Ethical CORPORATION

November 2009

www.ethicalcorp.com

Rise of the ecomafia
Organised crime targets green business

Sustainable banking
Why ethical banks are fitter

Forest Stewardship Council
NGOs making a fuss – is it justified?

Coffee retailers and ethics

A complex sustainability brew

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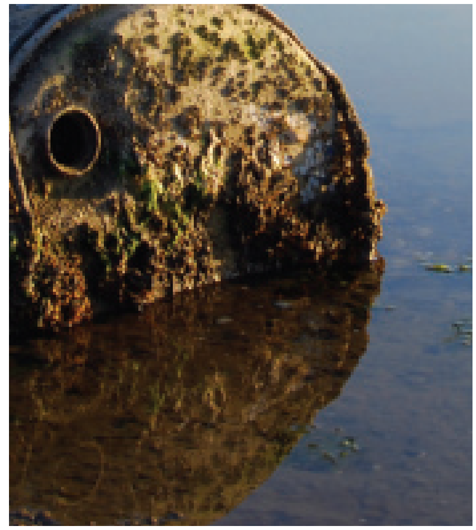

p28 Mafia moves in on waste disposal

What's on the web

A sample of the further stories and issues on EthicalCorp.com

In a four-part series, communications specialist **Jonathan Ballantine** focuses on social media and sustainability. In part one he argues that the digital revolution has presented a significant opportunity for companies to engage with their stakeholders on sustainability issues using social media. Sustainability and social media have a similar history in that, Ballantine says, they started out as bottom-up movements.

In part two he analyses the growth, development and opportunities offered by social media, including **Facebook, Bebo, MySpace** and **Twitter**. He comments that as, unsurprisingly, the companies that are most connected with their customers and communities using social media tend to be IT or internet companies, there is a question as to how much companies in other sectors can use social media effectively.

In part three, Ballatine reports on which company function takes ownership of social media in a business. He argues that no matter which function owns it – whether the CR department, communications or public relations, for example – everyone in a company can be part of social media and can engage and become part of a collective voice for the organisation.

Finally, in part four, Ballantine examines how companies can use social media to interact with their employees, and specifically how this can benefit corporate responsibility programmes. He gives the example of **Intel**, which has developed an internal employee portal and online community forum just so colleagues can connect regarding environmental and sustainability activities. Ballantine concludes that perhaps social media is the missing link for embedding corporate responsibility across a company.

Elsewhere, in a new regular series on corporate ethics and compliance issues, Daylight Forensic and Advisory's **Andrea Bonime-Blanc** dissects the overall risks from corruption and bribery. She highlights the danger zones for companies and provides a number of methods of combating corruption and preventing it happening in the first place.

And energy writer **Peter Amus** imagines what he would do if he were the new chief executive of **Chevron**. First thing: he would ask his top engineers to invent solutions that mitigated the environmental impacts of the company's global activities. The impact of the battering Chevron has taken from losing court cases, and being the focus of NGO and activist ire, is that the public relations battle has been lost. The company should reinvent itself as a clear and legitimate global leader on energy and environmental innovation, Amus argues, and fast. ■

Go to www.ethicalcorp.com for these stories and more.

Company index

All the major companies and big brands featuring in this month's issue and the pages where you can find them:

Welcome to the November 2009 issue

I hope your autumn is turning out well. We've certainly been busy at Ethical Corporation. We're noticing that business spending constraints, while not over, are easing slightly and companies are beginning to feel more confident about 2010. Everyone seems to be saying, "next year won't be easy, but 2011 will be better". Let's hope 2010 turns out to be easier than we all assume.

The upcoming December negotiations at **Copenhagen**, although likely to end in disappointment for many environmentalists, will at least see the issue of climate change become front and centre early next year, as companies begin to work out what they can commit to in terms of carbon cuts post-summit. While business can't do much but keep up the call for carbon taxes, greener incentives and CO_2 caps at Copenhagen, we may see a deal done on avoided deforestation that might be the start of something meaningful.

One result will surely be that after an understandable lull in the depths of the downturn, chief executives and politicians will look to focus on cutting carbon and encouraging greener growth in 2010. How far that goes we'll find out soon enough.

In this month's magazine, as usual, we're covering a wide variety of topics.

In our news analysis section, we take a look at the growing unease at the size, power and reach of **Google**. The company, which appears highly committed to ethics and transparency, is becoming a victim of its own scale, creativity and innovation. The key question is now being asked: when does a company become too dominant, and what should be done about it, if anything? For our analysis, take a look at p7.

In our features section this month, beginning on p14, Oliver Balch considers the conundrum of coffee certification. His piece outlines what the major high street brands are doing in light of **Starbucks**' recent commitment to sell more than 90% of its coffee in the UK as Fairtrade. We've also got an interview with the UK chief executive Darcy Willson-Rymer, who offers tips on acting swiftly in a crisis. Willson-Rymer, if his Twitter activity is anything to go by, seems to spend most of his time in his stores, looking at how it all works. No bad place for a chief executive to be.

Continuing our theme of certification, we're looking at the **Forest Stewardship Council**'s troubles with NGOs, and what's happening as a result. You can also find a podcast on the topic on the EthicalCorp.com website at: www.ethicalcorp.com/podcasts

If you are interested in how **organised crime** is getting into sustainability-related markets, then take a look at James Geary's excellent article on p28. He finds the mafia's tentacles are spreading. The lesson is clear: always be careful about whom you do business with.

Finally on p40, you can find an in-depth look at the responsibility success story that is modern day **Patagonia**, the outdoor clothing company with a serious conscience. An inspiring tale, combined with some practical ideas you can use in your own organisation.

Enjoy the November 2009 edition of the magazine. As always, we value your comments on the website and via email at editor@ethicalcorp.com

Toby Webb
Founding editor and publisher

PS Many readers will know by now that our **website** is mostly for paying subscribers only. You'll need your email address and password to access EthicalCorp.com. If you don't have your password, just let us know at subs@ethicalcorp.com or give us a call on +44 (0) 20 7375 7575.

Ethical CORPORATION
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ISSN 1758–1575

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Corporate subscription packages from **£495**

Ethical Corporation is printed by Four Way Print Ltd on Green Coat plus paper, which comprises 80% recycled and 20% Forest Stewardship Council certified source material.

EthicsWatch

Pfizer's record payout, the rise and rise of Google, Tesco and zero landfill, and climate change in court

Analysis: pharma payouts

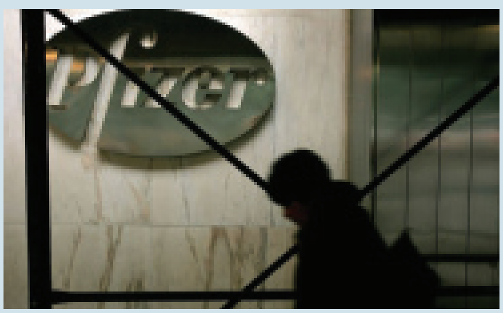
Pfizer coughs up $2.3bn

By Jeni Bauser in New York

Marketing unapproved drugs has landed Pfizer in big trouble

The world's largest pharmaceutical company, Pfizer, will pay a record $2.3bn as a result of the US criminal charges that it illegally misbranded the pain medicine Bextra, pulled from the market in 2005, and misrepresented other medicines and courted healthcare providers to promote its drugs.

Pfizer marketed Bextra for uses unapproved by the US Food and Drug Administration (FDA). The company was also charged with illegally promoting the drugs Geodon, Zyvox and Lyrica and giving kickbacks to healthcare providers. This is Pfizer's fourth settlement over illegal marketing activities in the past seven years.



Heads down

According to the US Department of Justice, Pfizer will pay $1.3bn for the illegal promotion of Bextra and $1bn in civil fines because it illegally promoted other medicines for symptoms unapproved by the FDA. The settlement also requires Pfizer to take part in a corporate integrity agreement with the Office of the Inspector General of the Department of Health and Human Services, which will create procedures to avert future abuses. Six whistleblowers at Pfizer were awarded more than $100m.

In a Department of Justice statement Mike Loucks, acting US attorney for the District of Massachusetts, said: "The size and seriousness of this resolution, including the huge criminal fine of $1.3bn, reflects the seriousness and scope of Pfizer's crime … At the same time as Pfizer was in our office negotiating and resolving the allegations of criminal conduct by its then newly acquired subsidiary, Warner-Lambert, Pfizer was itself in its other operations violating those very same laws."

Amy Schulman, Pfizer's general counsel, said: "We regret certain actions taken in the past, but are proud of the action we've taken to strengthen our internal controls."

Agency collaboration

This is the largest of several healthcare corruption cases that have recently been uncovered in the US. The Pfizer prosecution involved close collaboration between a handful federal and local agencies including the Department of Justice, the FDA, and several state attorneys' offices.

The Pfizer case comes to light in a pivotal time as the US Congress and the Obama administration seek to overhaul the US healthcare system.

The dangerous lack of accountability of US drug companies is hurting patients and costing the country millions of dollars. While the case represents a record healthcare settlement and the largest criminal fine ever in the US, the $2.3bn sum is less than a month's sales for Pfizer. This should not be the price paid for doing business in the pharmaceutical industry.

"Pharmaceutical companies are too big to wipe off the map and no one has the political courage, and frankly you can see why," says W Scott Simmer, an attorney at Blank Rome, which represented three whistleblowers in two of nine lawsuits being settled with Pfizer.

For the most part there is no price regulation of drugs in the US, outside specific federal programmes, allowing pharmaceutical companies to charge large premiums over the prices the drugs might be sold for abroad.

But there is some hope for the future of US healthcare. The historic case demonstrated remarkable coordination by various agencies and whistleblowers to bring Pfizer to justice, and drug companies are starting to train their sales reps on where the line must be drawn in their marketing tactics. The Pfizer verdict suggests that no company can ultimately get away with such behaviour forever. ■

Murky business

The **Ecuador-Chevron** pollution case, which, observers say, could become the largest environmental legal suit in history, has blown up into a series of allegations and counter-allegations about dirty tricks.

