights: freedom of association, child labour, forced labour, non-discrimination

**Overview  
&  
Operation** Although the ILO Declaration's focus is on governments, the rights enshrined relate to corporations as well. Regardless of whether they have ratified the relevant Conventions, the ILO Declaration commits all member states, regardless of stage of economic development, to respect and promote four 'core' labour standards:

- freedom of association and the effective recognition of the right to collective bargaining
- the elimination of forced or compulsory labour
- the abolition of child labour
- the elimination of discrimination in respect of employment and occupation.

The identification of these particular four categories emerged from the 1995 UN World Summit on Social Development. They have been characterized as a 'social minimum' at the global level.

The ILO has identified eight ILO Conventions which underpin the four core labour standards:<sup>1</sup>

- Freedom of Association and Protection of the Right to Organize Convention, 1948 (No. 87)
- Right to Organize and Collective Bargaining Convention, 1949

(No. 98)

- Forced Labour Convention, 1930 (No. 29)
- Abolition of Forced Labour Convention, 1957 (No. 105)
- Equality Discrimination (Employment and Occupation) Convention, 1958 (No. 111)
- Equal Remuneration Convention, 1951 (No. 100)
- The elimination of child labour Minimum Age Convention, 1973 (No. 138)
- Worst Forms of Child Labour Convention, 1999 (No. 182)

The ILO Declaration was endorsed by the G8 in 2003.

### **Strengths**

- Decentralized system of labour standards where non-governmental actors can take the lead
- Moves away from legalism of ILO conventions towards a more flexible approach
- Complimentary to other ILO instruments
- Universal application: The Declaration's applicability to all ILO members is seen by some as a landmark in international labour law.

### **Weaknesses**

- Erodes ILO's enforcement mechanism by emphasizing promotional techniques: The Declaration is seen by some as compromising the ILO's traditional enforcement approach of its Conventions. The counter-critique is that these mechanisms were never very effective, especially under conditions of globalization.
- Will undermine other labour standards: Opponents have argued that 'privileging' or highlighting a selected group of rights will ultimately erode support for other labour rights. For example, critics point out that many voluntary codes, such as the UN Global Compact, have cited the ILO Declaration in outlining its four key labour principles which correlated to the four 'core' labour rights.
- Arbitrary choice with key rights missing: Critics contend that the 'core' rights were chosen solely on the basis of political calculus, not by any compelling moral or philosophical criteria. For example, they argue that the list of 'core' rights should at least extend to workplace safety, working hour limits, reasonable rest period and non-abusive working environment.<sup>2</sup>
- Focus on procedural not substantive rights: governments and corporations can interpret these rights to their own benefit.<sup>3</sup> Moreover, even if these procedural rights are correctly interpreted, corporations can use their unequal bargaining power to prevent favourable substantive outcomes from emerging.
- Fundamentally protectionist: the Declaration protects those rights at which developed countries excel.

**Relationship with other instruments** The Global Compact's labour principles are derived from the ILO Declaration. Moreover, the FTSE4Good index employs the ILO Declaration as a criteria for listed companies.<sup>4</sup> Moreover, the OECD Guidelines focus on the four core labour rights identified in the Declaration.

**Comments** '[The universal application of the Declaration is] nothing short of a revolution in legal terms [and is a] very significant... step in international constitutional law.' Francis Maupain<sup>5</sup>

'It can be said that all funds with a socially responsible investment approach either refer to the [ILO Declaration] or use the Declaration and other ILO Conventions and Recommendations as a starting point for the definition of the screening criteria.' Andreas Sturm and Michael Badde<sup>6</sup>

'A universal consensus now exists that all countries, regardless of level of economic development, cultural values or ratification of the relevant ILO Conventions, have an obligation to respect, promote and realise these fundamental principles and rights.'<sup>7</sup>

'The idea behind the Declaration was to give the ILO if not some sort of 'teeth' at least something more than its existing bark, and to take the benefit of a political moment which made this possible.' Brian Langille<sup>8</sup>

'The bottom line is that the Declaration proclaims as 'principles' a range of values which had already been recognized as rights exactly 50 years earlier in the Universal Declaration of Human Rights.... the Declaration legitimates the use of a regressive terminology.' Philip Alston<sup>9</sup>

'[T]he choice of standards to be included in the [core labour standards] was not based on... compelling economic, philosophical, or legal criteria, but rather reflects a pragmatic political selection of what would be acceptable at the time to the United States and those seeking to salvage something from what was seen as an unsustainably broad array of labour rights.' Philip Alston<sup>10</sup>

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## **The ILO Declaration in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
Australian Council of Trade Unions (ACTU), Construction, Forestry, Mining, and Energy Union (CFMEU), International Federation of Chemical, Energy, Mine, and General Workers' Unions (ICEM), and Trades Union Congress (UK).		Filed a 2000 shareholder proposal with Rio Tinto based on the ILO Declaration. <sup>11</sup>
Chemical and Energy Workers International Union (PACE)		Filed a 2004 shareholder proposal with DuPont urging the company to adopt a human rights policy based on the ILO Declaration. <sup>12</sup>
New York City Teachers' Retirement System, Allied-Industrial, Chemical and Energy Workers International Union (PACE) and other investors.		Withdrew a 2004 shareholder proposal after ExxonMobil agreed to uphold the ILO Declaration. <sup>13</sup>
Ontario Public Service Employees Unions (OPSEU)	\$10.5 billion <sup>14</sup>	Filed a 2003 shareholder proposal citing the GC with Sears Canada (see below).
Shareholder Association for Research and Education (SHARE)	N/A	Recommends supporting shareholder resolutions that ask companies to use the ILO Declaration in its Model Voting Proxy Guidelines. <sup>15</sup>

### **Shareholder Proposal example**

In 2003, the Ontario Public Service Employees Union along with several other shareholders filed a shareholder proposal with Sears Canada regarding working conditions at suppliers. The proposal includes references to the Global Compact, the ILO Declaration of Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises.<sup>16</sup> See the 'Global Compact' section of this guide for the full text of the proposal.

## Notes

<sup>1</sup> International Labour Organization, 'ILO Declarations, International Labour Conventions and Recommendations'. Available at: <<http://www.ilo.org/public/english/comp/civil/standards/ilodcr.htm>>

<sup>2</sup> Alston, Philip, "Core Labour Standards" and the Transformation of the International Labour Rights Regime', *European Journal of International Law*, 15(3), p. 486.

<sup>3</sup> Alston, Philip, "Core Labour Standards" and the Transformation of the International Labour Rights Regime', *European Journal of International Law*, 15(3), p. 494.

<sup>4</sup> Baue, William, 'FTSE4Good Raises the Bar With New Supply Chain Labor Standards Criteria', 20 November 2004. Available at: <<http://www.socialfunds.com/news/article.cgi/article1579.html>>

<sup>5</sup> Francis Maupain as quoted in Alston, Philip, "Core Labour Standards" and the Transformation of the International Labour Rights Regime', *European Journal of International Law*, 15(3), p. 486.

<sup>6</sup> Sturm, Andreas and Badde, Michael, 'Socially Responsible Investment by Pension Funds', International Labour Organization, 15 February 2001. Available at:

<<http://www.ellipson.com/files/studies/Socially%20Responsible%20Investm.pdf>>

<sup>7</sup> p. 28

<sup>8</sup> Langille, Brian A., 'Core Labour Rights; The True Story (Reply to Alston)', *European Journal of International Law*, 16(3), June 2005, p. 420.

<sup>9</sup> Alston, Philip, "Core Labour Standards" and the Transformation of the International Labour Rights Regime', *European Journal of International Law*, 15(3), p. 483.

<sup>10</sup> Alston, Philip, "Core Labour Standards" and the Transformation of the International Labour Rights Regime', *European Journal of International Law*, 15(3), p. 485.

<sup>11</sup> ISSue Watch, 3(6), 3 May 2000. Available at:

<<http://www.issuwatch.com/alertarchive/2000/050300.htm>>

<sup>12</sup> PACE, 'PACE International Union Workers Demonstrate Against Labor Violations, Job Cuts at DuPont Shareholders Meeting', 29 April 2004. Available at:

<<http://www.dupontcouncil.org/Press%20Releases/PACE%20Workers%20Demonstrate%20Against%20Labor%20Violations.htm>>

<sup>13</sup> Amnesty USA, 'ExxonMobil Commits to Uphold Core Labor and Human Rights In Response to Shareholder Proposal', 21 April 2004. Available at:

<<http://www.amnestyusa.org/countries/usa/document.do?id=6D33F5C5718E5DBA85256E7D005EA198>>

<sup>14</sup> OPSEU Pension Trust, 'History and Profile'. Available at:

<[http://www.opstrust.com/aboutus/history\\_profile.asp](http://www.opstrust.com/aboutus/history_profile.asp)>

<sup>15</sup> Shareholder Association for Research and Education (SHARE), *Model Proxy Voting Guidelines 2005*. Available at: <<http://www.share.ca/files/pdfs/2005%20Proxy%20Guidelines.pdf>>

<sup>16</sup> Text of proposal from SHARE at:

<<http://www.share.ca/files/pdfs/Sears%20Canada%20Labour%20Standards%202003%20Proposal.pdf>>

## ISO 14001

**Summary** ISO 14001 is a voluntary industry standard which furnishes a framework for organizations to manage environmental issues. It focuses on organisational processes rather than their products or environmental impacts.

**Who?** The International Organization for Standardization (ISO) is a standards institute based in Geneva with 148 member countries. It has developed over 15,000 standards to date. ISO standards are developed through a voluntary consensus-based approach involving negotiation between representatives of the national standards making institutes. ISO 14001 was launched in 1996.

**Issues** Environmental management systems (EMS)

**Overview & Operation** The ISO 14000 series are a set of standards for the design of environmental management systems. The purpose of ISO 14001 is to outline the requirements for an EMS against which an organization can later be certified by an accredited body. An EMS is the ‘totality of organisational, administrative and policy provisions to be taken by a firm to control its environmental influence.’<sup>1</sup> It is imperative to note that as a management system standard, ISO 14001 does not set out environmental performance standards.

Implementing ISO 14001 is completely voluntary and it is not freely available. Using a ‘plan, do, check, act’ cycle, the standard requires that organizations implement certain practices and procedures concerning monitoring and measurement, operation control, legal requirements, emergency preparedness, training amongst other issues.

Organizations must be independently audited every three years by an accredited body in order to maintain the ISO 14001 certificate.

### ISO CSR standard

In June 2004, ISO decided to begin developing a socially responsibility standard aimed at creating ‘a guidance document, written in plain language which is understandable and usable by non-specialists, and not a specification document intended for conformity assessment.’<sup>2</sup> It will be published in 2008 as ISO 26000 and will not require certification.<sup>3</sup>

Reactions to this decision have been mixed. Some welcome the clarity, standardization, comparability, market clout and international recognition that ISO could potentially provide. Yet some in both the private sector and civil society, ‘fear that ISO would be overextending its expertise and legitimacy’ in creating such a standard.<sup>4</sup> To this end, ISO’s model is seen

as unable to forge consensus on the rapidly changing and controversial questions facing corporations today regarding their social, environmental and economic performance. ISO has stated that the CSR standards would be aimed at adding value, not replacing, inter-governmental agreements that relate to corporate social responsibility such as the Universal Declaration of Human Rights or the International Labour Organization conventions.<sup>5</sup>

Website: [www.iso.org/sr](http://www.iso.org/sr)

### **Strengths**

- Clarifies environmental management processes: ISO 14001 can enhance an organization's ability to put environmental policy into practice.
- Potential catalyst for change: By providing a systematic framework for organizations to address environmental issues, ISO 14001 developed an internal competency within many organizations in anticipation of the demands of future environmental performance standards (whether driven by stakeholders or regulation).<sup>6</sup>
- Universally accepted: ISO standards are well-known and widely accepted. Uptake of ISO 14001 has reached a critical mass with over 50,000 certificates issued (see below).

### **Weaknesses**

- Lack of public disclosure: the standard requires disclosure only of an organization's environmental policy.<sup>7</sup>
- Expensive for smaller businesses: While relatively cheap to implement for larger organizations, the standard can be quite expensive for small and medium sized enterprises.<sup>8</sup>
- Does not contribute to learning, innovation and discontinuous change: only for incremental adjustment towards targets and not useful in identifying emerging issues and developing ongoing policy. Moreover, the standard is seen as not being able to deal with marketplace and supply chain impacts. Accordingly, ISO 14001 is unable to provide for an integrative model of CSR.<sup>9</sup>
- Lack of performance criteria: A company could have a well functioning EMS yet still cause major environmental damage.<sup>10</sup>

### **Relationship with other instruments**

SA8000 integrates with the ISO series. They are similar in some respects – auditing methodology, continuous improvement requirement – and different in others – SA8000 sets performance standards, is developed globally and workers play a larger role in the audit. In order to save time and money, many companies are starting to combine audits for SA8000 with ISO 9000 and ISO 14001.<sup>11</sup>

ISO 14001 is compatible with the European Union's Eco-Management and Audit Scheme (EMAS).<sup>12</sup>



**Comments** ‘ISO 14001 certification can play a part in a business approach to sustainable development, but it is not sufficient in itself to deliver against either business or stakeholder concerns.’ World Business Council for Sustainable Development report<sup>13</sup>

‘[D]oubts that ISO 14001 in particular is not leading to the results expected, that is environmental improvement, have been widely expressed... [t]he emphasis is on process, not outcomes.’ Michael Watson and Anthony Emery<sup>14</sup>

‘ISO 14001 is not a thoroughbred. It is a workhorse of a standard... it motivates and allows those implementing it to do with it what they want. This is ISO 14001’s greatest strength – and weakness. Implementers can set ambitious objectives, define clear visions of where they want their organizations to go or they can sit on the fence and be content with compliance with legislation and improving systems. Its critics have valid points: it can be used to exclude; it is not always appropriate to all firms, especially not to SMEs; it is ambiguous on how environmental performance improvements are achieved; and it is weak on stakeholder involvement and sustainable development. However, ISO 14001 is currently the most acceptable badge of achievement on environmental management.’ Ruth Hillary<sup>15</sup>

‘ISO 14001 outlines a process; it does not prescribe certain actions. It is based on the principle that a sound process will drive continuous improvement in environmental performance.’ Ford Annual Report<sup>16</sup>

**Companies involved** About 50,000 ISO 14001 certificates have been awarded to private and public sector organizations in 118 countries.<sup>17</sup> Some larger companies such as General Motors and Ford now require their suppliers to adhere to an EMS standard such as ISO 14001.<sup>18</sup>

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### **ISO 14001 in Corporate Engagement**

Due its widespread use by corporations, it is essential for institutional investors to appreciate what ISO 14001 certification actually implies. As the following examples suggest, many companies have referred to their ISO 14001 compliance in response to explicit shareholder concerns about environmental performance. These references are typically in addition to the company promoting its ISO 14001 compliance on its website, annual report and sustainability or corporate citizenship report.