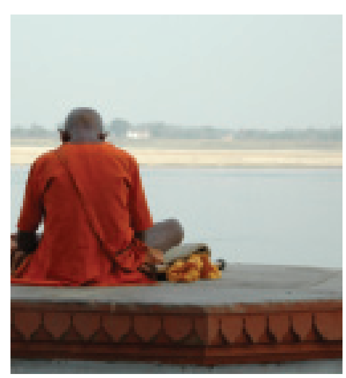
The judge in the case, which could lead to damages exceeding **$27bn**, has been shown by secret video recordings to be susceptible to bribery, Chevron said. But Ecuador's attorney general, and campaigners such as the Amazon Defence Coalition, countered that the bribery allegations were a Chevron set-up. Nevertheless, the judge has stepped down.

Damages are being sought from Chevron because of decades of dumping of billions of gallons of **polluted water** in the Ecuadorian rainforest by Texaco, which Chevron acquired in 2001. Chevron says that Ecuador is being disingenuous, because its state-owned oil company, Petroecuador, was in partnership with Texaco during the period when the dumping took place. The long-running case will continue…

Ganges clean-up

The Ganges river will by 2020 no longer be a wastewater drain full of industrial effluent, sewage and the remains of cremated corpses, the **National Ganga River Basin Authority of India** says. A clean-up plan costing $3.2bn will be put in place, with private companies invited to bid for a contract to develop a river-basin management scheme.

It will be the first attempt to manage the Ganges on a basin-wide basis. Previous attempts by local authorities to clean up parts of the river are seen as having failed. The Ganges is crucial to India, providing drinking and irrigation water to 43% of its 1.2 billion population.


Heads down

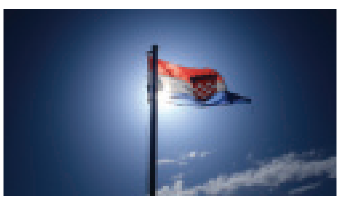
Uganda takes to timber

Uganda has become the first African country to start a reforestation project under the Kyoto protocol, earning carbon credits that can be sold on international markets. The World Bank-backed project, which was finalised in October, will see pine and native species planted on grass-lands in the Ugandan Nile basin.

Uganda could benefit through the supply of about 300,000 carbon credits annually for carbon sequestration. Kundhavi Kadiresan, World Bank country manager for Uganda, says the project is a "milestone" that could also create up to 700 jobs.

Croatia and crime

In October **Croatia** came one step closer to joining the European Union, but was warned that the door will remain closed unless strenuous steps are taken to deal with **corruption** and **organised crime**. A European commission progress report shows that Croatia has met most criteria for becoming an EU member state, but that "considerable challenges" remain. In particular, Croatia must show it is coop-erating with the International Criminal Tribunal for the former Yugoslavia in the Hague over war crimes investigations.



To hoist in Brussels, cleanup required

The commission also reported on negotiations with Albania, Bosnia, Kosovo, Macedonia, Montenegro, Serbia and Turkey, but for these countries EU membership remains a more distant dream. Iceland, however, which handed in its membership application in July, is likely jump the queue.

Something in the water

About two million **Chinese** become ill each year from drinking water with high levels of arsenic, China's Ministry of Environmental Protection says. The ministry has given details of a survey of progress towards the country's drinking water goals. Other findings are that 84 out of 113 cities surveyed did not meet government water standards in 2008, and that excessive levels of hazardous pollutants are found in the water consumed by 190 million people in China.

Analysis: Google

World domination just a click away

By Leon Gettler

Unease about Google's power and influence is deepening

Google's growth has been phenomenal, but there is growing concern about its dominance.

Now Google wants to digitise hundreds of thousands of out-of-print and out-of-copyright books in the US. Some of these works are still technically in copyright, but Google has pressed on, claiming its mission is to "organise the world's information and make it universally accessible and useful".

It struck a deal with the Authors Guild and the Association of American Publishers, offering $125m to compensate for past copy-right infringements. Under this plan, Google was set to keep one-third of revenues gener-ated by sales of digital books and other income.

Problem one: the deal seemed to apply to the whole world even though it was only struck with US copyright holders.

Problem two: France and Germany are concerned that in-copyright books from their countries would be distributed in the US. The crunch issue is that, in the US, anything published before 1923 is considered to be out of copyright, and therefore open for Google. In Europe, the date is around 1870.

Problem three: authors and publishers who did not specifically opt out of the settlement would be deemed to have signed up to the deal. The US Department of Justice has since intervened.

Google's sense of omnipotence is also reflected in its other plans. Google News, Maps and Street View have run into similar objections from content providers. Musicians Neil Young and Billy Bragg have expressed concern about Google refusing a request from the UK's Performing Right Society for Music to pays fees for music uploaded to YouTube, which is owned by Google.

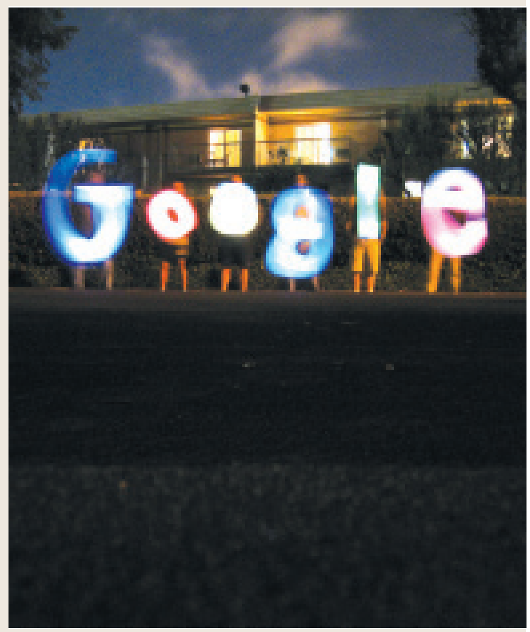
And Google is moving into new markets with software: its Chrome internet browser, web-based word processing and office tools. All this has been alarming many businesses.

US phone carrier AT&T has asked the Federal Communications Commission to investigate Google, claiming that the Google Voice is violating US telecommunications rules. As with the book deal, Google has brushed aside the concern, claiming the US regulator has no power to investigate a web-based software application. That is despite Google Voice being in effect another phone service.

Commentators are now comparing Google to Microsoft. US economics writer John Talbott has suggested Google should be broken up. Google could become Google Hardware and Google Software. He has also argued for it to be broken up geographically, which would give the world Google China and Google Eastern Europe. Talbott's argument is simple: monopolies like Google violate every rule of free markets.

But Whit Andrews, an analyst with global analytics company Gartner, says the US government is unlikely to do anything to stop Google, at least at this stage.

"Traditionally, in the US, there is little incli-nation to force vendors to share power until they are seen to abuse it," Andrews says. "Google has been successful in not abusing its power. If that changed then you would see a real upswell of frustration."



Powerful and ubiquitous

But Andrews concedes that many more could start questioning Google's mantra of "do no evil". "In the United States, the statement 'we will not be evil' is very simple but when you become a global company it is less simple," he says.

Simply put, Google could turn into a villain. ■

Analysis: Tesco

Landfill leadership questioned

By Ben Cooper

Tesco has diverted 100% of its UK waste away from landfill but has failed to win over sceptics

UK retail giant Tesco says it is taking sustainability seriously but its efforts are often viewed sceptically by campaigners. Nothing illustrates this more vividly than the reaction to Tesco's announcement that it has achieved its goal of diverting 100% of waste from its UK business away from landfill a year ahead of schedule.

Tesco says it has achieved this through "a massive logistical exercise in reducing, reusing and recycling", using technologies such as anaerobic digestion and mechanical biological treatment, and seeking out the "best providers of waste management services".

But the waste issue appears to have sparked controversy at every turn. Friends of the Earth food campaigner Kirtana Chandrasekaran says Tesco's plans will see it burning more rubbish in climate-damaging incinerators. "It should be maximising recycling and reducing overall waste instead of sending more of it up in smoke," she says.

Sion Stanfield, Tesco's head of waste and recycling, says there is a lot of "bad publicity and stigma around incineration", and believes it is over-demonised.

Meanwhile, Tesco scored a PR own goal over carrier bag usage. Major retailers committed to reducing the number of carrier bags given to consumers by 50% over three years. In the summer, Tesco said it had achieved this but subsequently admitted the actual reduction was 48%.

On the suggestion that Tesco is now sending more waste abroad, Stanfield says plastic for recycling is exported because the "recycling infrastructure around plastic in the UK is virtually non-existent". No other waste is going abroad, he says.

But a different Tesco spokesman declined to say how the 146,000 tonnes of waste diverted from landfill was divided between different disposal methods and reuse technologies.

Stanfield says 6,000 to 7,000 tonnes of waste meat is being reprocessed into energy.

Tesco is trying

However, this has also been a controversial issue for the retailer. Animal rights group Viva suggested Tesco should be "killing fewer animals" rather than having to develop ways of reusing waste meat.

Viva's view reflects a general concern that the focus should be on waste reduction. Charlotte Henderson of the Waste and Resources Action Programme (Wrap) says Tesco's is a "good achievement" but "if you're talking about taking that next step up it's not about managing waste, it's about preventing waste".

What about suppliers?

How Tesco's relationship with its suppliers impacts on the waste issue opens another can of worms for the retailer. Friends of the Earth suggests Tesco's buying policy hampers suppliers' efforts to green their businesses by "constantly demanding more and more for less, forcing farmers and suppliers to intensify their operations".

Once again, Tesco rebuts this criticism. Stanfield points out that cooperation with suppliers on packaging reduction has extended not only to own-label suppliers but also to branded food companies. Sir Terry Leahy, Tesco's chief executive, has made explicit reference to Tesco doing "everything in our power to enable our supply chain" to make carbon reductions. Tesco's references specifically to waste refer to helping consumers to waste less, such as the new and much-vaunted "Buy one, get one free – later" initiative.