In recommending a vote against an August 2005 shareholder proposal to issue a sustainability report, the Board of Smithfield Foods Inc. made reference to its recently acquired ISO 14001 certification:

Earlier this year, the Company accomplished one of its key environmental goals by becoming the first in its industry to achieve ISO 14001 certification for all its U.S. hog production and processing facilities, except new acquisitions. ISO 14001 certification is an international standard developed by the Geneva-based International Organization for Standardization, which can only be achieved after a rigorous third-party audit of the environmental management system in place.<sup>19</sup>

In recommending a vote against an April 2004 shareholder proposal requesting disclosure of environmental fines and disclosure of greenhouse gas emission, the Board of Weyerhaeuser referred to the ISO 14001 standard:

The Company has chosen to use the ISO 14001 Environmental Management System standard. The ISO 14001 standard is the world's most widely recognized standard for environmental management systems and is a globally accepted standard that is well suited to large-scale forestry and manufacturing, such as our operations in the United States, Canada, Europe and the Southern Hemisphere. As of the end of 2003, 92 percent of the Company's timberlands and 10 percent of the Company's manufacturing facilities have been certified to the ISO 14001.

A similar 2004 proposal at Louisiana-Pacific Corporation garnered the same response from the Board. The response to another 2004 proposal, regarding Delphi Corporation's operations in Mexico, also made reference to ISO 14001 compliance.

In 2001, Walden Asset Management wrote to Repsol, a major Spanish oil company, regarding its environmental performance and affect on indigenous communities in Ecuador. In its response to the environmental concerns, the company referred to the 'random verification checks' associates with its ISO 14001 certification.<sup>20</sup>

## **Notes**

<sup>1</sup> Watson, Michael and Emery, Anthony R T., 'Law, economics and the environment: a comparative study of environmental management systems', *Managerial Auditing Journal*, 19(6), 2004, p. 760.

<sup>2</sup> ISO, 'ISO decides to develop International Standard providing guidelines for social responsibility'. Available at: <<http://www.iso.org/iso/en/info/Conferences/SRConference/communiqu.htm>>

<sup>3</sup> ISO, 'Social Responsibility'. Available at: <<http://www.iso.org/sr>>

<sup>4</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 34. Available at: <<http://www.wbcd.org/web/publications/accountability-codes.pdf>>

<sup>5</sup> ISO, 'ISO decides to develop International Standard providing guidelines for social responsibility'. Available at: <<http://www.iso.org/iso/en/info/Conferences/SRConference/communiqu.htm>>

<sup>6</sup> AccountAbility, 'International Standards for Corporate Responsibility'. Available at: <<http://www.accountability.org.uk/resources/default.asp?pageid=74>>

<sup>7</sup> Watson, Michael and Emery, Anthony R T., 'Law, economics and the environment: a comparative study of environmental management systems', *Managerial Auditing Journal*, 19(6), 2004, p. 760.

<sup>8</sup> AccountAbility, 'International Standards for Corporate Responsibility'. Available at: <<http://www.accountability.org.uk/resources/default.asp?pageid=74>>

<sup>9</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 35. Available at: <<http://www.wbcd.org/web/publications/accountability-codes.pdf>>

- <sup>10</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Sheffield: Greenleaf Publishing, 2003, p. 479.
- <sup>11</sup> AccountAbility, 'International Standards for Corporate Responsibility'. Available at: <<http://www.accountability.org.uk/resources/default.asp?pageid=74>>
- <sup>12</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Sheffield: Greenleaf Publishing, 2003, p. 481.
- <sup>13</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 35. Available at: <<http://www.wbcd.org/web/publications/accountability-codes.pdf>>
- <sup>14</sup> Watson, Michael and Emery, Anthony R T., 'Law, economics and the environment: a comparative study of environmental management systems', *Managerial Auditing Journal*, 19(6), 2004, p. 760.
- <sup>15</sup> Hillary, Ruth, 'Introduction' in R. Hillary (ed.), *ISO 14001, Case Studies and Practical Experiences*, Sheffield: Greenleaf Publishing. Available at: <<http://www.greenleaf-publishing.com/pdfs/isoint.pdf>>
- <sup>16</sup> Ford, *Corporate Citizenship Report 2003/04*. Available at: <<http://www.ford.com>>
- <sup>17</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 37. Available at: <<http://www.wbcd.org/web/publications/accountability-codes.pdf>>
- <sup>18</sup> Watson, Michael and Emery, Anthony R T., 'Law, economics and the environment: a comparative study of environmental management systems', *Managerial Auditing Journal*, 19(6), 2004, p. 760.
- <sup>19</sup> Shareholder proposal text available at: <<http://www.smithfieldfoods.com/Investor/Pdf/Proxies/05Proxy.pdf>>
- <sup>20</sup> Walden Asset Management, 'Indigenous Rights and the Environment', *Values*, 10(1), Spring 2001, p. 5. Available at: <<http://www.waldenassetgmt.com/downloads/spring01.pdf>>

## MacBride Principles



**Summary** The MacBride Principles are a voluntary code for US-based corporations that address employment-related discrimination in Northern Ireland. In addition, the principles have been frequently employed in federal, state and municipal legislation relating to economic dealing in Northern Ireland.

**Who?** The MacBride Principles were enunciated in 1984 by the Irish National Caucus (a US-based advocacy group) and were originally developed by Irish statesman, founder of Amnesty International and Nobel laureate Sean MacBride and several associates.

**Issues** Labour standards in Northern Ireland

**Overview & Operation** The MacBride Principles consist of nine fair employment principles. They serve as a code of conduct for corporations with operations in Northern Ireland and have also become embedded in federal, state and municipal legislation dealing with Northern Ireland. This legislation has included embedding the principles in various manners into the investment policies of pension funds associated with states – such as California, Connecticut, New York and Texas – and cities.

The principles urge companies to improve on the under representation of religious minorities in the workplace through various means, to provide adequate security for travelling to and from the workplace, ban provocative symbols in the workplace and to apply layoff policies without regard for minority status. The principles do not explicitly seek policies involving reverse discrimination, quotas or divestment.

American companies have about 20,000 employees in Northern Ireland. Of the 118 US companies operating there, about half cooperate with the Investor Responsibility Research Center's (IRRC) independent monitoring efforts of their labour practices.<sup>1</sup>

**Strengths**

- Support of investors and legitimacy: Shareholder proposals concerning the principles typically enjoy higher support than other social and environmental issues largely because of the widespread support amongst public pension funds.<sup>2</sup>
- Ensures equality retains priority status: American corporate and governmental attention to the MacBride Principles has been a useful lobbying point for activists in Northern Ireland lobbying for equality.
- Success in reducing workplace sectarian symbols: The campaign is seen by some as being substantially responsible for dramatically reducing sectarian displays in the workplace such as marches,

flags and songs.<sup>3</sup>

- Weaknesses**
- Disincentive for investment: Some contend that the principles have served as a disincentive for investment which ultimately adversely affects Irish Catholics as well.
  - Security principle problematic: Many companies have criticized the second principles that obligates companies to provide ‘adequate security’ for employees at and on the way to and from work. Proponents of the principles have pointed out that the commentary explains that companies are only required to make ‘good faith efforts’ to improve security.<sup>4</sup>

**Comments** ‘Northern Ireland Catholics see the worldwide “MacBride Principles” campaign as a great source of support in overcoming their problems and [this Report] endorses the campaign’s moral principles...’ European Parliament Report<sup>5</sup>

‘In a January 1999 letter to IRRC, a British embassy official in Washington said... “Those who continue to ride a MacBride hobbyhorse” are pursuing “the day before yesterday’s crusade, which is now positively unhelpful to the cause it purports to espouse.”’ Heidi Welsh, Investor Responsibility Research Center<sup>6</sup>

**Companies involved** As of July 2001, there were 61 American companies that had endorsed the MacBride Principles.<sup>7</sup> These included AT&T, DuPont, Federal Express, Ford, General Electric, General Motors, IBM, Procter & Gamble, Viacom and Xerox. In 2002 and early 2003, an additional 9 companies were added including Caterpillar and Merck.<sup>8</sup>

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### **The MacBride Principles in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
American Federation of Labor – Congress of Industrial Organizations (AFL-CIO)	N/A	The AFL-CIO published Proxy Voting Guidelines in the wake of the corporate scandals in 2001 and 2002. They include a reference to the Ceres

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California Public Employees Retirement System (CalPERS)	US\$ 148.8 billion <sup>10</sup>	principles as a basis for creating and voting proxy shares. <sup>9</sup> Supports shareholder proposals concerning the MacBride Principles as per the Proxy Voting Guidelines revised in 2005. <sup>11</sup>
Connecticut Retirement Plans and Trust Funds	US\$ 21.7 billion <sup>12</sup>	Under its Voting Proxy Guidelines, the funds vote for proposals based on the MacBride Principles. <sup>13</sup>
NCPERS	N/A	Under a law passed in 1987, the State of Connecticut has prohibited its Treasury from holding stock in companies that have not endorsed the principles. Recommends that public pension funds support MacBride Principles shareholder proposals in its Model Voting Proxy Guidelines. <sup>14</sup>
Ontario Public Service Employees Union (OPSEU)	\$10.5 billion <sup>15</sup>	Supports shareholder proposals concerning the MacBride Principles as per the Proxy Voting Guidelines revised in 2005. <sup>16</sup>

**Case Brief: NYCERS<sup>17</sup>**

The New City Funds involvement with the MacBride Principles date back to 1984 when Comptroller Harrison Goldin joined the Irish National Caucus in urging companies operating in Northern Ireland to endorse the MacBride principles. NYCERS's first shareholder proposal to this end was filed in 1986. In that year, responding to target company's critique of the principles as being legally untenable, NYCERS brought a case before a US district court, *Nycers v. American Brands*, in which the judge ruled that there is 'a strong showing of the likelihood...that upon a full trial it could prove that all nine of the MacBride principles could be legally implemented by management in its Northern Ireland facility.'<sup>18</sup>

In the intervening two decades, New York has sponsored more than 2000 MacBride proposals. Since 1989, they have reached agreements with over 90 companies to take 'lawful steps in good faith' to implementing the principles.<sup>19</sup> These companies represent two-thirds of US-based companies which have operations in Northern Ireland in NYCERS's portfolio. In 2004, the Funds submitted 12 shareholder proposals, of which 7 actually reached the vote and garnered an average of 9.1% support. In the same year the Funds reached agreements with three large companies including Coca-Cola, ExxonMobil

and Marriott International. In 2005, five shareholder proposals regarding the MacBride Principles were submitted.

The Funds employ several qualitative and quantitative screens in deciding which companies to target in its shareholder proposal campaigns:

- (a) market capitalization of \$300 million or greater;
- (b) institutional ownership of greater than 60 percent;
- (c) comparative negative total returns or under-performance against sectors and broad market indices, such as the S&P 500 or Russell 3000, over one, three and five-year periods.
- (d) Corporate governance profiles, such as the structure of a company's board of directors, the independence of directors on key board committees, bylaw provisions regarding shareholder rights; and
- (e) commentaries and financial analyses of securities analysts who cover the companies and industry sectors.<sup>20</sup>

### **Shareholder Proposal example**<sup>21</sup>

The following is a proposal from the 2005 proxy season filed by NYCERS urging Alberto Culver to implement the MacBride Principles.

**Filed by: New York City Funds**

**Filed with: Claire's Stores, Inc.**

**WHEREAS**, Alberto Culver has a subsidiary in Northern Ireland;

**WHEREAS**, the securing of a lasting peace in Northern Ireland encourages us to promote means for establishing justice and equality;

**WHEREAS**, employment discrimination in Northern Ireland was cited by the International Commission of Jurists as being one of the major causes of sectarian strife;

**WHEREAS**, Dr. Sean MacBride, founder of Amnesty International and Nobel Peace laureate, has proposed several equal opportunity employment principles to serve as guidelines for corporations in Northern Ireland. These include:

1. Increasing the representation of individuals from underrepresented religious groups in the workforce including managerial, supervisory, administrative, clerical and technical jobs.
2. Adequate security for the protection of minority employees both at the workplace and while traveling to and from work.
3. The banning of provocative religious or political emblems from the workplace.
4. All job openings should be publicly advertised and special recruitment efforts should be made to attract applicants from underrepresented religious groups.
5. Layoff, recall, and termination procedures should not in practice, favor particular religious groupings.
6. The abolition of job reservations, apprenticeship restrictions, and differential employment criteria, which discriminate on the basis of religion or ethnic origin.
7. The development of training programs that will prepare substantial numbers of current minority employees for skilled jobs, including the expansion of existing programs and the creation of new programs to train, upgrade, and improve the skills of minority employees.
8. The establishment of procedures to assess, identify and actively recruit minority employees with potential for further advancement.

9. The appointment of a senior management staff member to oversee the company's affirmative action efforts and the setting up of timetables to carry out affirmative action principles.

**RESOLVED:** Shareholders request the Board of Directors to:

Make all possible lawful efforts to implement and/or increase activity on each of the nine MacBride Principles.

## **Notes**

<sup>1</sup> Welsh, Heidi, 'Fair Employment in Northern Ireland', IRRC Northern Ireland Service 2003 Background Paper, March 2003, Investor Responsibility Research Center. Available at: <<http://www.irishnationalcaucus.org/pages/MacBride/IRRC%20Report%20on%20Fair%20Employment%20January%202003.htm>>

<sup>2</sup> Welsh, Heidi, 'Fair Employment in Northern Ireland', IRRC Northern Ireland Service 2003 Background Paper, March 2003, Investor Responsibility Research Center. Available at: <<http://www.irishnationalcaucus.org/pages/MacBride/IRRC%20Report%20on%20Fair%20Employment%20January%202003.htm>>

<sup>3</sup> Welsh, Heidi, 'Fair Employment in Northern Ireland', IRRC Northern Ireland Service 2003 Background Paper, March 2003, Investor Responsibility Research Center. Available at: <<http://www.irishnationalcaucus.org/pages/MacBride/IRRC%20Report%20on%20Fair%20Employment%20January%202003.htm>>

<sup>4</sup> Welsh, Heidi, 'Fair Employment in Northern Ireland', IRRC Northern Ireland Service 2003 Background Paper, March 2003, Investor Responsibility Research Center. Available at: <<http://www.irishnationalcaucus.org/pages/MacBride/IRRC%20Report%20on%20Fair%20Employment%20January%202003.htm>>

<sup>5</sup> European Parliament, Report on Discrimination in Northern Ireland, March 1994, as quoted in Father Sean McManus, President, Irish National Caucus, 'The MacBride Principles', December 1997. Available at: <<http://www1.umn.edu/humanrts/links/macbride.html>>

<sup>6</sup> Welsh, Heidi, 'Fair Employment in Northern Ireland', IRRC Northern Ireland Service 2003 Background Paper, March 2003, Investor Responsibility Research Center. Available at: <<http://www.irishnationalcaucus.org/pages/MacBride/IRRC%20Report%20on%20Fair%20Employment%20January%202003.htm>>

<sup>7</sup> Irish National Caucus, 'US Companies Agreeing to the MacBride Principles', 11 July 2001. Available at: <<http://www.irishnationalcaucus.org/pages/Articles2001/U.S.%20COMPANIES%20AGREEING%20TO%20THE%20MACBRIDE%20PRINCIPLES.htm>>

<sup>8</sup> Welsh, Heidi, 'Fair Employment in Northern Ireland', IRRC Northern Ireland Service 2003 Background Paper, March 2003, Investor Responsibility Research Center. Available at: <<http://www.irishnationalcaucus.org/pages/MacBride/IRRC%20Report%20on%20Fair%20Employment%20January%202003.htm>>

<sup>9</sup> AFL-CIO, 'Model Proxy Voting Guidelines', 2003. Available at: <[http://www.aflcio.org/corporatewatch/capital/upload/proxy\\_voting\\_guidelines.pdf](http://www.aflcio.org/corporatewatch/capital/upload/proxy_voting_guidelines.pdf)>

<sup>10</sup> Value as of 30 September 2004. Figures from *Pensions and Investments* magazine as quoted in Hodge, Scott A. and Dubay, Curtis S., 'Stock Market Investing: Good Enough for Public Employee and Union Pension Funds', 2 February 2005. Available at: <<http://taxfoundation.org/news/printer/111.html>>

<sup>11</sup> California Public Employees' Retirement System, 'Global Proxy Voting Guidelines', 19 March 2001, revised 9 June 2005. Available at: <<http://www.calpers-governance.org/principles/global/globalvoting.pdf>>

<sup>12</sup> Value as of July 31, 2005. Available at: <<http://www.state.ct.us/ott/pensiondocs/fundperf/fundperformance.pdf>>

<sup>13</sup> State of Connecticut, Office of the Treasurer, 'Global Proxy Voting Policies', 10 May 2000. Available at: <<http://www.state.ct.us/ott/pensiondocs/proxyvoting/globalvotingpolicies.PDF>>



<sup>14</sup> NCPERS, Model Proxy Voting Guidelines, 4 December 2004. Available at:  
<[http://www.ncpers.org/artman/uploads/ncpers\\_model\\_proxy\\_voting\\_guidelines.pdf](http://www.ncpers.org/artman/uploads/ncpers_model_proxy_voting_guidelines.pdf)>

<sup>15</sup> OPSEU Pension Trust, 'History and Profile'. Available at:  
<[http://www.optrust.com/aboutus/history\\_profile.asp](http://www.optrust.com/aboutus/history_profile.asp)>

<sup>16</sup> OPSEU Trust, 'Proxy Voting Guidelines'. Available at:  
<<http://www.optrust.com/investments/proxy.pdf>>

<sup>17</sup> This account is based mostly on: Linda Crompton and Meg Voorhes, 'Using Corporate Engagement to Raise Firm-Level Standards: Six Case Studies of Pension Fund Activism in the United States', Investor Responsibility Research Center, 15 November 2002.

<sup>18</sup> Welsh, Heidi, 'Fair Employment in Northern Ireland', IRRC Northern Ireland Service 2003 Background Paper, March 2003, Investor Responsibility Research Center. Available at:

<<http://www.irishnationalcaucus.org/pages/MacBride/IRRC%20Report%20on%20Fair%20Employment%20January%202003.htm>>

<sup>19</sup> New York City Office of the Comptroller, Press Release: 'NYC Pension Funds Urge Alberto Culver to Adopt MacBride Principles to Ensure Equal Opportunity' 15 August 2005. Available at:

<[http://www.comptroller.nyc.gov/press/2005\\_releases/PR05-08-092.shtm](http://www.comptroller.nyc.gov/press/2005_releases/PR05-08-092.shtm)>

<sup>20</sup> New York City Office of the Comptroller, 'A Report on the 2004 Shareholder Proposals and Other Shareowner Initiatives of the New York City Pension Funds and Retirement Systems', Available at:

<[http://www.comptroller.nyc.gov/bureaus/bam/corp\\_gover\\_pdf/2004-shareholder-report.pdf](http://www.comptroller.nyc.gov/bureaus/bam/corp_gover_pdf/2004-shareholder-report.pdf)>

<sup>21</sup> Available at: <[http://www.comptroller.nyc.gov/press/pdfs/pr05-01-006\\_macbribe-principles.pdf](http://www.comptroller.nyc.gov/press/pdfs/pr05-01-006_macbribe-principles.pdf)>

**Summary** The Organisation for Economic Co-operation and Development (OECD) Guidelines are amongst the most comprehensive codes on corporate social responsibility. Although they are non-binding on companies, they are unique in that firstly, OECD member states<sup>1</sup> are obligated to promote them amongst companies operating from or within their borders and secondly, they were agreed upon multilaterally.

**Who?** The OECD is a grouping of 30 states that share a commitment to democratic government and a market economy. Most member states are industrialized. The Guidelines were originally negotiated in 1976 as part of the OECD Declaration on International Investment and Multinational Enterprises and were subsequently revised in 2000.

The Guidelines were negotiated by representatives from the respective governments, business associations, trade unions and some civil society organizations. The key Canadian interlocutors in this regard are the Canadian Council for International Business (CCIB), the Canadian Labour Congress (CLC) and the Confédération des syndicats nationaux (CSN).

The G8 affirmed support for the OECD Guidelines in 2003.

**Issues** Human rights, disclosure of information, anti-corruption, taxation, labor relations, environment, science and technology, consumer protection and suppliers/subcontractors.

**Overview & Operation** The Guidelines are meant to help multinational companies fulfill their social and regulatory expectations. They are also aimed at highlighting the contributions that multinationals can make to the economy, society and environment.

Outside of their preamble, the Guidelines do not make explicit reference to any international human rights instruments although they do obligate companies to respect human rights ‘consistent with the host government’s international obligations and commitments.’<sup>2</sup> Chapter four requires multinationals to respect the four fundamental labour rights (freedom of association, child labour, forced labour, non-discrimination), although again there is no reference to international instruments such as the ILO Conventions. The Guidelines reach beyond the four fundamental labour rights and detail obligations with respect to employee training, skills development in the host country, handling employee complaints, providing adequate prior notice for lay-offs and taking ‘adequate steps’ to ensure workplace health and safety. Missing is any reference to working

hours, living wages or employment contracts.<sup>3</sup>

Chapter five on the environment requires companies to adhere to a version of the precautionary principle, to set up an environmental management system and to improve environmental performance on an ongoing basis. Multinationals are also required to consult with community stakeholders who may be affected by the company's actions although this can be limited by considerations of cost, confidentiality and intellectual property rights. The anti-bribery chapter obligates companies to refrain from promising, giving or demanding any undue advantage to secure business either from private or public entities. Multinationals should also promote anti-bribery and anti-corruption both within and outside the organization.

Governments are obliged to promote the Guidelines amongst enterprises operating from or within their territory. There are three elements involved in the operation of the Guidelines. First, each government must create a National Contact Point (NCP). Interested parties can point out alleged violations of the Guidelines to the NCP which is in turn obliged to attempt to resolve the dispute. In Canada the NCP is an interdepartmental committee of the federal government consisting of representatives from Foreign Affairs Canada and International Trade Canada, Industry Canada, Human Resources Development Canada, Environment Canada, Natural Resources Canada, the Department of Finance and the Canadian International Development Agency. The NCP essentially facilitates a forum for discussion. It must consider all complaints and must disclose its reasons if it refuses to do so. If no resolution is reached, the NCP must publicly make recommendations determining whether a corporation is in breach of the Guidelines.

Second, the Guidelines are overseen by the OECD Committee on International Investment and Multinational Enterprises (CIME). The Committee is responsible for promoting and clarifying the Guidelines. The third element are the advisory committees of the business and labour federations (BIAC and TUAC) as well as NGOs.

The OECD Guidelines are gradually becoming an 'established part of the global architecture of standards for business.'<sup>4</sup> In addition to being employed by investors in shareholder resolutions, proxy voting guidelines and as benchmark criteria for positive/negative screens, they are increasingly being used in formal regulatory frameworks. For example, in France and the Netherlands companies applying for export credits must pledge to abide by the OECD Guidelines (see 'The OECD Guidelines in Corporate Engagement' section below). Moreover, they are being used in bilateral investment treaties and were used in the BTC oil pipeline's 'joint statement' regarding human rights, labour and environmental standards.<sup>5</sup>

## Strengths

- Comprehensive: The Guidelines address a broad range of a multinational's social and environmental performance, especially after 2000 revision.
- Multi-lateral: The Guidelines were negotiated by governments, business associations, trade unions and NGOs
- Dispute resolution: Although not legally binding, the Guidelines are unique in creating an obligation on OECD governments to create the NCP network in order to promote the Guidelines and to resolve alleged breaches.
- Geographically unlimited: the Guidelines apply to the worldwide operations of OECD-based corporations.
- Supply chain responsibility: the Guidelines make multinationals responsible (albeit in a limited sense) for abuses by their suppliers.

## Weaknesses

- Too minimal: Many in the academy and civil society see the Guidelines as representing only a 'floor' of acceptable corporate conduct.<sup>6</sup>
- Too general: Some businesses have criticized the Guidelines as being too general to guide their day-to-day behavior.<sup>7</sup>
- Lack of reference to international instruments: Encompassing the above two critiques, many see the Guidelines' failure to refer to instruments such as the ILO Conventions, the Rio Declaration or to the Universal Declaration of Human Rights. (Such instruments are only mentioned in the preface and create no obligation upon companies to respect the principles elucidated therein.)<sup>8</sup>
- Linkage with other tools unclear: Since the Guidelines are being taken up by companies as an 'externally legitimized overarching code of practice' it is essential to understand its potential linkages with other instruments such as ISO 14001, the UN Norms or the EITI.<sup>9</sup>
- Address only multinationals: Some have pointed out that strictly domestic companies are not included in the Guidelines. Nonetheless, the Guidelines do explicitly state that they are equally applicable to domestic and multinational enterprises.<sup>10</sup>
- Weak investigatory, monitoring and reporting mechanisms: '[M]any of the operational aspects that civil society organisations perceive as essential for the credibility of the CSR initiatives are lacking in this instrument.'<sup>11</sup>
- Legitimacy gap: As a grouping of mostly industrialized countries, the OECD lacks the universal legitimacy of the UN.
- Problems with NCPs: Five years after the NCPs were created in 2000, NGOs and labour groups have found them to be unresponsive and unaccountable. This criticism extended to most NCPs including that of Japan, Korea, US, Ireland and Spain. Moreover, the NCPs did not do enough to promote the Guidelines. The Canadian NCP has been similarly criticized e.g. a case raised

by a trade union in November 2004 concerning UMP Kymmene was still not addressed six months later.<sup>12</sup>

**Relationship with other instruments** The OECD Guidelines are seen as complimentary to the Global Reporting Initiative (GRI). While the former is a code of conduct, the latter is a sustainability reporting framework. Thus, the GRI indicators can be used to measure and report on behavior that the Guidelines endeavor to encourage. The GRI has published a guide that matches the Guideline's principles with potential GRI indicators.<sup>13</sup>

**Comments** 'The OECD Guidelines for Multinational Enterprises are the closest thing we have to an comprehensive global corporate code of conduct. It is a key reference point of international norms for business.' World Business Council for Sustainable Development<sup>14</sup>

'They are the only multilaterally endorsed and comprehensive rules that governments have negotiated, in which they commit themselves to help solve problems arising in corporations.' Trade Union Advisory Committee<sup>15</sup>

'As a multilaterally agreed standard the OECD Guidelines are extremely slow to change, and should therefore be viewed as a minimum benchmark upon which other specialist standards can be built. Compliance with the OECD guidelines is certainly necessary but not sufficient to meet the needs of either businesses or their stakeholders.' World Business Council for Sustainable Development<sup>16</sup>

'[A]n increasing number of civil society organisations feel that the [Guidelines] should at least be tested and that the procedure does provide some form of addressing the issue at Governmental level. There have also been examples reported where positive actions were taken by companies after complaints were raised against them.' Joris Oldenzel<sup>17</sup>

**Companies involved** Companies such as Philips, Intel, Imperial Tobacco, Roche have publicly acknowledged the Guidelines and employed them in formulating an approach to CSR.

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**Key Resources** <http://www.tuac.org/publicat/guidelines-EN.pdf>

### **The OECD Guidelines in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
British Columbia Investment Management Corporation	\$67.3 billion <sup>18</sup> (about three-quarters of this is public sector pension funds)	Voting Proxy Guidelines states that companies are expected to act in accordance with the OECD Guidelines. <sup>19</sup>
Communications, Energy and Paperworkers' Union of Canada		In November 2004, the Union contacted Canada's NCP to review Guidelines breaches by the Finland-based UPM Kymmene. The company had announced the closure of a pulp mill and was uncooperative in negotiating a renewal of the collective agreement. Moreover, union leaders had been suspended by for their trade union work.
F&C Asset Management (UK)	£127.6 billion <sup>20</sup>	In its Statement of Principles, F&C states that its corporate social responsibility practices are guided by 'generally accepted international standards', amongst others, the OECD Guidelines. <sup>21</sup>
Fonds Bâtirente	\$587 million <sup>22</sup>	Affirms commitment to the OECD Guidelines. <sup>23</sup>
France, Netherlands	N/A	Companies must declare support for the Guidelines in writing to be eligible for taxpayer-funded export credit guarantees in both countries.
JustPensions	N/A	In recommendations drafted by Rory Sullivan and Craig MacKenzie, Just

		Pensions recommends that pension funds include the OECD Guidelines in their proxy voting guidelines. <sup>24</sup>
Shareholder Association for Research and Education (SHARE)	N/A	Share recommends that pension funds include the OECD Guidelines in their proxy voting guidelines.
Trade unions in Czech Republic, Finland and Sweden	N/A	Lobbying governments to link the provision of export credits to national companies to compliance with the Guidelines (see France, Netherlands below).
Trade Union Advisory Committee	N/A	Suggests that pension fund trustees use the Guidelines as ‘benchmark criterion’ or as the basis of shareholder resolutions. <sup>25</sup>
Trade Unions in European Union	N/A	Demanded that reference to the Guidelines be made in bilateral investment treaties with non-EU countries. Accordingly, in the text of its free trade agreements, the EU and the other signatories ‘jointly remind their multinational enterprises of their recommendation to observe the OECD Guidelines wherever they operate.’ <sup>26</sup>
United Steelworkers and Transport & General Workers Union (UK)		Asked their respective NCPs to investigate Imerys for abusive workplace conduct. <sup>27</sup>
Various trade unions <sup>28</sup>	N/A	In total, trade unions around the world have brought 60 cases before the various NCPs.

**Case Brief:** Trade union movement

The following is an excerpt from an article in May 2005 by the Global Union Research Network<sup>29</sup> regarding the use of the OECD Guidelines by trade unions:

‘Despite the fact that not all NCPs are performing adequately, trade unions are still using the Guidelines. When part of a negotiating strategy or a campaign, the Guidelines become an additional instrument to put pressure on a company. In some of the cases concerning restructuring, the Guidelines have been used to obtain a better result in the negotiations with the employer. The Guidelines, however, cannot prevent a company from closing down a plant. The Brylane/PPR case [see excerpt below for details] is an example of

a Guidelines case being part of a campaign against a company, which ended successfully with the union gaining recognition....