Stanfield says reaching the milestone of a 100% diversion away from landfill was achieved in part by "winning hearts and minds" of staff to implant the practices necessary for reducing waste. Winning the hearts and minds of everyone else is a tougher proposition. ■

Captured carbon hopes

A pilot **carbon dioxide capture** project in the US state of **Wisconsin** says it has succeeded in preventing about 90% of emissions from a coal-burning power plant from escaping into the atmosphere.

The project, at the 1.2 gigawatt Pleasant Prairie plant in the south-east corner of the state, uses a process involving chilled ammonia to remove carbon dioxide. The companies behind the pilot, We Energies and French multinational Alstom, have hailed the project a success, but will not disclose its cost, citing commercial confidentiality.

The announcement of the project's results coincided with comments made by International Energy Agency chief Nobuo Tanaka, who said that by 2020 the world needs 100 major carbon capture projects costing $56bn, as part of the global effort to tackle climate change.

Dash with gas

London was the departure point on 12 October for the world's first commercial flight powered by natural gas. A **Qatar Airways** aircraft, heading for the Gulf

Cleaner alternative

state, was fuelled by a blend of gas-to-liquids (GTL) kerosene and conventional oil-based kerosene.

Qatar Airways says GTL will give airlines an alternative to conventional oil-based kerosene fuel, and will benefit the environment because of its low sulphur dioxide and particulate emissions. The innovation is also expected to benefit Qatar, which is positioning itself as the world's leading GTL producer.

Analysis: US politics

Climate change on trial

By Jeni Bauser in New York

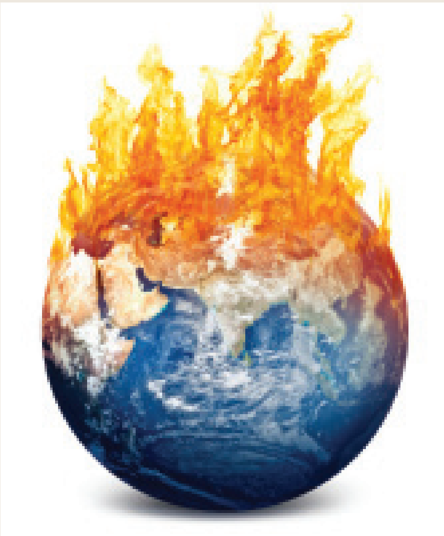
Human impact on the environment may have to be proved in a US court

The US Chamber of Commerce's controversial request for the Environmental Protection Agency (EPA) to put on trial the scientific evidence for the role of humans in causing climate change has prompted several chamber members to leave the organisation, and highlights the complexity of the climate change debate in the US.

In a formal submission, the chamber states that the EPA's position on the adverse impact of climate change on public health and welfare is "undocumented and in the chamber's view, insupportable".

This position prompted Apple and three major utility companies to leave the chamber including Chicago-based Exelon – the US's largest nuclear generator – and California natural gas and electric utility giant PG&E. In a letter to the chamber, PG&E chief executive Peter Darbee says: "[The chamber] neglects the indisputable fact that a decisive majority of experts have said the data on global warming is compelling and point to a threat that cannot be ignored."

The chamber's stance on climate change also led Nike to resign from the chamber's board, though it remains a member.


Nothing to do with us

Pulling strings

The chamber's chief executive, Thomas Donohue, was prompted to make a follow-up statement, saying: "We believe that Congress should set climate change policy through legislation, rather than having the EPA apply existing environmental statutes that were not created to regulate greenhouse gas emissions … The EPA should publicly present its findings and answer questions on the limited studies it cited."

The chamber has since stressed that it is not debating the science behind global warming. Rather, it is "unconvinced that the EPA has demonstrated, as a matter of law, that greenhouse gas emissions from motor vehicles in the US endanger public health or welfare," says chamber senior vice-president William Kovacs.

The chamber explains it does not support the current cap-and-trade legislation because it fails to include all major CO_2 emitting economies or adequately promote new technologies.

However, those resigning from the chamber and others in the environmental and business community accuse it of being disingenuous, prioritising the interests of several powerful members and using the petition of the EPA as a distraction from its true lack of support for ambitious climate change legislation.

"If you look at the language of the [chamber's] statement nowhere does it talk about what type of regulatory programme it supports," says Adele Morris, deputy director for climate and energy economics at the Brookings Institution thinktank. "The burden of legislation is to figure out what actual binding regulatory measure we should adopt to address climate change. In my view, it's time the chamber contributed to the process instead of trying to block it."

Whether the EPA would ever agree to a trial-like proceeding on climate change remains to be seen. The petition certainly hasn't prevented it from asserting new policies in the interim. And climate change legislation has been slowed by partisan politics, a spotlight on healthcare reform, and the intricacies of creating a viable climate policy overall.

The controversy arrives at a pivotal time as the US Senate makes a last-ditch effort to pass climate change legislation before the UN climate conference in Copenhagen in December. While legislation will eventually be passed, it is now likely to come after the Copenhagen summit. And the damage that has been done to the chamber's reputation could prove long-lasting. ■

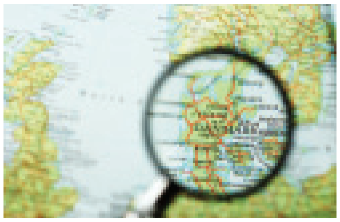
Blowing in the wind

The **European Investment Bank** has finalised a loan of €200m to Ireland's largest energy company, to finance the installation of 248 megawatts of wind power capacity, equivalent to about 7% of Ireland's current peak electricity demand.

Ireland is presently dependent on imported fossil fuels for 95% of its energy, despite being one of Europe's windier places. Ireland's Electricity Supply Board will use the loan for a programme of investment lasting until 2012. The EIB also said it would provide €300m for an electricity connector cable between Ireland and Wales, and that this would "underpin the development of renewable energy by enabling the import and export of excess wind power".

Business and corruption

Denmark, New Zealand and Sweden are the least corrupt countries to do business in, according to **Transparency International's** 2009 Global Corruption Report, issued at the end of September. The most corrupt countries are Somalia, Burma, Iraq, Haiti and Afghanistan. The dodgiest EU country is Bulgaria, taking equal 72nd place alongside China, Macedonia and Mexico.


Crystal clear

Meanwhile, although 90% of the world's biggest 200 international companies have adopted codes on non-corrupt practices, fewer than half of them monitor compliance, Transparency International reports.

Air fair

Meeting in Ottawa in October, the **International Civil Aviation Organisation** backed a plan to reduce aviation greenhouse gas emissions by 2% annually up to 2020, with a further aspiration to continue the reductions until 2050. According to ICAO, the reductions could be achieved through measures such as fuel efficiency, use of alternative fuels including biofuels, and better aircraft technologies. Purchasing of carbon offsets might also be part of the mix. ■

Green league tables

Too blunt an instrument?

Mallen Baker argues that environmental rankings often fail to seek out innovation

Sometimes more precision is required

Sometimes a blunt tool is what you need. And there's no doubt that rankings that claim to compare companies on the basis of their social responsibility or their green credentials are a blunt tool. Every single one.

The latest is the Newsweek 2009 Green Rankings. It claims to rate the top 500 companies on their "actual environmental performance, policies and reputation".

That is a big promise. Why? Because the problem with such rankings is always the impossibility of making comparisons. How do you compare an oil company with a bank? Every basis for measurement you choose can be shown to be invalid.

The trouble is that the end result – the league table – does have power.

Rankings provoke intense interest. I remember this from well over 10 years ago, when the first Business in the Community environment index came out. Suddenly chief executives were interested, because they wanted their companies to be at the top, and well clear of their competitors. They weren't much interested in excuses or details.

That is the power of the ranking. And that means that if the authors get things substantially wrong, they can do real damage.

The Newsweek list has a lot of technology and financial firms at the top. Its compilers admit that this is because these sectors inherently produce fewer emissions.

What then does that tell us? That the best-run company in the world will not make the top of the list if it happens to operate in a sector that inevitably has higher emissions? And when you think about it, those are precisely the sectors where you want those companies to operate because that's where their commitment to sustainability can make the most difference.

More debate

Newsweek tries to deflect criticism in a number of ways. First, it says the list will provoke debate, and it welcomes this. The effect of making a prediction of criticism is to blunt that criticism when it comes.

Second, it has put together a distinguished panel of big names. One wouldn't want to argue with the credentials of the people they have amassed.

Third, Newsweek has three components to its methodology, each bringing inputs from highly respected partners.

One component measures the company's environmental impact based on a huge number of different factors. Too many factors, in fact, and this input is what puts the list onto shaky ground from the start.

This effect is then compounded by the 10% weighting given to the company's "reputation score". This is derived by a survey of business and corporate responsibility folk around the world. Do we seriously think that these people have a considered view of the reputation of 500 individual companies? No, we don't.

The final part comes from an analysis of policies and approaches – which is possibly the only part you can make valid cross-sectoral comparisons against.

But never mind the process, if the result fails a very simple intuition test, then all the complicated component parts are of no value. And for that not to be the case, one would expect to see well-run companies in all sectors in the very top of the index.

I want the innovative leaders to show up in the rankings

Some activists have criticised the rankings from the opposite end. They contest that no oil company should make it into the top 500, and neither should firms in a whole bunch of other sectors that are equated in their minds with irresponsibility.

That is a zero-sum game. With that perspective, there is no point in running such companies well – because they are beyond the pale from the start. You might conclude you should get on with trashing the environment as quickly as possible.

And that might as well be the message from the Newsweek rankings.

For any such ranking to be meaningful, it must measure something about which companies make a choice – how they play the cards they have been dealt. I want talented leaders working to reduce the energy intensity of concrete and steel production. I want the best and the brightest looking to produce a new business model for air travel. These are the things that will make a difference.

And I want the innovative leaders to show up in the rankings. Not dismissed because they are in the wrong sector. Or invisible because they are the wrong size.

When is a blunt tool too blunt a tool? When it uses a very, very smart system to achieve dumb results. ■

COLUMNIST: MALLEN BAKER

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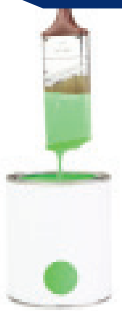

Greenwasher

This month Greenwasher considers types of corporate responsibility managers, pressure on astroturfing and shifts towards sustainability as core business

Responsible pigeon holing

Greenwasher has met a lot of corporate responsibility people in the past decade, and these days tends to put them into three categories (which is dangerous to do, but let's be a little provocative here).