Based on our experiences with the Guidelines, we would draw the following lessons. First, a trade union must be clear over the goal when raising a case. What does it want to achieve by raising a case? What is the likely outcome? Before putting time and resources into a case, the union should be aware of the possibilities and not have unrealistic expectations. The Guidelines are not the ultimate solution, but they can play a role in addressing corporate malpractice. Secondly, cases must be well prepared. Although the implementation procedure is not juridical, cases should be well documented. A submission should explain how the Guidelines have been violated. Thirdly, we need to improve inter-trade union co-operation when raising cases. It is important that relevant national and international organisations, notably the Global Union Federations, are informed and that cases that concern several countries are co-ordinated. Fourthly, the Guidelines are essentially a tool for social dialogue. They could be used more proactively in contacts with companies. Two framework agreements currently refer to the Guidelines. Fifthly, the Guidelines need to be linked to other strategies. They should form minimum requirements for corporate conduct. Governments should ensure that the Guidelines are respected in public procurement and only companies that observe the Guidelines should be eligible for public subsidies.’

The Brylane/PPR case cited above is discussed below<sup>30</sup>:

‘The conduct of Brylane Inc, a US subsidiary to the French Pinault-Printemps-Redoute (PPR), was raised with the US NCP in the beginning of July 2002 by the US trade union organisations UNITE and AFL-CIO. It was also brought to the attention of the French NCP by the CFDT, CGT and FO. In addition, the FNV raised the case with the Dutch NCP on the grounds that PPR also owned Gucci, which was headquartered in the Netherlands. The same case was also submitted to the Austrian NCP in October by the Austrian Clean Clothes Campaign.

The reason for the case was that Brylane did not respect the employees’ right to organise. In response to the workers’ efforts to form a trade union, it was alleged that Brylane initiated a campaign of harassment and intimidation. The US NCP contacted the French NCP about the case, while the Dutch NCP replied that the case was not relevant to the Dutch NCP. Likewise, the Austrian NCP did not find the case admissible in the Austrian NCP. In November, UNITE renewed its request to the US NCP as it had not received a response. UNITE withdrew the case in January 2003 after it had reached an agreement with Brylane to have a card check ballot to determine whether the employees wanted to be represented by UNITE or not. UNITE won the card check ballot on 29 January, and later a collective bargaining agreement was signed. Despite the passivity of the US NCP, the case helped to enable PPR to get Brylane to comply with the Guidelines.’

## **Notes**

<sup>1</sup> OECD member states include: Austria, Belgium, Canada, Denmark, France, Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, the United States, Japan, Finland, Australia, New Zealand, Mexico, the Czech Republic, Hungary, Poland, Korea and the Slovak Republic. Moreover, non-OECD members including Argentina, Brazil and Chile, Estonia, Israel, Lithuania and Slovenia have also adopted the Guidelines.

<sup>2</sup> OECD Guidelines, Chapter 2, paragraph 2.



- <sup>3</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 8. Available at: [http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)
- <sup>4</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 16. Available at: <http://www.wbcsd.org/web/publications/accountability-codes.pdf>
- <sup>5</sup> Smith, Gare, 'The BTC Pipeline Case Study: Following Through on Global Compact Commitments', in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, pp. 69-80. Available at: [www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)
- <sup>6</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 16. Available at: <http://www.wbcsd.org/web/publications/accountability-codes.pdf>
- <sup>7</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 16. Available at: <http://www.wbcsd.org/web/publications/accountability-codes.pdf>
- <sup>8</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 8. Available at: [http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)
- <sup>9</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 16. Available at: <http://www.wbcsd.org/web/publications/accountability-codes.pdf>
- <sup>10</sup> OECD Guidelines, Chapter 1.
- <sup>11</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 9. Available at: [http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf).
- <sup>12</sup> <http://www.tuac.org/statemen/communiq/ncpsbmssnjune2005E.pdf>
- <sup>13</sup> Global Reporting Initiative, 'Synergies between the OECD Guidelines for Multinational Enterprises (MNEs) and the GRI 2002 Sustainability Reporting Guidelines', June 2004. Available at: <http://www.globalreporting.org/about/OECDsynergies.pdf>
- <sup>14</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 16. Available at: <http://www.wbcsd.org/web/publications/accountability-codes.pdf>
- <sup>15</sup> TUAC, 'A Users Guide for Trade Unionists to the OECD Guidelines for Multinational Enterprises', Available at: <http://www.tuac.org/publicat/guidelines-EN.pdf>
- <sup>16</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 16. Available at: <http://www.wbcsd.org/web/publications/accountability-codes.pdf>
- <sup>17</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 8. Available at: [http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)
- <sup>18</sup> Funds under management as of 31 March 2005. Available at: <http://www.bcimc.gov.bc.ca/about/companyprofile.asp>
- <sup>19</sup> British Columbia Investment Management Corporation, 'Corporate Governance and Proxy Voting Guidelines', October 2003. Available at: <http://www.bcimc.gov.bc.ca/publications/pdf/ProxyVotingGuidelines.pdf>
- <sup>20</sup> Funds under management as of 30 June 2005. For updated figures see: <http://www.fandc.com/aboutus.asp?pageID=1.1.2>
- <sup>21</sup> F&C Asset Management, 'Statement of Principles' in Annual Report 2004, p. i. Available at: [http://www.fandc.com/uploadfiles/co\\_gen\\_csr\\_annual\\_report\\_2004.pdf](http://www.fandc.com/uploadfiles/co_gen_csr_annual_report_2004.pdf)
- <sup>22</sup> Fonds Bâtirente, Communiqué to Members, 22 June 2005. Available at: [http://www.batirente.qc.ca/en/pdf/CRA795A\\_200506v3.pdf](http://www.batirente.qc.ca/en/pdf/CRA795A_200506v3.pdf)
- <sup>23</sup> Fonds Bâtirente, Annual Report 2004. Available at: <http://www.batirente.qc.ca/en/pdf/AnnualReport2004.pdf>

<sup>24</sup> JustPensions, 'Model Statement of Investment Principles and Implementation Policy - Responsible Investment', April 2005. Available at: <<http://www.uksif.org/J/Z/Z/lib/2005/files/04/jp-trtk/jp-trusteetoolkit-2005-SIP.pdf>>

<sup>25</sup> Nilsson, Veronica, 'The OECD Guidelines for MNEs as a Tool for Pension Fund Trustees and Shareholder Resolutions', *Pension News*, 3, Canadian Labour Congress, March 2003, p. 13.

<sup>26</sup> Aaronson, Susan Ariela, 'Minding Our Business: What the United States Government has done and can do to Ensure that U.S. Multinationals Act Responsibly in Foreign Markets', 59(1), June 2005, p. 184.

<sup>27</sup> United Steelworkers (USW), Press Release: 'United Steelworkers Teams Up With UK Union, Trade Union Federations To Expose Imerys' Anti-worker Conduct', 29 April 2005.

<sup>28</sup> See TUAC web-site for details: <[www.tuac.org/statemen/communiq/ListofcasesMai5e.pdf](http://www.tuac.org/statemen/communiq/ListofcasesMai5e.pdf)>

<sup>29</sup> 'The OECD Guidelines for Multinational Enterprises', *International Union Rights*, 12(1), 2005. Available at: <[http://www.gurn.info/topic/oecdgdl/art\\_iur05.pdf](http://www.gurn.info/topic/oecdgdl/art_iur05.pdf)>; Also see the Global Union Research Network's page on the OECD Guidelines at: <<http://www.gurn.info/topic/oecdgdl/>>

<sup>30</sup> 'TUAC Internal Analysis of Treatment of Cases Raised with National Contact Points', February 2005, p. 9. Available at: <<http://www.tuac.org/statemen/communiq/listofcasesFeb05WithAnnexes.pdf>>



## Social Accountability 8000

**Summary** The SA8000 standard is a voluntary global auditable code on labour standards that can be employed for all sectors.

**Who?** SA8000 was developed in 1996 by the non-profit Social Accountability International (SAI) through an international multi-stakeholder process. SAI's Board of Directors have a fiduciary duty to govern SA8000 and have appointed an Advisory Board comprised of representatives from business, civil society organizations, trade unions, socially responsible investors and government. The Maquila Solidarity Network is currently the lone Canadian representative on the Advisory Board.<sup>1</sup>

The SA8000 system became fully operational in 1998.

**Issues** Labour standards, facility certification, assurance

**Overview & Operation** SA8000 attempts to overcome many of the difficulties associated with ensuring respect for labour standards down the supply chain. It is based on ILO conventions, the Universal Declaration of Human Rights, the UN Convention on the Rights of the Child and ISO management system standards. The ILO conventions provide the basis for the definitions and management systems that enable the creation of an auditable system aimed at ensuring that certain labour standards are met. The standard is applicable to firms of differing sizes, in different sectors and in any location.

SA8000 sets standards for child labour, forced labour, health and safety, freedom of association and the right to collective bargaining, discrimination, disciplinary practices, working hours and compensation. Adhering companies must create a Social Management System to ensure both compliance and continuous development.<sup>2</sup> In those jurisdictions where unionization is restricted, SA8000 encourages incremental change, communication between workers and management, and enables space for workers to protect their rights and interests.

The certification process begins with an internal assessment followed by the requisite management and policy changes identified by that initial assessment. At this stage the assessment audit is conducted. This is followed by a full facility certification every three years in addition to surveillance audits every 6 to 12 months depending on previous compliance and performance. Companies can choose to get involved in the Corporate Involvement Program to further develop their evaluation, implementation and external communication tools. This option includes annual progress reports verified by SAI.

SA8000 auditors are certification firms and NGOs that have been accredited by SAI. The process of accreditation firstly involves an office audit including interviews with staff (at the applicant's office). This is followed by observation of auditors conducting a SA8000 audit and periodic surveillance audits thereafter. Accreditation is valid for three years. Responsibility for the accreditation process rests with the SAI Accreditation Review Panels (including members of the Advisory Board).

Any individual or organization can lodge a complaint with SAI regarding practices at a certified facility.

**Strengths**

- Auditable: SA8000 has succeeded in both developing and implementing (through verification systems and quality training programs for facility managers and auditors) an auditable code that enables 'rigorous compliance auditing at factory level.'<sup>3</sup>
- Connection to management systems: SA8000 enables management systems to embed the standard into company policy and operations. It helps establish 'training programmes, communications, elected representatives, management representatives, clear lines of authority, management reviews, control of suppliers and planning and policies.'<sup>4</sup>
- Support from the international trade union movement and civil society<sup>5</sup>: SA8000 auditable approach is welcomed. In addition, its normative base (ILO conventions, UN instruments) is seen as legitimate.

**Weaknesses**

- Biased towards larger corporations: Due to the costs associated with compliance, SA8000 is less feasible for smaller and medium sized enterprises. Moreover, the SA8000 does not require multinational companies to pay for audits at supplier facilities.
- Questions regarding integration with existing management systems: Not clear whether SA8000 can be used by retailers to foster the necessary changes within the manufacturer and down the supply chain and not just at site facilities.
- Limited adoption by mass-market retailers: amongst others, two key issues preventing wider adoption is confusion about standards and a demand for low implementation costs.

**Relationship with other instruments**

Instruments that also aim to ensure labour standards through verification against a code include the UK-based Ethical Trading Initiative and the Clean Clothes Campaign. SAI is working with organizations such as the Fair Labor Organization and the Ethical Trading Initiative on exploring opportunities for convergence amongst the different approaches.<sup>6</sup>

While SA8000 and AA1000 are similar in their methodological approach

, the AA1000 allows the organization decide the scope of the system (including or precluding some labour issues) and emphasizes a stakeholder engagement approach to accounting, auditing and reporting issues.<sup>7</sup>

The GRI views SA8000 as a complementary tool. The latter tool focuses on labour conditions unlike the wider scope of the GRI. SA8000 provides a verification and reporting mechanism whereas the GRI focuses on standardizing a sustainability reporting framework. SAI and the GRI are currently developing a joint reporting tool.

SAI views SA8000 as being highly complementary with the Global Compact principles.<sup>8</sup>

**Comments**

‘Integration with internal business management processes is a key challenge. SA8000 has succeeded in developing the code, audit procedures and training for verifiers (including collaborative training with trade unions and NGOs) to enable rigorous compliance auditing at factory level. However, for companies at the retailing end of the supply chain the key question is whether such a system is able to enable necessary changes both within the manufacturer and along the supply chain.’ World Business Council for Sustainable Development<sup>9</sup>

‘The provisions in the SA8000 code are stronger and their language more detailed and precise than those of company codes and most other multi-stakeholder codes, such as that of the Fair Labour Association (FLA).’ Maquila Solidarity Network<sup>10</sup>

**Companies involved**

Most companies adopting SA8000 are either retail or manufacturing (clothing, toys and shoes) operations. Companies with well-known brands are especially interested. Since it was based on ISO management systems, SA8000 is well suited to IS 14001 and ISO 9000 certified.<sup>11</sup>

The over 120 companies in 27 countries adopting SA8000 have total annual revenues of \$106 billion.<sup>12</sup> At mid 2005, about 710 production facilities in 45 countries with 436,000 workers had been certified.<sup>13</sup> This includes 99 facilities in China.

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## SA8000 in Corporate Engagement

<u>Institution</u>	<u>Assets</u>	<u>Manner employed</u>
New York City Pension Funds <sup>14</sup>	US\$ 87 billion <sup>15</sup>	In 2001 and 2002, the Funds proposed over a dozen resolutions based on the SA8000 standard. See below for example.
New York City Pension Funds	US\$ 87 billion	The Funds are a member of the SAI Advisory Board.
Winslow Management Company	\$215 million	Votes for shareholder proposals suggesting companies implement the SA8000 standard. <sup>16</sup>

### Shareholder Proposal example<sup>17</sup>

**Filed with: Lowe's Companies, Inc.**

**Filed by: New York City Pension Funds**

Date filed: April 16, 2001

Annual Meeting date: May 25, 2001

The third proposal to be voted upon at the Annual Meeting asks the shareholders to consider a proposal of the Comptroller of the City of New York, as custodian and trustee of the New York City Teachers' Retirement System (the "System"), 1 Centre Street, New York, NY 10007-2341, owner of 1,361,292 shares, who has notified the Company in writing of the System's intent to present the following resolution at the Annual Meeting:

"Whereas, Lowe's Companies, Inc. currently has extensive overseas operations, and

Whereas, reports of human rights abuses in the overseas subsidiaries and suppliers of some U.S.-based corporations has led to an increased public awareness of the problems of child labor, "sweatshop" conditions, and the denial of labor rights in U.S. corporate overseas operations, and

Whereas, corporate violations of human rights in these overseas operations can lead to negative publicity, public protests, and a loss of consumer confidence which can have a negative impact on shareholder value, and

Whereas, a number of corporations have implemented independent monitoring pilot programs with respected local human rights and religious organizations to strengthen compliance with international human rights norms in selected supplier factories, and

Whereas, the Council on Economic Priorities has established a program of independent monitoring known as the SA8000 Social Accountability Standards, and

Whereas, these standards incorporate the conventions of the International Labor Organization (ILO) on workplace human rights which include the following principles:

1. All workers have the right to form and join trade unions and to bargain collectively. (ILO Conventions 87 and 98)
2. Workers representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to enable them to carry out their representation functions. (ILO Convention 135)
3. There shall be no discrimination or intimidation in employment. Equality of opportunity and treatment shall be provided regardless of race, color, sex, religion, political opinion, age, nationality, social origin, or other distinguishing characteristics. (ILO Convention 100 and 111)
4. Employment shall be freely chosen. There shall be no use of force, including bonded or prison labor. (ILO Conventions 29 and 105)
5. There shall be no use of child labor. (ILO Convention 138), and,

Whereas, independent monitoring of corporate adherence to these standards is essential if consumer and investor confidence in our Company's commitment to human rights is to be maintained,

Therefore, be it resolved that the Company commit itself to the full implementation of the aforementioned human rights standards by its international suppliers and in its own international production facilities and commit to a program of outside, independent monitoring of compliance with these standards."

## **Notes**

<sup>1</sup> Social Accountability International, 'About SAI'. Available at: <<http://www.sai-intl.org/AboutSAI/Boards.htm>>

<sup>2</sup> Gobbels, Math and Jonker, Jan, 'AA1000 and SA8000 compared: a systematic comparison of contemporary accountability standards', *Managerial Auditing Journal*, 18(1), 2003, p. 56.

<sup>3</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 30. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>4</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 156.

<sup>5</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 30. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>6</sup> Social Accountability International, 'Other Standards'. Available at: <<http://www.sai-intl.org/index.cfm?fuseaction=Page.viewPage&pageId=507&parentID=473>>

<sup>7</sup> Gobbels, Math and Jonker, Jan, 'AA1000 and SA8000 compared: a systematic comparison of contemporary accountability standards', *Managerial Auditing Journal*, 18(1), 2003, p. 56.

<sup>8</sup> Social Accountability International, 'Other Standards'. Available at: <<http://www.sai-intl.org/index.cfm?fuseaction=Page.viewPage&pageId=507&parentID=473>>

<sup>9</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 30. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>10</sup> Maquila Solidarity Network, 'Can Commercial Auditing Promote Worker Rights?', August 2001. Available at: <<http://www.maquilasolidarity.org/resources/codes/memo8.htm#A>>

<sup>11</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 156.

<sup>12</sup> AccountAbility, International Standards for Corporate Responsibility. Available at: <<http://www.accountability.org.uk/resources/default.asp?pageid=74>>

<sup>13</sup> Social Accountability International, figures as of 30 June 2005. Available at: <<http://www.sai-intl.org/index.cfm?fuseaction=document.showDocumentByID&nodeID=1&DocumentID=60>>

<sup>14</sup> These include five different New York City employee pensions funds: New York City Employees' Retirement System (NYCERS); the Teachers' Retirement System of the City of New York (TRS), the New York City Police Pension Fund Subchapter 2 (POLICE); New York City Fire Department Pension Fund Subchapter Two (FIRE); and the New York City Board of Education Retirement System (BERS).

<sup>15</sup> Value of the five funds as at March 31, 2005. Available at:

<[http://www.comptroller.nyc.gov/bureaus/bam/pension\\_funds.shtm](http://www.comptroller.nyc.gov/bureaus/bam/pension_funds.shtm)>

<sup>16</sup> Winslow Management Company, 'Proxy Voting Guidelines', 9 February 2005, p. 38. Available at:

<<http://www.winslowgreen.com/docs/company/Winslow%20Proxy%20Policy.pdf>>

<sup>17</sup> Available at: <[http://www.thecorporatelibrary.com/research/shareholder-](http://www.thecorporatelibrary.com/research/shareholder-proposals/FullText.asp?Company_ID=13756&Resolution_ID=649&Proxy_Season=2003)

[proposals/FullText.asp?Company\\_ID=13756&Resolution\\_ID=649&Proxy\\_Season=2003](http://www.thecorporatelibrary.com/research/shareholder-proposals/FullText.asp?Company_ID=13756&Resolution_ID=649&Proxy_Season=2003)>



## United Nations Global Compact



**Summary** The Global Compact is a multi-stakeholder voluntary initiative that UN Secretary-General Kofi Annan spearheaded in 1999. Participants pledge to abide by its ten principles, which are rooted in key international instruments.

**Who?** Announced by the Secretary-General at the World Economic Forum in Davos in 1999, the Global Compact was launched in July 2000. Enjoying the strong support of the Secretary-General, the Global Compact Office operates largely outside the UN bureaucracy.

**Issues** Human rights, labour standards, environment, corruption

**Overview & Operation** The GC principles are based on the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Rio Principles of Environment and Development, and with the addition of the tenth principle against corruption in 2004, the UN Convention Against Corruption. The GC brings together these pre-existing instruments and casts them as business commitments.

Like the UN Norms, the GC calls on companies to ‘support and respect’ human rights ‘within their sphere of influence’ in its first principle. The guidelines to the principles indicate that these rights are based on the UDHR which was elaborated in the International Covenant on Economic and Social Rights and the International Covenant on Civil and Political Rights. This includes basic rights such as life, liberty, security and freedom from torture, slavery, arbitrary arrest, of movement, of religion, of expression as well as a right to education, food, shelter and so forth. Some guidance is provided as to the definition of ‘sphere of influence’ but it is acknowledged that it is an emerging concept.

Principle 2 obligates companies to ensure that they are not complicit in human rights abuses. There are several levels of complicity: first-order (helping to design and implement policies that violate human rights), second-order (knowledge that products or services would be used for repression), third-order (indirectly benefiting from the repression.)<sup>1</sup>

The next four principles address labour rights and obligate companies to: (3) uphold the freedom of association and the right to collective bargaining, (4) eliminate forced labour, (5) abolish child labour, (6) eliminate discrimination. These are based on the ‘core labour standards’ identified by the 1998 International Labour Organization’s Declaration of Fundamental Principles and Rights at Work. There has been some controversy surrounding the selection and content of the core standards in

the Declaration – see the section in the ILO Declaration for more information. Principle 7 obliges businesses to take the ‘precautionary approach to environmental challenges’ that was proposed in the Rio Declaration. The ninth principle encourages the development of environmentally friendly technologies. Finally, the tenth principle, added in June 2004, calls on businesses to work against all forms of corruption.

The Global Compact is unique in that it is backed by governments and there is little debate regarding the legitimacy of its principles as the G8’s endorsement of the GC in 2003 illustrates. Nonetheless, it is non-binding and does not provide for any enforcement or monitoring mechanisms (as traditionally construed). Rather they are promotional in nature.

Companies join by sending a letter of support to the UN Secretary-General and publicly advocating its principles. Companies are expected to incorporate the principles into their day-to-day activities and culture and periodically submit a ‘communication in progress’, described below.

Supporters of the GC envision it as a learning forum. The underlying idea is to promote constructive policy dialogue and partnerships amongst corporations and civil society. To this end, the GC facilitates a web portal of case studies and examples of best practices, organizes annual conferences, arranges voluntary policy dialogues on specific themes such as HIV/AIDS or conflict management and supports the creation of national networks (note: there was no Canadian network established at the time of writing).

Within two years of joining the GC, companies must submit a ‘communication in progress’ or risk removal from the GC’s activities and right to use the logo and participate in events. A communication in progress entails a description of the company’s activities, a statement from an executive, discussion of how the company has implemented the principles and the outcomes. These submissions are in no way monitored by the Global Compact Office.

In 2004, due to ongoing criticism, a formal mechanism was established whereby complaints against a non-complaint company can be registered with the GC Office which then endeavors to resolve the matter. In any event, the Global Compact Office reserves the right to remove a company’s name from the list if they are found to have violated human rights although there appears to be no systematic approach in this regard.

The GC is governed through the Global Compact Office, its Advisory Council (appointed by the Secretary-General) and is affiliated with the ILO, UNEP, UNHCHR, UNIDO and UNDP.

## Strengths

- Generates arguments, evidence and publicity: Use the GC network to encourage and disseminate practices and ideas that illustrate that compliance with the principles is in best interests of corporations.
- Soft law is better than no law at all: Hard law closer to that envisioned in the UN Norms is not possible at the moment. Supporters of the GC de-emphasize the either/or regulatory versus voluntary approach to promoting CSR debate. The GC is seen as complementing rather than undermining other initiatives such as the UN Norms or OECD Guidelines which take a more quasi-regulatory approach.
- Existence of hyper-norms and learning network helps those corporations that truly want to change. Participation and networking provide practical guidance on how to implement the ten principles.
- Provides leverage to critics: Civil society organizations can employ a given company's public commitment to the Global Compact to demand action.
- Unintended consequences: Supporters argue that regardless of a corporation's initial motives for joining the GC, it could nonetheless encourage adoption of at least some good practices. 'Many supporters envision a creeping process of norm-creation...'

## Weaknesses

- Principles are insufficient and vague: By design, the GC principles are not specific criteria of performance. For example, amongst the labour principles, the only explicit reference to ILO standards is regarding the child labour convention.<sup>2</sup> There is no mention of standards of living wages, health and safety, hours of work and right to security of employment.<sup>3</sup>
- Guidelines for implementing them are vague: the commentary on implementing the principles is seen by some as lacking in detail.<sup>4</sup>
- No external verification: Many critics favour a robust verification system. The GC Secretariat indeed acknowledges that the principles are aspirational in nature.
- Blue-wash: Many in civil society and academia argue that corporations will sign up to the GC solely for public relations purposes in a 'reputation management' ploy.<sup>5</sup> Indeed, many argue that corporations are getting a 'free ride' and that the GC represents 'institutional capture' by big business.<sup>6</sup>
- Self-selection: Some critics contend that the GC will not create norm diffusion because participants are self-selecting and there are not enough major US players. Maximizing number of participants should not be initial goal – idea is too truly convince a few important ones.
- Reliance on Secretary-General Kofi Annan<sup>7</sup>: The GC has enjoyed the strong support of Mr. Annan which has enabled it to operate innovatively outside the UN bureaucracy. It is not clear that this

support will be forthcoming from a future Secretary-General.

**Relationship with other instruments** The Global Compact is seen as a complementary tool to other instruments of corporate social responsibility such as the OECD Guidelines for Multinational Enterprises and the various ILO conventions.<sup>8</sup> As previously noted, the Global Compact draws on the Universal Declaration of Human Rights, the ILO Declaration and the UN Convention Against Corruption.

**Comments** ‘The Compact was simply not what some wanted it to be, and explanations to the contrary were ignored. In recent years, a growing number of civil society organizations have accepted the idea that the Compact is not about monitoring and measurement, and that engagement through learning, dialogue and concrete actions could complement efforts to improve corporate social and environmental performance.’ Georg Kell, Global Compact Office<sup>9</sup>

‘It is a global amalgamation of strategic and wide public policy learning networks that cultivates integrative learning at both the organizational and network levels through interorganizational interaction.’ Georg Kell and David Levin<sup>10</sup>

‘While the aims of the Global Compact may be commended as admirable, its success in achieving consistent and systematic reform of corporate activity has been minimal.’ Lisa Whitehouse<sup>11</sup>

‘At the end of the day, the Global Compact is little more than an instrument of rhetoric. It has indeed raised awareness of the issues involved, both within the corporate world and the UN itself, which is an important first step, but it is no more than that.’ David Kinley & Junko Tadaki<sup>12</sup>

**Companies involved** There are over 2,270 companies involved from 80 countries. Several critics cite the lack of major US companies although there are a few exceptions such as Gap, Cisco Systems, Dupont, Hewlett-Packard, Pfizer, Nike and Starbucks.<sup>13</sup>

Canada appears to be under-represented with only 25 participants. These include: Nexen, Petro-Canada, Hudson’s Bay, Placer Dome, Talisman, Alcan and Barrick Gold.

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## The Global Compact in Corporate Engagement

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
ATP	E40.86	Uses Convention Watch, a SRI screening service developed by EIRIS that uses the GC as a framework. <sup>14</sup>
F&C Asset Management (UK)	£127.6 billion <sup>15</sup>	In its Statement of Principles, F&C states that its corporate social responsibility practices are guided by ‘generally accepted international standards’, amongst others, the Global Compact. <sup>16</sup>
Fonds de Reserve (France)		Asks fund managers whether companies invested in are compatible with GC <sup>17</sup>
Ontario Public Service Employees Unions (OPSEU)	\$10.5 billion <sup>18</sup>	Filed a 2003 shareholder proposal citing the GC with Sears Canada (see below).
New Zealand Superannuation Fund	NZ\$7 billion	Subscribed to Global Compact Plus, a research tool developed by Innovest Strategic Value Advisors to rank companies based on their adherence to the GC’s principles. <sup>19</sup>
Pen-Sam (Denmark)	E6.5 billion	Uses Convention Watch, a SRI screening service that uses the GC as a framework. <sup>20</sup>
Shareholder Association for Research and Education (SHARE)	N/A	The Vancouver-based SHARE has included the Global Compact as an important international standard to guide Canadian pension funds in voting their shares in its ‘Model Proxy Voting Guidelines’ <sup>21</sup> Pension funds should employ the Global Compact in encouraging companies to implement, monitor and report on progress on the ten principles.

## **Shareholder proposal example**

In 2003, the Ontario Public Service Employees Union along with several other shareholders filed a shareholder proposal with Sears Canada regarding working conditions at suppliers. The proposal appears below and includes references to the Global Compact, the ILO Declaration of Principles and Rights at Work and the OECD Guidelines for Multinational Enterprises.<sup>22</sup>

**Filed with: Sears Canada**

**Filed by: Working Enterprises, Real Assets Investment Management Inc. and the Ontario Public Service Employees Unions' Staff Pension Plan**

### SEARS CANADA BUYING POLICY

Whereas

Consumers continue to be seriously concerned about whether abusive working conditions and the absence of a living wage exist in facilities where the products they buy are produced or assembled (Crop, 1998) and are prepared to boycott retailers because of concerns about their ethics (Ipsos Reid, 2000);

The Company's shareholders are concerned about the potential for adverse financial effects on the Company and shareholder value as a consequence of failure to effectively monitor working conditions in facilities where the Company's goods are produced. Consumer boycotts, worker lawsuits, and divestiture or avoidance by institutional investors are often the response to revelations of abusive working conditions;

Violations of fundamental labour standards are widespread in the apparel manufacturing sector globally (ILO, 2000);

The Sears Buying Policy does not include key elements of the core labour standard of the International Labour Organisation, a tripartite body of business, labour and governments. For example, Sears Canada's policy permits suppliers to employ children younger than the ILO standard;

Our Company should disclose to shareholders information about how it manages these risks, including the names of firms hired as independent monitors, the frequency and scope of their monitoring, and a summary of their findings; and

Assurance that our Company has an effective code of conduct and monitoring process will increase its attractiveness to investors and consumers. Alternatively, uncertainty about the effectiveness of the Company's policy suggests that potential liabilities may be associated with Company activities;

### RESOLVED

That the Shareholders ask the Board of Directors to:

1. Amend the Sears Canada Buying Policy and standard purchase contracts to reflect fully the principles contained in the International Labour Organization (ILO) "Declaration on Fundamental Principles and Rights at Work";
2. Establish an independent monitoring process that assesses adherence to the amended Policy;
3. Report annually in writing on adherence to the amended Policy through an independent and transparent process, the first such report to be completed by January 2004.