1) **The defender**. They are the kind of corporate responsibility manager you hire when you don't want to do much. They dash around involving their firm in various low-level initiatives and obsess about things like the GRI index in their social report, at best. Or they simply provide block tackles from their position within public affairs and oversee some community work. At the end of the day, they are more about defending and maintaining the status quo than making real change. They'll lead some small steps forward, but not much.

2) **The frustrated realist**. They have some great ideas about what their company could or should do, but can't get the traction internally to deliver on it. They get things done almost unnoticed by senior management. Usually there's someone on, or just below the board, who's really not interested, and who stymies their ambitions. They get most done where regulation or enforcement looms large, such as on climate change or bribery and corruption. They often don't stick around for more than the few years in the firm, understandably.

3) **The change-maker**. These are the interesting executives. They have senior support, from someone who has the ear of the chief executive and turns his or her head, and they are given almost free rein to make a serious impact, as long as they

Get the boss engaged

make the business case consistently, and play internal politics with skill and care. If they are lucky, they can begin to make corporate responsibility a core proposition of their business. These are people who have done more than their 10,000 Gladwell hours – the effort required for success according to business writer Malcolm Gladwell – and have talent, and it shows.

We need more of number three in business, clearly. And we will see more of them. As corporate responsibility matures, we're seeing these change-maker executives lead real and exciting change.

More power to their elbows.

Shifting from impact to core business

The **Harvard Business School** blog recently published a good posting about **Newsweek**'s recent green rankings. It makes a simple point:

"The Newsweek list defines 'green' largely in terms of a company's efforts to reduce its impact (eg buying green power, recycling, building greener facilities, etc). We believe it's time to move beyond this approach and begin defining 'green' by how well a company is aligning sustainability with its core business by solving society's environmental challenges and creating shareholder value while doing so."

Quite so. Corporate responsibility folks in Europe have been saying this for some years now.

Hopefully the fact that this is starting to appear in places such as Harvard Business online means more executives, particularly in the US, will take notice of this idea.

Astroturfing targeted

One the best corporate responsibility terms is in the news, for the right reasons for once.

"**Astroturfing**", the creation or use of fake grassroots voices or authentic-looking comment, is a technique used increasingly by PR, advertising and lobbying firms, often acting as proxies for big companies.

Wikipedia defines it as "describing formal political, advertising, or public relations campaigns seeking to create the impression of being spontaneous 'grassroots' behaviour. Hence the reference to the artificial grass AstroTurf".

Now some elements of the practice may be under threat from new guidelines issued by the **US Federal Trade Commission**, whose activities on the topic we also reported last month.

A translation of what these new guidelines might mean in action comes from the **Financial Times**, which says: "Advertisers, celebrity endorsers and even some internet bloggers will be held liable for false statements they make about products as part of a crackdown by US regulators on deceptive advertising practices. The new rules on the use of testimonials in advertising, released by the Federal Trade Commission, also say that anyone who endorses a product, including celebrities and bloggers, must make explicit the compensation received from companies."

The FTC wants, according to media, to tackle the use of astroturfing in new/social media, which is growing at an exponential rate. The FT reports: "Spending on social media marketing reached $1.35bn in 2007 and is expected to reach $3.7bn by 2011."

Companies that have already developed a social media ethics code include Coca-Cola, UPS and IBM, according to the FT. ■

Things used to be clearer...

Got a story? Email greenwasher@ethicalcorp.com

Letter from America

Hit business reset

It would be nice to believe the economic crisis had jolted business into better ways of thinking, but there is plenty of evidence that silliness still abounds, says Peter Knight

GE's Immelt: reset for more sustainability

Are we living in a "reset" world? This idea, cleverly packaged by the speech writers of GE chief executive Jeff Immelt, sounded interesting when it was delivered this time last year.

He argued that upheaval in the economy would redefine business, resetting the system and putting in place more responsible practices. The fact that Immelt's first outing with his reset soundbite was delivered at the Business for Social Responsibility annual conference, dovetailed rather sweetly with the audience's wishes.

So much so that BSR named this year's conference Reset Economy. Reset World.

Nice idea, poor prediction. Two economics professors, Carmen Reinhart and Kenneth Roggoff, have now provided evidence that explodes the reset myth. The basic message of their book – This Time is Different: Eight Centuries of Financial Folly – and backed by convincing data, is that we have been here before many, many times.

I want to offer three non-academic examples.

Before the financial crisis, the US was in a characteristic frenzy of green enthusiasm. Virtually every discussion had a green tinge to it, from interior decorating and investment strategies to the growth of green television channels and the popularity of vegan designer handbags. You would think a reset recession would surely blow away all the sustainability froth. No chance.

Take the current exhibition – Design for a Living World – at the Cooper Hewitt National Design Museum in New York. It is curated by Nature Conservancy, a venerable US conservation organisation. The exhibition displays the excruciating elitism that characterised so much of the sustainability debate before the recession.

The show's concept is laudable: find markets for natural materials in far-away places, to promote sustainable livelihoods. But instead of working with Wal-Mart or Target to find everyday uses for the wools, woods and tree saps, Nature Conservancy commissioned upmarket designers.

Missing the mark

The exhibition is composed of a series of products made from environmentally sound but overlooked materials. Two stand out as particularly silly.

Looking for uses for beautiful organic wool, Nature Conservancy commissioned a young Dutch designer who produced hand-spun yarn as thick as a mature set of dreadlocks. She then used knitting needles the size of walking sticks to knit a floor rug so lumpy that getting across it would be a climbing expedition.

Another challenge was to find new uses for discarded salmon skin. Nature Conservancy asked an upmarket designer to solve the problem. His solution? Connect a lot of dime-sized disks of salmon skin to make what the world really needs: costly cocktail frocks.

Such garments have been slow movers lately as consumers have worried about the parlous state of their pension funds (called 401Ks here). But a former venture capitalist called Woody Tasch – that's really his name – says he has found a solution to our shrinking retirement savings.

Tasch thinks money moves too fast and we have to slow it down. In the Wall Street Journal he argues that individuals should invest portions of their 401Ks in the businesses that make slow food: the local farmers who scrape together a living selling artisanal cheeses and obscure salads.

You would think a reset recession would surely blow away all the sustainability froth. No chance

Tasch is far from wacky. He is a respected fund manager and venture capitalist. But I doubt Tasch will find many willing to invest in those worthy but highly idiosyncratic Farmer Johns one meets at green markets.

One of the best signs yet that we have not abandoned our frothy green enthusiasm is displayed in the window of an upmarket stationery store in lower Manhattan. There hangs stylish rainwear made from recycled Tyvek envelopes: those indestructible sleeves of polyester that look just like paper.

It's a reset idea: you roll up your envelope-cum-raincoat into a small ball and keep it in your bag for a rainy day. What could be greener? I rushed into the store. I especially liked the child's jacket bearing the distinctive US Post markings. The shop assistant was unabashed when she announced the price: $245 for the child's coat and $300 for the adult's.

When you are asked to pay that much for a used envelope you know we must have turned the economic corner, but totally missed the reset. ■

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Brewing a better café culture

By Oliver Balch

UK consumers love their caffeine kick, but are coffee accreditation and certification programmes giving small producers a boost?

The Barrantes family appreciate nature. Living high in the Costa Rican mountains of Lourdes de Cirrí de Naranjo, they enjoy their fair share. And recent years have seen birds and butterflies flocking to their 106-acre farm in growing numbers.

Five years ago, the Barrantes began to reduce their use of artificial fertilisers and insecticides. Among other environmental measures, they also upgraded their micro-mill to save on water use.

Nearly 5,500 miles away, coffee drinkers in some of Starbucks' 740 UK and Ireland cafés are today enjoying the fruits of the Barrantes' labours. A secure supply contract with the Seattle-based coffee giant has seen the profitability of the Herbazú coffee farm shoot up. Last year, Starbucks paid them $1.49 for every pound of green (unprocessed) beans. This at a time when the open market price averaged $1.24.

In September, Starbucks announced a huge increase in its purchase of Fairtrade coffee. From now on, all its espresso-based drinks in the UK will be made from beans certified by the Fairtrade Foundation, a UK-based labelling initiative. That's every cup of cappuccino, americano, macchiato, latte and mocha: more than four-fifths of its product offering.

The decision has sent ripples through the speciality coffee market. The Fairtrade Foundation currently sells just shy of 10,000 tonnes of certified coffee a year. Starbucks' announcement is expected to increase that figure by 18% or more.

"This represents a significant volume and profile switch for us," says Richard Anstead, business development manager for coffee at the Fairtrade Foundation.

The shift is not without precedent at Starbucks. The world's largest coffee store chain has been buying Fairtrade certified coffee for more than 10 years. But this was restricted to its basic filter coffee. Other Fairtrade options were available, but customers had to specifically request them. Now Starbucks has chosen for them.

Starbucks' announcement is expected to increase sales of Fairtrade certified coffee by 18% or more

Neither is the shift without precedent in the wider market. Costa Coffee, a subsidiary of Whitbread and one of Starbucks' main competitors in the UK, began sourcing certified coffee in October 2008. Today, at least 30% of its leading Mocha brand coffee is sourced from farms that meet the standards of the Rainforest Alliance, a New York-based ethical labelling scheme.

What's in a logo?

Pret A Manger has gone one step further, buying all its Just Roasted blend, decaf and filter coffees from one of the three main verification organisations: the Fairtrade Foundation, Rainforest Alliance and the Soil Association (which coordinates the organic label). That equates to 350 tonnes of fully certified coffee beans a year.

Another notable name on the ethical buyers list is McDonald's, Pret's parent company. In 2007, the UK arm of the US restaurant group struck a deal with Kraft Foods to sell its Rainforest Alliance-certified Kenco brand in all its UK outlets. The decision boosted the demand for certified coffee by a further 810 tonnes.