### SUPPORTING STATEMENT

The ILO Declaration on Fundamental Principles and Rights at Work are the most broadly accepted international labour standards, based on the agreement of business, labour and government. The expectation that corporations will live up to this standard is embodied in the United Nations Global Compact and the OECD Guidelines for Multinational Corporations.

The ILO Declaration provides for:

- freedom of association and effective recognition of the right to collective bargaining;
- the elimination of all forms of forced or compulsory labour;
- the effective abolition of child labour and the protection of young workers; and
- the elimination of discrimination in respect of employment and occupation.

An effective code of conduct that protects the Company and its shareholders from adverse financial consequences would include:

- an independent and transparent monitoring program involving local religious, human rights and workers' organizations that are independent and well-respected;
- a transparent reporting process;
- incentives, rather than premature termination of contracts, to encourage suppliers to raise labour standards.

We urge shareholders to vote FOR this proposal.

## **Notes**

<sup>1</sup> Global Compact, 'UN Global Compact: A Primer on the Principles' in Fussler, C., Cramer, A. and van der Vegt, S. (eds), *Raising the Bar: Creating Value with the UN Global Compact*, Greenleaf Publishing, p. 19. Available at: <<http://www.greenleaf-publishing.com/pdfs/rtbprime.pdf>>

<sup>2</sup> Hemphill, Thomas A, 'Monitoring Global Corporate Citizenship: Industry Self-regulation at a Crossroads', *The Journal of Corporate Citizenship*, Summer 2004, 14, p. 88.

<sup>3</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 11. Available at:

<[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>; Kuper, Andrew, 'Harnessing Corporate Power: Lessons from the UN Global Compact', *Development*, 2004, 47(3), pp. 9-19.

<sup>4</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 11. Available at:

<[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>5</sup> Utting, P., 'The Global Compact and Civil Society: Averting a Collision Course', *UNRISD News*, 25, 2002, p. 32.

<sup>6</sup> Utting, P. *Business Responsibility for Sustainable Development*. New York: United Nations Research Institute for Social Development, 2002, p. ix.

<sup>7</sup> World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 7. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>

<sup>8</sup> Kell, Georg, 'The Global Compact Selected Experiences and Reflections', *Journal of Business Ethics*, June 2005, 59(1), p. 69.

<sup>9</sup> Kell, Georg, 'The Global Compact Selected Experiences and Reflections', *Journal of Business Ethics*, June 2005, 59(1), p. 69.

<sup>10</sup> Kell, Georg and Levin, David, 'The Global Compact Network: An Historic Experiment in Learning and Action', *Business and Society Review*, 108(2), 2003, pp. 154-55.

<sup>11</sup> Whitehouse, Lisa, 'Corporate Social Responsibility, Corporate Citizenship and the Global Compact: A New Approach to Regulating Corporate Social Power?', *Global Social Policy*, 3(3), December 2003, pp. 299-318.

<sup>12</sup> Kinley, David and Tadaki, Junko, 'From Talk to Walk: The Emergence of Human Rights Responsibilities for Corporations at International Law', *Virginia Journal of International Law*, 44(4), 2003-04, pp. 931-1024. Available at: <<http://209.238.219.111/Kinley-Tadaki.doc>>

<sup>13</sup> Figures as of 11 October 2005. Updated figures available at: <<http://www.unglobalcompact.org>>

<sup>14</sup> For more information on Convention Watch, see EIRIS at:

<<http://www.eiris.org/Files/Otherpublications/Convention%20Watch%20Briefing%20Paper.pdf>>

<sup>15</sup> Funds under management as of 30 June 2005. For updated figures see:

<<http://www.fandc.com/aboutus.asp?pageID=1.1.2>>

<sup>16</sup> F&C Asset Management, 'Statement of Principles' in Annual Report 2004, p. i. Available at:

<[http://www.fandc.com/uploadfiles/co\\_gen\\_csr\\_annual\\_report\\_2004.pdf](http://www.fandc.com/uploadfiles/co_gen_csr_annual_report_2004.pdf)>

<sup>17</sup> Skypala, Pauline, 'French pension fund leads the way on SRI', *Financial Times*, London, 25 July 2005, p. 3.

<sup>18</sup> OPSEU Pension Trust, 'History and Profile'. Available at:

<[http://www.optrust.com/aboutus/history\\_profile.asp](http://www.optrust.com/aboutus/history_profile.asp)>

<sup>19</sup> Innovest Group, 'Innovest launches Global Compact assessment tool', 23 September 2005. Available at:

<<http://www.innovestgroup.com/news.htm>>

<sup>20</sup> Cevik, Reeta, 'Ethical Screening for ATP', *European Pensions & Investments*, 25 April 2005. For more information on Convention Watch, see EIRIS at:

<<http://www.eiris.org/Files/Otherpublications/Convention%20Watch%20Briefing%20Paper.pdf>>

<sup>21</sup> SHARE, Proxy Voting Guidelines 2005. Available at:

<<http://www.share.ca/files/pdfs/2005%20Proxy%20Guidelines.pdf>>

<sup>22</sup> Text of proposal from SHARE at:

<<http://www.share.ca/files/pdfs/Sears%20Canada%20Labour%20Standards%202003%20Proposal.pdf>>





## **United Nations Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights**

**Summary** The Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights (the ‘Norms’) are the widest ranging instrument on human rights standards for multinational corporations. It is based on pre-existing international standards.<sup>1</sup>

**Who?** The Norms were adopted by the United Nations Sub-Commission on the Promotion and Protection of Human Rights in August 2003. The Sub-Commission was made up of 26 experts elected by the UN Commission on Human Rights.

The 53 state members of the UN Commission on Human Rights declined to adopt the Norms at its April 2004 meeting, opting instead to study and report the scope and legal status’ of existing corporate social responsibility instruments during the 61<sup>st</sup> session.

In an important reaffirmation, the February 2005 report<sup>2</sup> concluded that the Norms are a basis for addressing the gap in the understanding of businesses’ responsibilities with regard to human rights. On the basis of the report, in April 2005 the Commission requested that the Secretary-General appoint a special representative on human rights and transnational corporations.<sup>3</sup>

**Issues** Labour rights (collective bargaining, forced labour, child labour, working environment, adequate standard of living), security of persons, environmental protection (precautionary principle), corruption, consumer protection, development

**Overview & Operation** The preamble of the Norms makes reference to several dozen international conventions, standards, codes and other instruments from which they are derived. The novelty of the Norms is that while they allocate the primary responsibility of protecting human rights to states, they obligate companies to ensure the respect for human rights ‘within their respective spheres of activity and influence.’

Companies must exercise due diligence to avoid, directly or indirectly, violating human rights or benefiting from human rights violations. They must not undermine the rule of law and promote respect for human rights.

Because the Norms have not yet been adopted by the UN Commission on Human Rights, they have no formal legal status.<sup>4</sup> Even if adopted by the Commission, many – including the Government of Canada – argue that

they could not be binding on non-state actors such as multinational corporations.<sup>5</sup> But they may have legal effects because they are based on existing instruments or if they are referred to or used by national and international tribunals.<sup>6</sup>

Unlike other instruments, the Norms explicitly provide for implementation in section H. Companies are called on to implement and report on their business practices vis-à-vis the Norms. This obligates companies to create internal structures and contracts with a view to compliance and pay reparations for cases of non-compliance. The UN would play a monitoring and verification role. States would use national law to ensure corporate accountability.

### **Strengths**

The Norms have been widely praised in civil society by organizations such as Amnesty International and Human Rights Watch as well as Canadian-based NGOs such as Friends of the Earth (Canada), The North-South Institute, Rights & Democracy, World Vision Canada and Canadian Business for Social Responsibility.<sup>7</sup> Their main strengths are seen to be:

- **Comprehensiveness:** unlike most other instruments, the Norms involve a complete agenda for transnational companies.
- **Legitimacy:** the Norms are based on existing widely recognized UN, ILO and OECD conventions, standards and codes. Their novelty is that they outline the responsibilities of transnational corporations that spring from these instruments. They also benefit from the universal authority of the UN.<sup>8</sup>
- **Mandatory:** if formally adopted, the Norms would, in theory, establish mandatory standards to which multinationals could be held.<sup>9</sup>
- **Supply chain:** there is an explicit reference to supply chain responsibility ‘far beyond the weak phrasing of the OECD Guidelines.’<sup>10</sup>

### **Weaknesses**

Many multinational companies and their associations, such as the International Chamber of Commerce and the US Council for International Business have criticized the overall thrust of the Norms as shifting the obligation to protect human rights from governments to companies. Interrelated weaknesses include:

- **Contentious issues:** Several other rights and obligations cited by the Norms, such as the precautionary principle, have been criticized as not having been established as international law.<sup>11</sup> Another example is the demand that companies to pay wages that ‘ensure an adequate standard of living’ is widely contested in corporate, but also in academic, circles.

- Lack of detail: Several important sections of the Norms are seen as not sufficiently detailed and defined including the precautionary principle<sup>12</sup> and the operation of the monitoring or verification mechanism.<sup>13</sup>
- Encroachment: Many view certain sections of the Norms as superfluous since they are addressed in more detail in other instruments. These include corruption and anti-bribery (dealt with in the UN Convention Against Corruption) and environmental reporting (dealt with in the Global Reporting Initiative and ISO).
- Enforcement mechanism: weak and, in any case, the UN system is already over-stretched and therefore effectively fulfill in any verification or monitoring role.<sup>14</sup>
- No business input: There was limited consultation with businesses both during the drafting of the Norms and during the subsequent effort to ratify and implement them.

**Relationship with other instruments** The Office of the Global Compact views the Global Compact and the Norms as complementary. Indeed, some see the underlying purpose of the Norms as putting ‘into operation the two human rights principles of the UNGC.’<sup>15</sup> Moreover, the Norms are seen as operationalizing the Universal Declaration on Human Rights for businesses.<sup>16</sup>

**Comments** ‘The UN Norms provide clarity and credibility amidst many competing voluntary codes that too often lack international legitimacy, and provide for less detail on human right issues.’ Anthony Ewing<sup>17</sup>

‘The Norms will not, however, do much to clarify disputed questions about the obligations of multinationals.’ Detlev Vagts<sup>18</sup>

‘Whilst we welcome the comprehensive nature of the Norms, we note that some areas will certainly need greater clarification, in particular in relation to different industry sectors.’ Business Leaders Initiative on Human Rights<sup>19</sup>

‘We have a problem with the premise and the principle that the norms are based on... we see them as conflicting with the approach taken by other parts of the UN that seek to promote voluntary initiatives.’ Stefano Bertasi, International Chamber of Commerce<sup>20</sup>

**Companies involved** A group of companies including the Gap, Hewlett-Packard, MTV Networks Europe, The Body Shop, ABB, Novartis, Barclays Bank, and Statoil have formed the Business Leaders Initiative on Human Rights. This three-year programme, chaired by Former UN High Commissioner for Human Rights Mary Robinson, focuses on ‘road-testing’ the Norms but does not yet constitute a clear endorsement of the content or approach. This process of ascertaining how the Norms can be applied will continue until December 2006.<sup>21</sup>

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### **The Norms in Corporate Engagement**

<b>Institutional Investor</b>	<b>Assets</b>	<b>Manner employed</b>
Connecticut Retirement Plans and Trust Funds	US\$ 21.7 billion <sup>22</sup>	Filed shareholder proposals partly based on the UN Norms.
Connecticut Retirement Plans and Trust Funds	US\$ 21.7 billion	Co-wrote guide to sourcing standards, which urge endorses the UN Norms <sup>23</sup>
Ethical Funds Company	\$2 billion <sup>24</sup>	Refers to UN Norms in Proxy Voting Guideilnes. <sup>25</sup>
New York City Pension Funds <sup>26</sup>	US\$ 87 billion <sup>27</sup>	Shareholder Proposals (5 companies) <sup>28</sup> in 2004, 2005, agreement reached before vote
New York City Pension Funds	US\$ 87 billion	Co-wrote guide to sourcing standards, which urge endorses the UN Norms <sup>29</sup>

### **Case Brief:** New York City Pension Funds

The 2004 proxy season saw the first shareholder proposals that made mention of the UN Norms. The five New York City pension funds have been pioneering in this respect by submitting over a dozen such proposals. In 2005, the funds withdrew their proposals at four companies – VF Corporation, Flour Corporation, General Mills and Best Buy – after securing commitments to improve human rights policies. For example, in its response to the fund’s proposal Flour Corporation agreed ‘to address the basic tenets embodied in the International Labor Organization conventions on workplace human rights, as well as the United Nations’ Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights, as set forth in [the] proposal.’<sup>30</sup>

### **Shareholder Proposal example**<sup>31</sup>

**Filed with: Bausch & Lomb Incorporated**

**Filed by: New York City Employees Retirement System (NYCERS)**

Whereas, our company currently has extensive overseas operations, and

Whereas, reports of human rights abuses in the overseas subsidiaries and suppliers of U.S.-based corporations has led to an increased public awareness of the problems of child labor, “sweatshop” conditions, and the denial of labor rights in U.S. corporate overseas operations, and

Whereas, corporate violations of human rights in these overseas operations can lead to negative publicity, public protests, and a loss of consumer confidence which can have a negative impact on shareholder value, and

Whereas, a number of corporations have implemented independent monitoring programs with respected human rights and religious organizations to strengthen compliance with international human rights norms in subsidiary and supplier factories, and

Whereas, many of these programs incorporate the conventions of the International Labor Organization (ILO) on workplace human rights, and the United Nations’ Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights (“UN Norms”), which include the following principles:

1. All workers have the right to form and join trade unions and to Bargain collectively. (ILO Conventions 87 and 98; UN Norms, section D9).
2. Workers representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to enable them to carry out their representation functions. (ILO Convention 135; UN Norms, section D9)
3. There shall be no discrimination or intimidation in employment. Equality of opportunity and treatment shall be provided regardless of race, color, sex, religion, political opinion, age, nationality, social origin or other distinguishing characteristics. (ILO Conventions 100 and 111; UN Norms, section B2).
4. Employment shall be freely chosen. There shall be no use of force, including bonded or prison labor. (ILO Conventions 29 and 105; UN Norms, section D5).
5. There shall be no use of child labor. (ILO Convention 138; UN Norms, section D6), and,

Whereas, independent monitoring of corporate adherence to these internationally recognized principles is essential if consumer and investor confidence in our company’s commitment to human rights is to be maintained,

Therefore, be it resolved that the shareholders request that the company commit itself to the implementation of a code of conduct based on the aforementioned ILO human rights standards and United Nations’ Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights , by its international suppliers and in its own international production facilities, and commit to a program of outside, independent monitoring of compliance with these standards.