For the uninitiated, the boom in ethical logos and labels can appear confusing. At the most simple level, all have a similar goal: to offer an assurance to coffee drinkers that what is in their mug has been responsibly produced.

Spot the difference: certification schemes compared

Fairtrade Foundation

- Producer organisations are **guaranteed a floor price** of **$1.25** per pound for Fairtrade certified washed arabica beans and **$1.20** for unwashed arabica, or the market price, if higher.
- For Fairtrade certified organic coffee an extra **minimum differential** of **$0.20** per pound is being applied.
- A Fairtrade **premium** of **$0.10** per pound is added to the purchase price and is used by producer organisations for social and economic investments at the community and organisational level.
- Fairtrade coffee certification is currently only open to **small farmer** organisations.
- **Democratic** decision making is required. Everybody has equal right to vote.
- **Environmental standards** restrict the use of agrochemicals and encourage **sustainability**.
- Pre-export **lines of credit** are given to the producer organisations.

Rainforest Alliance

- Social and environmental **management system**: must be in place.
- Ecosystem **conservation**: all existing natural ecosystems, both aquatic and terrestrial, must be identified, protected and restored through a conservation programme.
- **Wildlife protection**: hunting, capturing, extracting and trafficking wild animals must be prohibited.
- **Water conservation**: the farm must not discharge or deposit illegal levels of industrial or domestic wastewater into natural water bodies.
- Fair treatment and good **working conditions** for workers: the farm must not discriminate in its labour and hiring policies and procedures.
- Occupational **health and safety**: all workers receive training on how to do their work safely, especially regarding the application of agrochemicals.
- Integrated **crop management**: unregistered or banned chemical or biological substances cannot be used.
- **Soil management** and conservation: new production areas must only be located on land with suitable climatic, soil and topographic conditions.
- Integrated **waste management**: a programme must be in place.
- **Community relations**: the farm must consult local populations and community interest groups regarding farm activities that could have a negative impact on their quality of life.

Bird Friendly

- Canopy height: greater than 12 metres for the **canopy** formed by the "backbone" species.
- **Foliage** cover: more than 40%, ideally measured during the dry season and after whatever pruning is done.
- **Diversity** of woody species: ten or more required.
- Structural diversity: the "architecture" or profile of the shade should reveal obvious layers or **strata** of foliage.
- **Leaf litter**: as for organic standards, it should be present.
- **Herbs** or forbs on ground layer: should be present.
- Living **fences**: where appropriate, these should be present.
- Vegetative **buffer zones** alongside waterways: should exist and be composed of native vegetation.
- **Visual characterisation**: along the shade gradient, it should at least fall into the category of the more diverse commercial polyculture.
- **Organic** certification: must exist and be current from a USDA accredited certification agency.

Featuring triple-certified coffee

But notable differences exist. To be branded Fairtrade, for example, every bean must come from a certified farm. In the case of Rainforest Alliance, a blend can be approved with a certified content of 30%.

Criteria differ too. Most schemes cover basic social, environmental and human rights concerns. The differences are more of emphasis than substance. The focus of the Fairtrade programme, for example, is primarily social. Farmers must form part of a small farmer association and must meet generic labour standards, such as fair wages and safe working conditions.

Rainforest Alliance, in contrast, grew out of a concern for conservation and biodiversity protection. Its certification requirements range from reducing soil erosion and water pollution to protecting forests and other habitats. Social criteria are not omitted, however, just as the Fairtrade process has environmental requirements too.

Other coffee verification initiatives adopt a narrower focus. The Bird Friendly label is a case in point. Set up by the US-based Smithsonian Migratory Bird Centre, the scheme establishes specific criteria for shade-grown coffee. Likewise, the organic label places special attention to the use of fertilisers and other agricultural chemicals.

There are limitations of scope. The industry-led 4C label – the Common Code for the Coffee Community – provides a baseline for responsible coffee production and trading. It is designed primarily to help small-scale producers begin on the road towards more sustainable practices.

Stable pricing

On the supply end, certification generally offers farmers a more attractive, stable pricing formula than they gain on the open market. Fairtrade, for example, defines a minimum price that buyers must pay, as well as an additional premium that is reinvested in local community-based projects.

Retailers tend to elect the certification scheme that fits best with their values, existing supplier relationships and their supply chain priorities.

Brand awareness is also a critical part of the decision. In the UK, about three-quarters of people recognise the Fairtrade mark and are aware that it delivers development benefits to small producers. Recognition is highest among well-off ABC1 category consumers, at 78%. Awareness of the Rainforest Alliance logo currently runs at about 44%.

Consumer awareness in the UK far outstrips that in North America

Trust levels show a similarly positive trend. Most British consumers consider third-party certification the best way to verify a product's claims, according to recent research commissioned by the Fairtrade Foundation.

"Customer awareness around sustainability is on the increase in the UK and any sensible business would try to be ahead of this and position itself accordingly," says Nicky Fisher, sustainability manager at Pret.

"Pret always like to lead on ethical issues. Therefore it made sense to secure triple certification before the rest of the high street," Fisher says.

Similarly, Starbucks' recent 100% Fairtrade commitment for espresso-based coffees in the UK and Ireland was made in the knowledge that consumer awareness in the UK far outstrips that in North America.

"A lot of the trends that we see coming out in Fairtrade will be led by the UK. The UK consumer values Fairtrade very highly and will reward companies by buying their products when they make that switch," Anstead says.

Consumer demand for ethically sourced coffee in mainland Europe is catching up. Starbucks intends to expand its commitment to the remainder of the continent in March 2010. In the same vein, Costa's European outlets will all offer its Mocha coffee with a Rainforest Alliance logo by June next year.

More than froth

Ethical procurement presents multiple benefits for every actor in the supply chain. For starters, coffee retailers should sell more coffee. The logic is clear.

Starbucks is giving its customers "what they've been asking for", says Colman Cuff, managing director of the company's coffee trading division. "Hopefully that will convince them to buy more, get others involved. Everyone wants to eventually increase sales."

It is not just at the till where the retailer can accrue benefits. Knowing that the coffee they are serving is ethically produced builds employee morale and loyalty, says Clive Bentley, Costa Coffee's property manager and board representative for corporate social responsibility.

"Our barristas are aged between 20 and 25. They are in effect the next generation and green issues are very important to them," he says.

At the other end of the supply chain, producers stand to benefit, too. Aside from the premium they can receive for certified beans, small farmers benefit from greater market security and reach.

"Like any business, if [farmers] have their sales guaranteed, they begin to look at how they can reduce their costs and become more efficient," Cuff says.

Fairtrade in every cup

Sabrina Vigilante, Rainforest Alliance's director of markets and sustainable value chains, says certification helps farmers better manage their land and reduces their use of natural resources. "This leads to better productivity, better prices and quite often better quality," she says.

Despite recent advances, the market's supply chain remains a long way from being entirely certified.

The reasons vary. Logistics can be a problem. Distributing and segregating certified beans for specific markets is far from easy for global retail chains. Starbucks, for example, has five separate roasting plants dotted around the world.

Purchasing structures can also create an impediment. Not all coffee houses roast their own coffee beans. Coffee Republic, for example, sources from the Italian roaster Caffe Musetti. This adds another link in the chain, although not an insuperable one. Musetti, for instance, is registered by the Italian speciality coffee organisation Caffè Speciali Certificati, which carries out regular supply chain audits.

At the heart of the problem lies supply

shortages. There are simply not enough producers certified to specific marques – especially Fairtrade – to meet demand, retailers complain. The statistics appear to back this up. Fairtrade represents about 3% of all coffee traded, while Rainforest Alliance has a 1.5% to 2% share.

The problem lies not with suppliers but with the buy side, certifiers say. Becoming certified requires an upfront cost for small farmers, both in terms of finance and time. "We therefore need a signal from the buyers and the commitment from them to buy in the future to get the message to producers that there's a market in this and that they should invest in certification," Rainforest Alliance's Vigilante argues.

Another frequent complaint centres on quality. Ethical producers "don't have the same focus on quality first", Cuff says. Neither, it could be said, do certification criteria. None reflect buyers' checklists on aroma, body or acidity, for instance.

Again, this is not an insurmountable barrier. Anstead says certification organisations can work with retailers to bring about improvements in quality. "We'd encourage [retailers] to work with us to find the coffee they need and bring producers on board to become Fairtrade certified," he says.

With a similar end in mind, Rainforest Alliance holds a tasting competition every year in an attempt to highlight to producers the quality standards that the speciality market demands.

Knowing that the coffee they are serving is ethically produced builds employee morale and loyalty

Who pays?

Pricing marks a third hurdle. Someone has to pick up the premium. At present, it is the retailers. They already charge a premium for their speciality brands, enabling them to assume this cost. Starbucks, for example, estimates that the $0.10 premium per pound of coffee it pays to Fairtrade certified producers will cost it a mere £350,000 a year. This is in addition to the extra the company was already paying its suppliers above market price – Starbucks says it pays a total of £2.5m more than it would if it paid suppliers strict market price.

Price will only become an issue if consumers opt not to pay the high cost of

Darcy Willson-Rymer

Shouting about ethical connections

Starbucks' UK head is proud of the company's credentials and wants to spread the word

Darcy Willson-Rymer's introduction to corporate responsibility was immediate and abrupt. In his first week as chief executive of Starbucks UK and Ireland, the Yum Brands veteran found himself in the eye of a media storm. Newspaper headlines charged the Seattle-based global coffee chain with "hypocrisy". How could it claim to be a green company while instructing its barristas to leave the washing-up tap running continuously? "By the end of the week, the taps were off," Willson-Rymer says in a candid interview with Ethical Corporation.

The Starbucks UK and Ireland head believes in leading from the front. Commercially, he's in the right place. Starbucks remains the world's iconic coffee house brand. On the high street, competition for a cappuccino has become fiercer and fiercer. But the company that weaned the UK public off instant and onto americanos is still out in front. Starbucks has the most stores and the most footfall of any out-of-home coffee retailer.

Willson-Rymer aspires for a similar leadership position in the sustainability space. "We've laid out our goals to 2015 and we've been very transparent about reporting against those every year," he says. And the company stepped up a gear in September. Starbucks will now buy 100% of all its espresso brands – more than 80% of its product range – from farmers certified under the rules of the Fairtrade Foundation. It's the biggest and boldest move by any UK coffee chain to date.

One step at a time

Welcome though Starbucks' commitment is, couldn't it have come sooner? It's a process of taking one step at a time, Willson-Rymer replies. The company has been involved in ethical sourcing for more than a decade, working closely with environmental non-profit group Conservation International. As well as exacting quality standards, approved buyers are required to meet core social and environmental criteria. In addition, the company already pays a premium to producers for the high-end coffee it buys. So shifting to the Fairtrade marque is not new, but it takes what Starbucks is already doing "one stage further".

Neither is this the decision of a chief executive who spends his life in the boardroom. Willson-Rymer likes hanging out in his stores. He likes to think of them as "third spaces" – not home, not the office, but a place where "human connections" are made. So much connecting has led him to a salient conclusion: customers want the "assurance that we are doing what we say". Fairtrade gives them that.

Fairtrade is part of Starbucks' story, says Willson-Rymer

From Starbucks' business perspective, there's a related benefit. Fairtrade helps the company "tell its story". That's not something Starbucks has been terribly good at in the past, Willson-Rymer says.

"Having people understand that we use our scale and size for good … I think we have to do a better job of doing that," he says. Don't look out for huge neon billboards, but do expect more newspaper advertising, as well as in-store messaging and on-pack marketing.

An online offensive is also in train. A micro-site can be found on the company's main web page – www.starbucks.com/proudtosupportfairtrade. Starbucks is also looking to communicate with its 300,000 followers on Facebook, and the half-a-million or more that track it on Twitter – where Willson-Rymer will make the odd Tweet.

speciality coffee. Such a scenario has emerged during the current recession. Coffee Republic was rescued from administrators in the summer. And only Starbucks' most recent quarterly results suggest a slowing of the falling trend in sales.

Michael Tuffrey, director of consultancy firm Corporate Citizenship, points out a longer-term issue related to price. Ethical premiums could feasibly attract more producers into the fair trade market, he says. This could lead to a supply glut. Such an outcome could have the effect of "driving down the price for everyone" unless consumption keeps pace, Tuffrey warns. For now, though, the threat of oversupply remains theoretical.

Need for a refill

The UK coffee market is doing as much as or more than any other to promote responsible procurement. But is it enough?

Obviously the laggards could do more. Caffè Nero and Caffè Ritazza currently offer no ethically branded products. Incorporating a certified option onto their menu could be possible, as some surplus exists. Despite protests from some retailers about a lack of supply, more than half the harvest on all certified farms is sold in the conventional market for lack of a premium buyer. Quality of the beans is the chief hurdle.

Equally it is difficult to ask the likes of Pret, with a commitment to 100% certified coffee, to do more. The exception could be with certification schemes such as Rainforest Alliance, which permit the use of the label without every bean being certified. Take Costa. The company has just announced that the percentage of Rainforest Alliance certified beans in its Mocha brand will increase from 30% to 100% by June 2010.

Price will only become an issue if consumers opt not to pay the high cost of speciality coffee

"Fairtrade is part of the puzzle, but we have to see a whole series of responses to have a more socially and environmentally [sustainable] supply chain," says Gareth Thomas, UK minister for international development.

Integrating the lessons from existing certification standards into companies' internal procurement practices is one such response. This is Starbucks' strategy. Through its Cafe Practices guidelines, the company applies rigorous social and environmental standards for all its preferred suppliers.

In addition, to assist farmers to meet these guidelines, Starbucks runs training programmes through two specialist agronomy centres in Costa Rica and Rwanda. Furthermore, the company has invested $12.5m in loan finance to enable farmers to make structural or technological improvements on their farms.

Another popular response might be to provide direct, additional finance to fund social investment programmes in coffee-growing communities. In 2006, Costa established a foundation to do precisely this. It has built 51 classrooms in 11 schools in coffee growing areas, assisting in the education of 4,500 children.

The butterfly theory holds that a small action in one place can trigger any number of possible events elsewhere. Herbazú farm in Costa Rica is one tangible example. A decision by all UK coffee retailers to source 100% certified beans would be a fascinating second example.■

Consumers are happy with ethical sourcing

Ethical banks emerging stronger

By Rajesh Chhabara

Banks with stronger sustainability credentials have shown greater resilience during the global financial crisis

A greater focus on sustainability might have helped a number of banks to survive the financial crisis, which has seen the industry losing an estimated $3 trillion in write-downs. On the other hand, banks and financial institutions that were not known for commitment to sustainability were among the first victims of the crisis.

It appears that in the US, the epicentre of the financial crisis, sustainability was the last thing on the agenda of some of the largest financial institutions in the world. Citigroup is the only US bank making it regularly to the Dow Jones Sustainability World Index, which assesses companies on rigorous sustainability criteria for annual listing. Bank of America made it to the DJSI only once, in 2002 when the index was launched.

State Street, a financial services firm, is the only US financial firm other than Citigroup that has frequently made it to the DJSI. Both Citigroup and State Street appear to be doing well, though Citigroup needed bail-out money from the US government. Another financial services giant, Merrill Lynch, appeared on the DJSI from 2003 to 2007 before losing its place on the index.

The DJSI suggests that European and Australian financial institutions are ahead of their US peers when it comes to sustainability. Of the 24 banks listed on the Dow Jones Sustainability World Index 2009, 15 are European. Australia and Canada each has three banks on the list. Citigroup remains the only bank from the US. ANZ of Australia leads the pack as the super-sector leader with the highest sustainability score, an honour it has held since 2007. The index has 16 companies in the financial services category; seven are European and only one is American. In the insurance sector, 14 firms are listed; all are European.

In the US, the government has invested about $200bn over the past year in hundreds of banks to bail them out. Banks that received the help included iconic names such as Citigroup, State Street, Wells Fargo, Bank of America, JP Morgan Chase, Morgan Stanley, Goldman Sachs and Bank of New York Mellon.

With the exception of Wells Fargo, Citigroup and Bank of America, the bailed-out banks have since paid back the government. Observers say these banks returned the money partly because they recouped some of their losses and partly to escape stringent conditions attached to the bail-out money such as restrictions on executive pay.

On the corporate responsibility front, except for Citigroup and State Street, these large banks have not presented any evidence that they have changed the way they run their business. Citigroup and State Street on the other hand maintained their place in the latest DJSI, published in September – evidence that the financial crisis and the subsequent recession have not affected their commitment to sustainability.

European and Australian financial institutions are ahead of their US peers when it comes to sustainability

Citigroup's chief executive, Vikram Pandit, declared in a testimony before the US Congress' financial services committee in February that he would take a salary of only $1 and no bonus until the bank returned to profitability, setting a new high ground for other chief executives.

Environmental and social risks

One of the reasons that banks with a sustainability focus have done relatively well is that they had put in place more robust environmental and social risk management. This started with the launch of the Equator Principles in 2003 – environment and social standards for project financing. UniCredit, ING, Barclays, Credit Suisse, ABN Amro, Westpac and Citigroup were among the first principles signatories.

Leonie Schreve, head of ING Bank's environment and social risk management, says the Equator Principles helped the bank to create awareness about sustainability and triggered the development of overall sustainability policies. Seeing the benefit, ING voluntarily decided to extend the environment and social risk framework beyond project financing to include all transactions. This year, the bank took a leadership position and extended the framework to insurance business as well.

"Our environment and social risk framework is much more than only the Equator Principles. We have sector policies, human rights policies and environment management policies," Schreve says. ING has introduced specific sustainability policies for environmentally and socially sensitive sectors such as oil and gas, mining, forestry, manufacturing, agriculture, gambling and defence.

ING uses its environment and social risk framework to classify potential clients into three categories, based on their environmental and social performance. "The aim is

A bumpy ride – benefits of a sustainable index listing

Lehman Brothers, **Bear Sterns**, **Merrill Lynch**, **Fannie Mae**, **Freddie Mac**, **Countrywide Financial** and **AIG** were among the largest US financial services companies that either failed or were acquired by rivals under duress or bailed out by the government. Of these, Lehman, Countrywide, AIG and Freddie Mac never found a place on the Dow Jones Sustainability Index while Bear Sterns and Fannie Mae made it on to the index only once and twice respectively.

The DJSI listing tests include corporate governance, risk and crisis management, stakeholder management, environmental reporting, environmental policy/management system, climate change governance, corporate citizenship/philanthropy, social reporting, and occupational health and safety.

European and Australian financial firms have dominated the DJSI since its inception. But Britain's **Northern Rock** was not one of these. Northern Rock was one of the early victims of the financial crisis in the UK and was eventually taken over by the government.

Most banks that have regularly featured on the DJSI have shown remarkable resilience in the face of what is dubbed as the worst recession since the Great Depression of 1930s. These include **UBS**, **HSBC**, **UniCredit**, **Deutsche Bank**, **Credit Suisse**, **BNP Paribas**, **Barclays**, **Dexia**, **ANZ**, **National Australia Bank** and **Westpac**. Many of these also appear on FTSE4Good Index, which tracks the performance of companies meeting international corporate responsibility standards.

Top banks

Many leading banks are included in the Dow Jones Sustainability World Index 2009.

ANZ Banking Group, Australia (sector leader)
Banca Monte dei Paschi di Siena, Italy
Banco Bilbao Vizcaya Argentaria, Spain
Banco Bradesco, Brazil
Banco Santander, Spain
Bank of Nova Scotia, Canada
Barclays, UK
BNP Paribas, France
Canadian Imperial Bank of Commerce, Canada
Citigroup, United States
Credit Agricole, France
Credit Suisse, Switzerland
Deutsche Bank, Germany
Dexia, Belgium
DnB NOR, Norway
HSBC, UK
Itau Unibanco Holding, Brazil
Lloyds Banking Group, UK
National Australia Bank, Australia
Nedbank Group, South Africa
Royal Bank of Canada, Canada
Royal Bank of Scotland, UK
UBS, Switzerland
UniCredit, Italy
Westpac Banking, Australia

Venerable institutions went to the wall

to focus on those that are best in class, to help those who are average performers and not to engage with the worst in class companies," Schreve says.