## **Notes**

<sup>1</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 107; World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 13. Available at: <<http://www.wbcds.org/web/publications/accountability-codes.pdf>>

<sup>2</sup> ‘Report of the United Nations High Commissioner on Human Rights on the responsibilities of transnational corporations and related business enterprises with regard to human rights’, 15 February 2005, E/CN.4/2005/91. Available at: <<http://www.ohchr.org/english/bodies/chr/docs/61chr/E.CN.4.2005.91.doc>>

<sup>3</sup> Economic and Social Council, Commission on Human Rights, 61<sup>st</sup> session, Agenda Item 17, 15 April 2005, E/CN.4/2005/L.87. Available at: <<http://209.238.219.111/UN-Commission-resolution-business-human-rights-Apr-2005.doc>>

<sup>4</sup> Fussler, C., Cramer, A. and van der Vegt, S. (eds), *Raising the Bar: Creating Value with the UN Global Compact*, Greenleaf Publishing, p. 38; Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 19. Available at: <[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>5</sup> Submission of Canada to the High Commissioner for Human Rights on the Responsibilities of Business Enterprises with regards to Human Rights. Available at: <<http://www.ohchr.org/english/issues/globalization/business/docs/canada.doc>>

<sup>6</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 29. Available at: <[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>7</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 107; World Business Council for Sustainable Development, *Issue Management Tool*, AccountAbility, October 2004, p. 12. Available at: <<http://www.wbcsd.org/web/publications/accountability-codes.pdf>>; Letter to the Minister of Foreign Affairs on UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to Human Rights, 23 March 2004. Available at: <[http://72.14.207.104/search?q=cache:vhRvIdD\\_\\_N8J:www.nsi-ins.ca/ensi/news\\_views/oped56.html+%22welcomed%22+NGOs+%22UN+Norms%22&hl=en](http://72.14.207.104/search?q=cache:vhRvIdD__N8J:www.nsi-ins.ca/ensi/news_views/oped56.html+%22welcomed%22+NGOs+%22UN+Norms%22&hl=en)>

<sup>8</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 22. Available at: <[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>9</sup> Ewing, Anthony P., 'Understanding the Global Compact Human Rights Principles' in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 94. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>10</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 18. Available at: <[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>11</sup> Thorsen, Sune Skadegaard and Meisling, Annemarie, 'Commentary on the UN Draft Norms', submitted for the IBA/AIJA conference on Corporate Social Responsibility, June 25-26, 2004, Amsterdam: Lawhouse.dk. Available at: <<http://www.lawhouse.dk/?ID=259>>; Submission of Canada to the High Commissioner for Human Rights on the Responsibilities of Business Enterprises with regards to Human Rights, paragraph 2.4. Available at: <<http://www.ohchr.org/english/issues/globalization/business/docs/canada.doc>>

<sup>12</sup> Thorsen, Sune Skadegaard and Meisling, Annemarie

<sup>13</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 19. Available at: <[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>14</sup> Oldenziel, Joris, 'The added value of the UN Norms: A comparative analysis of the UN Norms for Business with existing international instruments', Amsterdam: SOMO Centre for Research on Multinational Corporations, April 2005, p. 22. Available at: <[http://www.somo.nl/html/paginas/pdf/UN\\_Norms\\_report\\_2005\\_EN.pdf](http://www.somo.nl/html/paginas/pdf/UN_Norms_report_2005_EN.pdf)>

<sup>15</sup> Leisinger, M. Klaus, 'Business and Human Rights' in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 51. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>16</sup> Thorsen, Sune Skadegaard and Meisling, Annemarie, 'Commentary on the UN Draft Norms', submitted for the IBA/AIJA conference on Corporate Social Responsibility, June 25-26, 2004, Amsterdam: Lawhouse.dk. Available at: <<http://www.lawhouse.dk/?ID=259>>

<sup>17</sup> Ewing, Anthony P., 'Understanding the Global Compact Human Rights Principles' in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 34. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>18</sup> Vagts, Detlev F., 'UN Norms for Transnational Corporations', *Leiden Journal of International Law*, 16(4), December 2003, p. 795.

<sup>19</sup> Business Leaders Initiative on Human Rights, Submission to the Office of the UN Commissioner for Human Rights, 28 September 2004. Available at: <<http://www.blihr.org/Pdfs/The%20BLIHR%20submission%20to%20OHCHR.pdf>>

<sup>20</sup> Stefano Bertasi of the International Chamber of Commerce as quoted in Jonathan Birchall, 'UN Ethics Guidelines May Alarm Multinationals', *Financial Times*, 13 August 2003. Available at: <<http://www.globalpolicy.org/globaliz/law/intllaw/2003/0813unreg.htm>>

<sup>21</sup> Business Leaders Initiative on Human Rights. Available at: <<http://www.blihr.org>>

<sup>22</sup> Value as of July 31, 2005. Available at:

<<http://www.state.ct.us/ott/pensiondocs/fundperf/fundperformance.pdf>>

<sup>23</sup> 'Sourcing Standards: Concerns for Investors: Enhancing Shareholder Value through Supply Chain Monitoring and Reporting', September 2004. Available at:

<[http://www.iccr.org/news/press\\_releases/Business\\_Case\\_for%20Sourcing\\_Standards04.pdf](http://www.iccr.org/news/press_releases/Business_Case_for%20Sourcing_Standards04.pdf)>

<sup>24</sup> See Ethical Funds Company website at: <[http://www.ethicalfunds.com/do\\_the\\_right\\_thing/about\\_ef/](http://www.ethicalfunds.com/do_the_right_thing/about_ef/)>

<sup>25</sup> Proxy Voting Guidelines available at:

<[http://www.ethicalfunds.com/pdf2/sri/proxy\\_voting\\_guidelines.pdf](http://www.ethicalfunds.com/pdf2/sri/proxy_voting_guidelines.pdf)>

<sup>26</sup> These include five different New York City employee pensions funds: New York City Employees' Retirement System (NYCERS); the Teachers' Retirement System of the City of New York (TRS), the New York City Police Pension Fund Subchapter 2 (POLICE); New York City Fire Department Pension Fund Subchapter Two (FIRE); and the New York City Board of Education Retirement System (BERS).

<sup>27</sup> Value of the five funds as at March 31, 2005. Available at:

<[http://www.comptroller.nyc.gov/bureaus/bam/pension\\_funds.shtm](http://www.comptroller.nyc.gov/bureaus/bam/pension_funds.shtm)>

<sup>28</sup> For text of proposal see: [http://www.comptroller.nyc.gov/press/pdfs/pr05-08-098\\_Resolution-global-labor-standards.pdf](http://www.comptroller.nyc.gov/press/pdfs/pr05-08-098_Resolution-global-labor-standards.pdf) and <http://www.comptroller.nyc.gov/press/pdfs/pr05-05-061-shareholder-proposal.pdf>

<sup>29</sup> 'Sourcing Standards: Concerns for Investors: Enhancing Shareholder Value through Supply Chain Monitoring and Reporting', September 2004. Available at:

<[http://www.iccr.org/news/press\\_releases/Business\\_Case\\_for%20Sourcing\\_Standards04.pdf](http://www.iccr.org/news/press_releases/Business_Case_for%20Sourcing_Standards04.pdf)>

<sup>30</sup> New York City Comptroller's Office, 'Thompson: Four Corporations Agree with NYC Pension Funds' Resolutions Calling for Workplace Human Rights Policies; Press Release, 24 August 2005. Available at:

<[http://www.comptroller.nyc.gov/press/2005\\_releases/PR05-08-098.shtm](http://www.comptroller.nyc.gov/press/2005_releases/PR05-08-098.shtm)>

<sup>31</sup> Shareholder Proposal available at: <[http://www.iccr.org/shareholder/proxy\\_book05/MEMBER-INITIATED%20ISSUES/GLOBALHRSTANDARDS\\_NYC\\_Baus\\_5508.HTM](http://www.iccr.org/shareholder/proxy_book05/MEMBER-INITIATED%20ISSUES/GLOBALHRSTANDARDS_NYC_Baus_5508.HTM)>

## Universal Declaration of Human Rights

**Summary** ‘The Universal Declaration of Human Rights represents the most important value catalogue for human beings in all cultures and at all times. This declaration affirms that there are certain non-negotiable rights that are enjoyed by all people in all places at all times based simply on the fact that they are human beings. It is precisely in the context of globalization... that this common denominator is also of utmost importance to companies.’<sup>1</sup>

**Who?** The Universal Declaration was unanimously adopted by the then 49 member states of the United Nations General Assembly in 1948. This overwhelming support was echoed by the 171 states adopting the Vienna Declaration in 1993.<sup>2</sup>

**Issues** Human rights

**Overview & Operation** The crucial link between the human rights laid out in the Universal Declaration and corporate responsibility to safeguard them is found in the preamble: ‘every individual and every organ of society, keeping this Declaration constantly in mind, shall strive by teaching and education to promote respect for these rights and freedoms and by progressive measures, national and international, to secure their universal and effective recognition and observance . . .’ Hence, corporations are seen as an ‘organ of society.’<sup>3</sup>

The Universal Declaration denounces slavery, servitude, inhuman or degrading treatment or punishment, arbitrary arrest, detention and exile. It upholds the right to life, liberty, security and equal protection against discrimination. It safeguards key labour rights including: the right to work, to freedom of association, to free choice of employment, to just and favorable working conditions, to protection against employment discrimination, to equal pay for equal work, to just and favorable remuneration ensuring human dignity, to rest and leisure, and other means of social protection. The declaration safeguards the right to a standard of living including food, clothing, housing, medical care, necessary social services, unemployment security, disability, widowhood, old age and for other circumstances beyond the individual’s control.

**Strengths**

- Moral authority: the Universal Declaration enjoys unparalleled moral authority and is perhaps the most widely cited UN instrument.

**Weaknesses**

- Limited by its time and context: the Universal Declaration was strongly influenced by its major patrons (US and UK) and by the specific context in which it arose. This has resulted in an emphasis



on the individual and the nation-state with decreased focus on, for example, collective and indigenous rights.

**Relationship with other instruments** Many instruments of corporate social responsibility essentially operationalize the rights enshrined in the Universal Declaration. Instruments that refer to and derive legitimacy from the Universal Declaration including United Nations Global Compact, United Nations Norms on the Responsibilities of Transnational Corporations with Regard to Human Rights, SA8000, ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy amongst others.

In particular, the United Nations Norms on the Responsibilities of Transnational Corporation with Regard to Human Rights are viewed by many as an authoritative interpretation and operationalization of the Universal Declaration.

**Comments** ‘Our view is that the most credible basis for such standards is the framework provided by international law, in particular those instruments that have been established by the United Nations and widely ratified by governments. The most important of these are the Universal Declaration of Human Rights and the Rio Declaration on Environment and Development.’ Craig Mackenzie and Rory Sullivan<sup>4</sup>

‘The Universal Declaration is the internationally accepted framework for human rights... This framework should form the basis of a company’s human rights policy... Business should comply with each particular right.’ International Business Leaders Forum<sup>5</sup>

**Companies involved** Many companies have explicitly endorsed the Universal Declaration although there is no central body tracking such endorsements. Examples include BP and Occidental. Moreover, the group of companies that have formed the Business Leaders Initiative on Human Rights has chosen to take a ‘positive approach’ to their responsibilities under the Universal Declaration.<sup>6</sup> These include Hewlett-Packard, MTV Networks Europe, The Body Shop, ABB, Novartis, Barclays Bank and Statoil.

Moreover, all resource sector companies listed in the FTSE4Good index must publicly declare their commitment to the Universal Declaration.

**Contact details** Website: [www.unhchr.ch/udhr/index.htm](http://www.unhchr.ch/udhr/index.htm)  
[www.udhr.org](http://www.udhr.org)

### **The Universal Declaration in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
Convention Watch	N/A	This service, operated by Ethical

		Investment Research Services (EIRIS) ascertains whether companies are complying with the spirit of certain conventions including the Universal Declaration. <sup>7</sup>
Ethical Funds Company	\$2 billion <sup>8</sup>	Includes the Universal Declaration in its Proxy Voting Guidelines. <sup>9</sup>
F&C Asset Management	£127.6 billion <sup>10</sup>	In its Statement of Principles, F&C states that its corporate social responsibility practices are guided by ‘generally accepted international standards’, amongst others, the Universal Declaration. <sup>11</sup>
JustPensions	N/A	In recommendations drafted by Rory Sullivan and Craig MacKenzie, Just Pensions recommends that pension funds include the Universal Declaration in their Model Statement of Investment Principles. <sup>12</sup>
New York City Pension Funds <sup>13</sup>	US\$87 billion <sup>14</sup>	Employ the Universal Declaration in proposing shareholder resolutions. See an example of such a resolution below (filed with the Coca-Cola Company in 2005).
Shareholder Association for Research and Education (SHARE)	N/A	Includes the Universal Declaration in its model Proxy Voting Guidelines. <sup>15</sup>

### **Shareholder Resolution example:**<sup>16</sup>

**Filed by: New York City Employees Retirement System (NYCERS)**

**Filed with: Coca-Cola**

WHEREAS, Coca-Cola’s Latin American affiliate, Coca-Cola/FEMSA, operates bottling plants in Colombia, and

WHEREAS, since 1995, union officials and unionized employees of Coca-Cola’s Colombian affiliate have been subjected to numerous attacks and physical threats from paramilitary forces, and

WHEREAS, Sindicato Nacional de Trabajadores de Industrias Alimenticias (SINALTRAINAL), a union representing employees at Coca-Cola’s Colombian plants, have made allegations of collusion between paramilitary forces and officials of Coca-Cola’s Colombian bottling affiliate, and

WHEREAS, these allegations of collusion have led to negative publicity, lawsuits, public protests, and calls for consumer boycotts of Coca-Cola products, and

WHEREAS, the Washington Post (April 22, 2004) reported that Coca-Cola's General Counsel promised in October, 2003, that he would mount an independent investigation of the charges of collusion against managers and officials of Coca-Cola's bottling affiliate, and

WHEREAS, the Washington Post reported that the Company's then chief executive Douglas N. Daft, after giving early encouragement about mounting an independent investigation, changed his mind and turned down the General Counsel's idea, and

THEREFORE, BE IT RESOLVED, that the shareholders request that the Company sponsor the sending of an independent delegation of inquiry to Colombia to examine the charges of collusion in anti-union violence that have been made against officials of Coca-Cola's bottling plants in that country, and that that delegation includes representatives from U.S. and Colombian human rights organizations.

#### SUPPORTING STATEMENT

The Boards of Trustees of the New York City Employees' Retirement System, the New York City Teachers' Retirement, the New York City Fire Department Fund, and the New York City Police Pension Fund believe that it is time for management to seriously review its policies in this area. Significant commercial advantages can accrue to our company by the rigorous implementation of human rights policies guaranteeing freedom of association based on the Universal Declaration of Human Rights. These include an enhanced corporate reputation, improved employee recruitment and retention, improved community and stakeholder relations, and a reduced risk of adverse publicity, divestment and boycott campaigns and lawsuits.