Schreve says the impact of financial crisis has only increased the importance of these policies in making business decisions.

Similar practices adopted by several other banks have improved the quality of investment by minimising risk. Standard Chartered Bank, which is a signatory of the Equator Principles and is listed on FTSE4Good Index and FTSE4Good Environment Index, set a leadership example in March 2009 when it announced position statements on 11 sensitive industrial sectors: forestry and palm oil, mining and metals, oil and gas, biofuels, dams, gaming and gambling, transportation of hazardous materials, fossil fuel power generation, ship breaking, tobacco and nuclear power generation. The bank also announced position statements on child labour and climate change.

Yulanda Chung, head of sustainable business at Standard Chartered, says these statements and guidelines will promote sustainable finance and reduce environmental and social risks for the bank.

Chung points out that Standard Chartered is the first bank to have a policy on ship breaking, which has a potentially high impact on health and safety and the environment. Most of the ship breaking activity is now taking place on the Indian sub-continent where Standard Chartered has a major presence. Chung says the bank has financed four ship breaking clients in Chittagong, Bangladesh. Under the ship breaking financing guidelines, the bank is going to conduct an independent third-party audit of all four clients. She says the bank will ask them to come up with a corrective action plan if the audits reveal that they are not meeting the bank's sector position statement.

Standard Chartered is applying the position statements and the sector guidelines to small local firms and large multinational clients. Chung says making environmental and social risk assessment an integral part of the credit approval process has improved the bank's overall risk management.

UniCredit, one of Europe's largest banks and a regular on DSJI and FTSE4Good Index, is another bank that says it has benefited from introducing stringent environmental and social risk management policies. "We not only have financial risks in transactions, we also have extra-financial risks that can turn into financial risks overnight," says Karen Wendt, vice-president for extra-financial risk advisory at UniCredit. For example, a major campaign by the local community can delay a project, cause budget overruns and create legacy problems, she adds. UniCredit has included environmental and social risks in its system of rating all transactions for sustainability. "We have ended up with a better portfolio. We have a portfolio which has relatively less risk," Wendt says.

Citigroup took a leadership role in 2003 by initiating the launch of the Equator Principles with nine other banks. "For Citigroup, signing up to the Equator Principles was a starting point for establishing a broader environment and social responsibility and risk management," says Shawn Miller, Citigroup's director of environmental and social risk management.

Miller says the bank realised it had other transactions that were outside the scope of the Equator Principles where it could apply a similar environment and social risk screening tool. As a result, the bank decided to expand its environment and social risk policy to include transactions such as corporate loans, bond underwriting and equity underwriting. "It has really helped us manage our risks," Miller says.

Climate leadership

More recently, banks with creditable sustainability practices have also started making commitments on climate change. HSBC was rated number one in the financial sector in the 2009 Carbon Disclosure Project Global 500 while Standard Chartered Bank was rated the best in 2008. The Carbon Disclosure Project is a non-profit initiative to collect and distribute climate change information about companies, which produces the Carbon Disclosure Leadership Index. This year, the CDLI included a number of banks such as ANZ, Australia National Bank, Commonwealth Bank of Australia, Lloyds Banking Group, Westpac Banking and Bank of Montreal.

In another leadership initiative, Standard Chartered and HSBC, Swiss Re, Munich Re and Credit Agricol adopted the Climate Principles, a voluntary framework to guide the finance sector in tackling the challenge of climate change. Participating banks and financial institutions commit to minimising their operational carbon footprint as well as help their clients to manage climate change related risks by developing appropriate products and services.

Microfinance punches above its weight

While adopting climate policies and strategies that address environmental and social risk have helped these banks to improve risk management, commitment to sustainability has led to identifying new business opportunities such as microfinance.

Microfinance has remained recession-proof, with the added benefit that it helps banks to make a positive difference to communities. Standard Chartered Bank, for example, made a pledge in 2006 under the Clinton Global Initiative to give $500m of credit to microfinance institutions by 2011. By mid-2009, the bank had already provided $450m to more than 50 microfinance partners in 14 countries in Asia, Africa and the Middle East. In 2008, it put in place a technical assistance strategy aimed at using the bank's expertise in governance, risk management and operations to help the microfinance partners to introduce best practices.

In a separate initiative, in 2008 Standard Chartered published Managing Environmental and Social Risks in Microfinance, a research paper urging microfinance partners to embed social, environmental or ethical impact considerations in their lending decisions. These principles are now included in the loan agreements signed between microfinance partners and Standard Chartered.

Learning from microcredit seems to have helped Standard Chartered to tap into the vast economic potential in rural China, having become the first bank to open a "village bank" in a the remote settlement of Helingeer, Inner Mongolia, in November 2008. In August this year, the village bank launched an unsecured lending service for farmers offering a one-year loan of up to 50,000 yuan (about £4,500).

Citigroup launched Citigroup Microfinance in 2005 with an aim to provide financing and other services such as loan syndication, securitisation, insurance and savings and remittance to microfinance institutions. Citigroup Microfinance now works with more than 100 microfinance institutions in 13 countries. In September this year, Citigroup Microfinance signed a deal with the Overseas Private Investment

Microfinance has remained recession-proof, and helps banks to make a positive difference to communities

Corporation, a US government export credit agency, to lend $250m to microfinance institutions around the world. This is an expansion of an earlier deal between Citigroup Microfinance and Opic in 2006 that pledged $100m for funding microfinance institutions. Under the deal, Citigroup provides funding while Opic part-shares the risk.

Deutsche Bank was the first bank to create a microfinance fund 10 years ago. The bank says it has channelled $170m to more than 100 microfinance institutions in 45 countries and will continue to expand in the sector.

As sustainability leaders work towards delivering their commitment to managing environmental and social impacts, microfinance, climate change and other issues such as money-laundering, financial crimes, governance and workplace practices, they are also paying attention to embedding sustainability across their organisations. "We did not want sustainability to be a standalone department doing things that the rest of the bank is not aware of," says Standard Chartered's Chung. She says a seamless integration of sustainability into every aspect of business is a key feature of Standard Chartered's approach.

Principled institutions

The following have adopted the Climate Change Principles:

Credit Agricole
HSBC
Munich Re
Standard Chartered
Swiss Re

Source: The Climate Group

Committee structure

This is also reflected in the organisational structure. For example, there is a group environment committee that is represented by senior executives from key divisions such as wholesale banking, consumer banking, risk management, technology, operations and property services. Similarly, the wholesale banking division has a reputational risk and responsibility committee that assesses each proposed transaction for potential impacts.

Standard Chartered has also renamed its sustainability team as sustainability and operations. "The operations element implies that we are trying to embed sustainability into business activity," Chung says. She adds that the sustainability and operations team is responsible for annual financial reporting as well as sustainability reporting.

ING's Schreve says her bank has been conducting organisation-wide training to educate employees on how to implement environmental and social risk framework in day-to-day business.

Embedding sustainability across an organisation is crucial for the long-term success of sustainability programmes. Banks that have realised that their sustainability initiatives have helped them manage business and reputational risks during the recession have all the motivation they need to integrate sustainability principles throughout their business. And those that ignored sustainability and pursued greed-driven profits have had a hard lesson. The leaders have learnt that sustainability makes business sense. ■

In need of a polish

By Rajesh Chhabara

The Forest Stewardship Council is under pressure from environmental activists to reform its sustainable forestry certification system

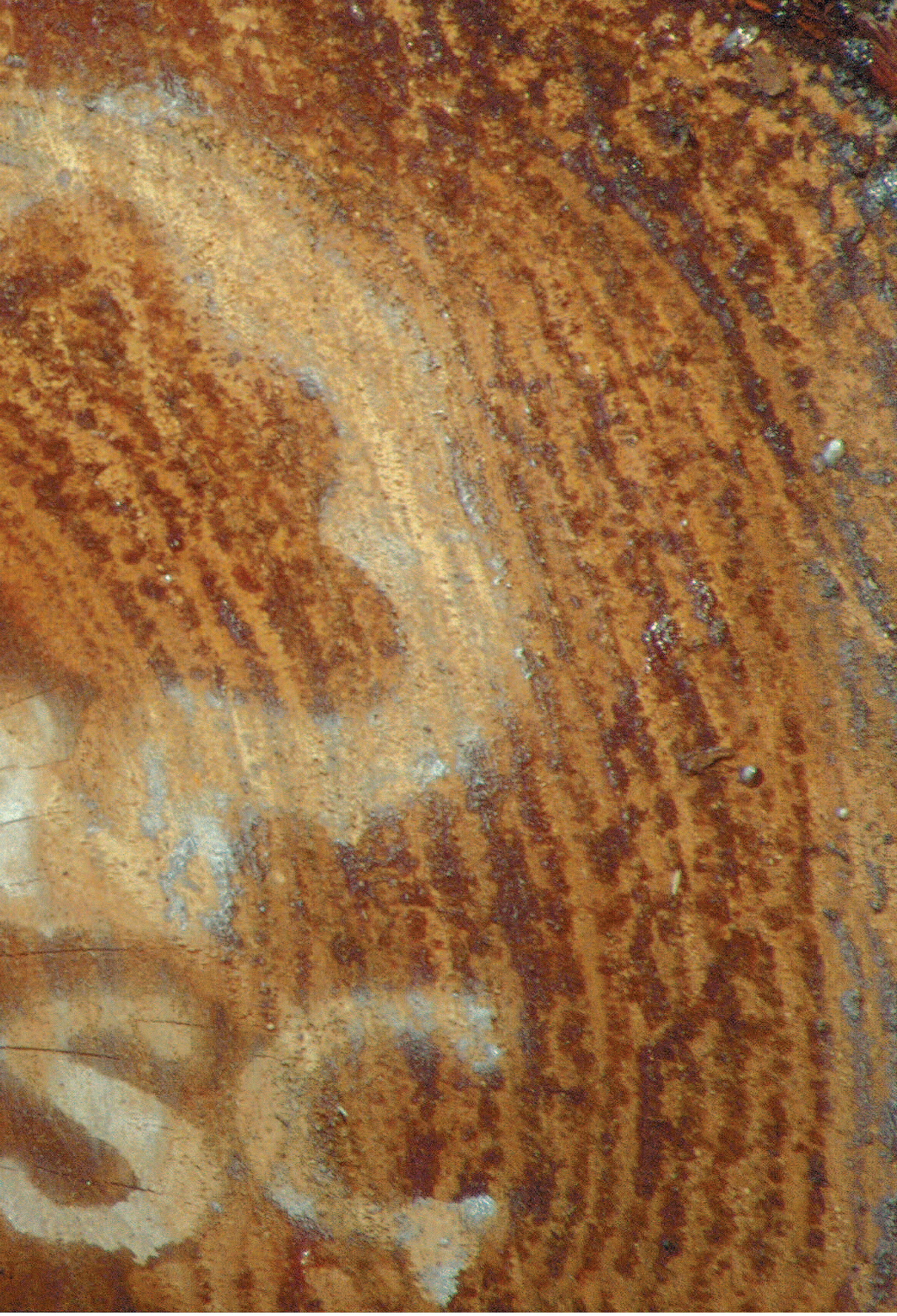
It had all been going so well. Timber users and traders, social groups and environmental NGOs came together to establish the Forest Stewardship Council in 1993 to introduce worldwide sustainable forestry standards. Within a year, the multi-stakeholder initiative introduced the FSC certification scheme, which went on to become – and still is – the most recognisable label for sustainable wood products.