We therefore urge you to vote FOR this proposal.

#### Notes

<sup>1</sup> Leisinger, M. Klaus, 'Business and Human Rights' in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 60. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>2</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 86.

<sup>3</sup> Ewing, Anthony P., 'Understanding the Global Compact Human Rights Principles' in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 94. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>4</sup> Mackenzie, Craig and Sullivan, Rory, 'Investor Activism and Corporate Responsibility', *Journal of Asset Management*, March 2003, 3(4), p. 296.

<sup>5</sup> As quoted in Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 85.

<sup>6</sup> Speech to United Nations General Assembly preparatory process for the High-level Plenary meeting on 14-16 September 2005, 23 June 2005. Available at: <<http://www.blihr.org/Pdfs/BLIHR%20Speech%2023%20June%202005.pdf>>

<sup>7</sup> EIRIS News Release, 'Corporate Compliance with International Conventions in the Spotlight', 29 March 2005. Available at: <<http://www.asria.org/news/press/1112152336>>

<sup>8</sup> See Ethical Funds Company website at: <[http://www.ethicalfunds.com/do\\_the\\_right\\_thing/about\\_ef/](http://www.ethicalfunds.com/do_the_right_thing/about_ef/)>

<sup>9</sup> Proxy Voting Guidelines available at: <[http://www.ethicalfunds.com/pdf2/sri/proxy\\_voting\\_guidelines.pdf](http://www.ethicalfunds.com/pdf2/sri/proxy_voting_guidelines.pdf)>

<sup>10</sup> Funds under management as of 30 June 2005. For updated figures see: <<http://www.fandc.com/aboutus.asp?pageID=1.1.2>>

<sup>11</sup> F&C Asset Management, Statement of Principles. Available at: <<http://www.fandc.com/aboutus.asp?pageid=1.1.3.1>>

<sup>12</sup> Model Statement of Investment Principles and Implementation Policy - Responsible Investment', April 2005. Available at: <<http://www.uksif.org/J/Z/Z/lib/2005/files/04/jp-trtk/jp-trusteetoolkit-2005-SIP.pdf>>

<sup>13</sup> These include five different New York City employee pensions funds: New York City Employees' Retirement System (NYCERS); the Teachers' Retirement System of the City of New York (TRS), the New York City Police Pension Fund Subchapter 2 (POLICE ); New York City Fire Department Pension Fund Subchapter Two (FIRE); and the New York City Board of Education Retirement System (BERS).

<sup>14</sup> Value of the five funds as at March 31, 2005. Available at:

<[http://www.comptroller.nyc.gov/bureaus/bam/pension\\_funds.shtm](http://www.comptroller.nyc.gov/bureaus/bam/pension_funds.shtm)>

<sup>15</sup> SHARE's Proxy Voting Guidelines available at:

<<http://www.share.ca/files/pdfs/2005%20Proxy%20Guidelines.pdf>>

<sup>16</sup> Available at: <[http://www.iccr.org/shareholder/proxy\\_book05/MEMBER-INITIATED%20ISSUES/HR\\_COLOMBIA\\_COKE.HTM](http://www.iccr.org/shareholder/proxy_book05/MEMBER-INITIATED%20ISSUES/HR_COLOMBIA_COKE.HTM)>

## Voluntary Principles on Security and Human Rights



**Summary** The Voluntary Principles on Security and Human Rights for the extractive and energy sectors (the ‘Voluntary Principles’) are a set of voluntary principles that provide practical guidance on security arrangements for extractive companies.

**Who?** The Voluntary Principles were released in December 2000 by the governments of the United States and United Kingdom after discussions with corporations in the extractive and energy sectors and non-governmental organizations. Since that time, the Netherlands and Norway have also become actively involved. In January 2004, it was decided that International Business Leaders Forum (IBLF) and Business for Social Responsibility (BSR) would share the secretarial function of the Voluntary Principles.

**Issues** Security and human rights in the extractive sector

**Overview & Operation** Security is potentially the most significant human rights issue to extractive companies to the reputational and legal risks associated with the security forced needed to safeguard physical company assets in conflict zones.

The Voluntary Principles are aimed at establishing a global standard for the conduct of extractive sector companies with regard to security issues. They are partially based on the UN Code of Conduct for Law Enforcement Officials and the UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials. They address three main areas.

1. Engagement with private firms that are contracted for security purposes.
2. Engagement with public security forces including military and police. Factors to be considered include the degree of stakeholder consultation stakeholders, responses to human rights violations, compliance with politics and deployment and conduct of personnel.
3. Criteria to be taken into account when companies assess the risk of human rights violations in their security arrangements. Companies must identify security risks, the potential for violence, the strength of the rule of law and the human rights records of private and public security forces.

Although voluntary, the Voluntary Principles have also been incorporated into contracts and can thus potentially become legally binding. The first ever legal commitment to the Voluntary Principles was made for the

multi-billion dollar Baku-Tbilisi-Ceyhan (BTC) oil pipeline in the Caspian Sea region.<sup>1</sup> In May 2003, the governments of Azerbaijan, Georgia and Turkey and the BTC project owners (largest share by BP) issued a joint statement stating that ‘the parties confirm to each other their mutual commitment to the goal of promoting respect for and compliance with human rights principles, including .... in a manner consistent with our national laws, the Voluntary Principles.’<sup>2</sup>

### **Strengths**

- Model of collaboration: Both the discussion leading up to the development of the Voluntary Principles in addition to the continued dialogue serves as a model of collaboration in sharing implementation experiences and reviewing the principles.<sup>3</sup>
- Risk assessment section seen as innovative<sup>4</sup>

### **Weaknesses**

- Voluntary and non-binding: Unless employed in a self-contained contract, the principles are not binding even if companies have publicly committed to them.
- Developing world participation: Southern countries affected by this issue were not extensively involved in brokering the agreement on the Voluntary Principles.<sup>5</sup>

### **Comments**

‘[The Voluntary Principles have] gained recognition as the emerging international standard addressing the human rights responsibilities faced by extractive companies in their global security arrangements.’ Gare Smith, Foley Hoag LLC<sup>6</sup>

‘In an area where no standards exist, we see the development of some guiding principles as a positive first step. But this is only the beginning of the process.’ Kenneth Roth, Human Rights Watch<sup>7</sup>

‘This instrument provides a useful model of collaboration between governments, resource companies, and human rights groups. In particular, continued dialogue between parties provides the opportunity of reviewing the principles and sharing experiences in implementing them.’ Philippe Le Billon<sup>8</sup>

### **Companies involved**

Several major extractive companies have employed the Voluntary Principles in some fashion. These include Amerada Hess Corporation, Anglo American, BP, BHP Billiton<sup>9</sup>, ChevronTexaco, ConocoPhillips, ExxonMobil, Marathon Oil, Newmont Mining Corporation, Norsk Hydro, Occidental Petroleum Corporation<sup>10</sup>, Rio Tinto, Shell and Statoil. Canada-based Talisman has also stated that it has incorporated the Voluntary Principles into its Security Policy<sup>11</sup> as has Enbridge into its Statement on Business Conduct.

Moreover, the Voluntary Principles are being implemented through dialogues with governments and companies in Colombia, Indonesia, Nigeria and as noted above in Azerbaijan, Georgia and Turkey.<sup>12</sup>

**Contact details** Website: [www.voluntaryprinciples.org](http://www.voluntaryprinciples.org)

The Voluntary Principles Secretariat is shared by:  
International Business Leaders Forum (IBLF) – <http://www.iblf.org>  
Business for Social Responsibility (BSR) – <http://www.bsr.org>

### **The Voluntary Principles in Corporate Engagement**

<b>Institution</b>	<b>Assets</b>	<b>Manner employed</b>
Ethical Funds Company	\$2 billion <sup>13</sup>	Urges Canadian extractive sector companies to adopt the Voluntary Principles. <sup>14</sup>
Human Rights Watch	N/A	Calls on financial institutions to urge resource companies to implement Voluntary Principles in Nigeria. <sup>15</sup>
New York City Pension Funds <sup>16</sup>	US\$87 billion <sup>17</sup>	Referred to Voluntary Principles in a shareholder proposal filed with ExxonMobil (see below).

### **Shareholder Proposal example**

Joining thirteen NGOs, the New York City Pension Funds filed a shareholder proposal filed with ExxonMobil in May 2005 regarding payments to the Indonesian military.<sup>18</sup> The proposal referred to the company's 2002 commitment to the Voluntary Principles. Major efforts were made by the coalition to convince other institutional and pension funds to vote for the resolution.

The full-text of the proposal appears below.

**Filed with: ExxonMobil**

**Filed by: New York City Pension Funds**

WHEREAS, we believe that transnational corporations operating in countries with repressive governments, ethnic conflict, weak rule of law, endemic corruption, or poor labor and environmental standards face serious risks to their reputation and share value if they are, in any way, seen to be responsible for, or complicit in, human rights violations; and,

WHEREAS, ExxonMobil has extensive natural gas operations in the Aceh region of the island of Sumatra in Indonesia; and,

WHEREAS, there have been numerous reports of human rights abuses against the local population by the Indonesian military in connection with security operations conducted in the area of ExxonMobil's operations; and,

WHEREAS, due to its relationship with the Indonesian military, the corporation has been named as lead defendant in a pending lawsuit, John Doe 1, et al., vs. ExxonMobil Corporation, et al., filed in the Federal District Court for the District of Columbia, on behalf of Indonesian citizens who allegedly were victims of human rights abuses by military forces guarding ExxonMobil's facilities; and,

WHEREAS, it has been reported that ExxonMobil has provided logistical as well as financial support for Indonesian military forces stationed in the area; and,

WHEREAS, since 2002, ExxonMobil has been a participant in the dialogue on the U.S.-U.K. Voluntary Principles on Security and Human Rights, which call on companies operating internationally to urge local security forces to provide security in a manner consistent with human rights and ethical conduct; and

WHEREAS, ExxonMobil's Corporate Citizenship policy states that the provision of security should be "consistent with the law and respect for human rights",

THEREFORE, BE IT RESOLVED, that shareholders request that management review and report to shareholders, by September, 2005, on the corporation's security arrangements with the Indonesian government and private security forces, including support, both monetary and in kind, to the Indonesian government and military. Furthermore, it is requested that this review and report to shareholders should be conducted with a particular reference to potential financial and reputational risks incurred by the company as a result of these relationships.

## **Notes**

<sup>1</sup> Smith, Gare, 'The BTC Pipeline Case Study: Following Through on Global Compact Commitments', in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 76. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>2</sup> Smith, Gare, 'The BTC Pipeline Case Study: Following Through on Global Compact Commitments', in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 76. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>3</sup> Le Billon, Philippe, 'War Economies, corporate responsibilities and regulatory instruments'. Available at: <[http://www.humansecurity.info/PDF/le\\_billon\\_-\\_pdf.pdf](http://www.humansecurity.info/PDF/le_billon_-_pdf.pdf)>

<sup>4</sup> Gagnon, G., Macklin, A. and Simons, P. 'Deconstructing Engagement Corporate Self-Regulation in Conflict Zones - Implications for Human Rights and Canadian Public Policy', January 2003. Available at: <[http://www.lcc.gc.ca/research\\_project/gr/gbb/rp/gagnon-en.asp](http://www.lcc.gc.ca/research_project/gr/gbb/rp/gagnon-en.asp)>

<sup>5</sup> Leipziger, Deborah, *The Corporate Responsibility Code Book*, Greenleaf Publishing, 2003, p. 96.

<sup>6</sup> Smith, Gare, 'The BTC Pipeline Case Study: Following Through on Global Compact Commitments', in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 76. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>7</sup> Human Rights Watch, 'Human Rights Principles for Oil and Mining Companies Welcomed', New York, 21 December 2000. Available at: <<http://hrw.org/english/docs/2000/12/21/usint600.htm>>

<sup>8</sup> Le Billon, Philippe, 'War Economies, corporate responsibilities and regulatory instruments'. Available at: <[http://www.humansecurity.info/PDF/le\\_billon\\_-\\_pdf.pdf](http://www.humansecurity.info/PDF/le_billon_-_pdf.pdf)>

<sup>9</sup> Lawrence, Patricia B., 'BHP Billiton South Africa: Standards as a Human Rights Tool', in *Embedding Human Rights in Business Practice*, United Nations Global Compact Office and Office of the United Nations High Commissioner for Human Rights, May 2005, p. 86. Available at: <[www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf](http://www.unglobalcompact.org/content/NewsDocs/EHRBP.pdf)>

<sup>10</sup> PrimeZone Media Network, 'Occidental Adopts Human Rights Policy', 7 December 2004. Available at: <<http://phx.corporate-ir.net/phoenix.zhtml?c=76816&p=irol-newsArticle&ID=651844&highlight=>>



<sup>11</sup> Talisman Energy, 'Security Policy'. Available at: <[http://www.talisman-energy.com/corporate\\_responsibility/hr\\_security\\_policy.html](http://www.talisman-energy.com/corporate_responsibility/hr_security_policy.html)>

<sup>12</sup> As per Bennett Freeman in Aaronson, Susan Ariela, 'Minding Our Business: What the United States Government has done and can do to Ensure that U.S. Multinationals Act Responsibly in Foreign Markets', 59(1), June 2005, p. 179.

<sup>13</sup> See Ethical Funds Company website at: <[http://www.ethicalfunds.com/do\\_the\\_right\\_thing/about\\_ef/](http://www.ethicalfunds.com/do_the_right_thing/about_ef/)>

<sup>14</sup> Ethical Funds, 'Canadian Energy and Mining Companies: Navigating International Humanitarian Law in the 21<sup>st</sup> Century', June 2005, p. 15. Available at: <[http://www.ethicalfunds.com/Do\\_the\\_right\\_thing/about\\_ef/newsroom/2005\\_articles/Humanitarian\\_Law.pdf](http://www.ethicalfunds.com/Do_the_right_thing/about_ef/newsroom/2005_articles/Humanitarian_Law.pdf)>

<sup>15</sup> Human Rights Watch, Available at: <<http://www.hrw.org/reports/2002/nigeria3/Nigeria1002-01.htm>>

<sup>16</sup> These include five different New York City employee pensions funds: New York City Employees' Retirement System (NYCERS); the Teachers' Retirement System of the City of New York (TRS), the New York City Police Pension Fund Subchapter 2 (POLICE ); New York City Fire Department Pension Fund Subchapter Two (FIRE); and the New York City Board of Education Retirement System (BERS).

<sup>17</sup> Value of the five funds as at March 31, 2005. Available at:

<[http://www.comptroller.nyc.gov/bureaus/bam/pension\\_funds.shtm](http://www.comptroller.nyc.gov/bureaus/bam/pension_funds.shtm)>

<sup>18</sup> Available at: <[http://www.stopexxonmobil.org/urgent\\_shareholderres\\_0305.htm#nyresolution](http://www.stopexxonmobil.org/urgent_shareholderres_0305.htm#nyresolution)>