Over the years, FSC has become the label of choice for those wanting to use wood from sustainable forests and plantations. A large number of multinational companies – including Gap, Nike, Body Shop, Ikea, Fedex, Coca-Cola, Alcan, Dell, Starbucks, Goldman Sachs, the BBC and Google – insist on buying FSC certified wood and paper products as part of their sustainability commitments. Leading green building certification scheme LEED requires use of at least 50% of wood materials in construction from FSC certified sources. A host of universities, government agencies and non-governmental organisations choose FSC certified wood and paper products.

Not surprising then that the architects of New York's upcoming high profile public park High Line decided to use FSC certified Amazon wood for seating and decking. But they were surprised when activists from Rainforest Relief and New York Climate Action Group – both environmental groups based in the city – descended on the park in September to protest against the use of any wood from Amazon forests. Activists claimed that the wood came from the Amazon's ancient forests, which they believe should not be harvested for industrial use. They also attacked FSC for certifying logging in these forests as sustainable.

Losing support

The past couple of years have seen several environmental groups questioning the effectiveness of FSC in managing forests sustainably. Even NGOs that were once part



ERIC GEOTHALS/FSC

FSC at a glance

- **116m** hectares of forest and plantation area certified worldwide.
- **81** countries covered.
- **940** forest management certificates issued.
- **47%** of total certified area is in Europe, **35%** in North America, **3.5%** in Africa and **2.1%** in Asia.
- Estimated value of FSC labelled sales: **$20bn.**

Source: Forest Stewardship Council

of FSC have started leaving the organisation in protest.

Friends of the Earth UK, a major environmental campaigner and a founding member of FSC, decided to withdraw its support in September last year. A statement from FOE UK said it was “deeply concerned by the number of FSC certifications that are now sparking controversy and threatening the credibility of the scheme. We cannot support a scheme that fails to guarantee high environmental and social standards. As a result we can no longer recommend the FSC standard.”

Earlier, in May 2008, the Association for the Ecological Defence of Galicia, a major Galician environmental group, withdrew its support for FSC after its demand to cancel the certification of Norfor, a local eucalyptus plantation, was not met. A few other smaller Galician environmental groups had already withdrawn support for FSC in 2006.

And in March 2008, the Swedish Society for Nature Conservation quit FSC, calling the council’s standards weak and “not good enough”. The same month, Robin Hood, a German NGO and long time member, quit FSC International, protesting against the policy of certifying large-scale plantations, though the group said it would continue to work with FSC’s German council.

In 2007, a small group of NGOs in Ireland had decided to withdraw support to FSC when their representatives were not included in a stakeholder discussion to discuss a draft Irish national standard.

A year earlier, in 2006, NGOs from Brazil, Chile, Colombia, Ecuador, Ireland, Spain, South Africa and Uruguay had asked FSC to withdraw certifications of certain plantations in these countries alleging non-compliance. FSC decided to briefly suspend the certification process in Indonesia after local environmental and human rights organisations raised doubts over the reliability of the scheme in 2001, saying it was not effective in protecting the rights of indigenous people in the forest area. The same year, FSC-accredited certifier Rainforest Alliance suspended certifications for four of five plantations, spread over 113,139 hectares, managed by state-owned

FSC attracts criticism because it is very transparent

company PT Perhutani in Java, Indonesia, for non-compliance.

Victim of transparency?

Richard Donovan, senior vice-president and chief of forestry at Rainforest Alliance, a non-profit organisation that is also one of the accredited certification bodies for FSC, says FSC attracts criticism because it is very transparent. He says FSC puts all information related to certifications, audits, corrective actions, stakeholder comments and draft policies in the public domain. “This means just about anybody can raise an issue any time,” he says.

Donovan says criticisms of FSC are often inaccurate or driven by alternative agendas and have nothing to do with actual impact on the ground in terms of forest conservation and the rights of local communities.

FSC's principles for forest stewardship

- Tenure and use rights and responsibilities.
- Indigenous people's rights.
- Community relations and workers' rights.
- Multiple benefits from the forest.
- Assessment of environmental impact.
- Management planning.
- Monitoring and assessment of management impact.
- Maintenance of high conservation value forests.
- Responsible management of plantations.

Source: Forest Stewardship Council

Alison Kriscenski, head of communications at the FSC International Centre in Bonn, Germany, says FSC has an official complaints and disputes procedure that is designed to help stakeholders make their concerns known and to find the best way of resolving complaints. "As a multi-stakeholder organisation, FSC is limited in its ability to react to criticism or critics that only address general issues without specific details, or have a vision of the world which is not compatible with FSC's," Kriscenski says.

While some NGOs have deserted FSC, WWF and Greenpeace continue to support and promote the council. A study report published by WWF in September 2009 – Great Apes and Logging – concludes that "responsible logging in accordance with FSC standards is a good guarantee for the preservation of adequate living conditions for great apes".

NGO discomfort

Critics of FSC have three broad concerns. First, they are against awarding certifications for primary and ancient forests – such as the Amazon and in Indonesia – that they say should be left intact. Second, they oppose certification of plantations, such as teak and eucalypt, which they say are being created after destroying primary forests.

FSC does not have much control over its accredited certification bodies and they compete with each other to get contracts

Third, they say some FSC-accredited certification bodies are issuing certificates to non-compliant forest operations for profit.

FSC certification is issued by independent companies and a few non-profit organisations accredited by FSC. The council only sets the standard and does not participate in forestry audits or assessments.

New Yorkers say no to Amazon wood

Plantation or forest operators directly contract with FSC-accredited certification agencies such as SGS and Bureau Veritas for certification.

Simon Counsell, director of Rainforest Foundation UK, which was one of the founding members of FSC but now runs a campaign to reform FSC, says: "There are a number of major structural flaws in the FSC system." He says that FSC does not have much control over its accredited certification bodies and that they compete with each other to get contracts. "All of them know that the way to get more business is to have a track record of being lenient and perhaps turning a blind eye when they find problems and keep issuing certifications."

In 2002, the Rainforest Foundation published a 159-page report, Trading in Credibility, analysing the performance of FSC in 2002 and made several recommendations for changes. Counsell says that none of the recommendations has been implemented by FSC.

He recommends that FSC should directly contract with certification-seeking forest operators and then assign the job to one of its accredited certification bodies rather than allowing a direct relationship. He says that FSC should also retain powers to cancel certificates if it finds they are in non-compliance with its standards.

The Rainforest Alliance's Richard Donovan doubts, however, if a change in the relationship will have any significant impact on the quality of audits. "FSC already has the most rigorous accreditation process," he says.

The large number of plantations around the world seeking FSC certification is a big logistics challenge whether or not FSC tries to enter into direct contracts with clients. Donovan says FSC needs to develop a system to identify low-risk auditors and high-risk auditors based on their track record. He also says that new auditors should not be allowed to operate beyond their core region until they clearly demonstrate the capacity to undertake inspections over a larger area.

Counsell points to the significant role given to the timber industry in FSC. Timber industry members enjoy one-third of the voting rights in FSC and hold one-third of governing board seats. The head of Orsa Florestal, a major Brazilian forest operator, is currently FSC's chairman.

"People question whether it is right for an organisation that is supposed to be setting and implementing standards for the timber industry to have the industry itself in there and influencing what those standards are and how they will be implemented," Counsell says.

Donovan argues that bringing in the timber industry has resulted in wider acceptance of FSC standards. He points out that the two-thirds of the votes are in the hands of non-profit members that can prevail over timber industry representatives.

And, in spite of the criticism, Counsell agrees that there is no better alternative to FSC at the moment. "That is why NGOs have worked hard both within and outside the organisation to try to reform it and improve it," he says.

There are many other industry-driven certification schemes such as the Programme for the Endorsement of Forest Certification, CSA International, the Sustainable Forestry Initiative, the Malaysian Timber Certification Council, the Australian Forestry Standard, OLB and Keurhout. But the website – www.whyfsc.com – promoted by business groups that advocate using FSC certification notes that independent research, including work by societal interest groups and scientists, has shown that there is reason to doubt the reliability of other schemes.

He's a lumberjack, but is the tree ok?

Business changes

So FSC needs to deal effectively with the growing criticism, and that may mean making changes in the way it conducts its business in order to stay credible.

Donovan agrees that it is time for certain changes in the FSC system. The Rainforest Alliance has made several recommendations that FSC is considering. One of these is to identify "high visibility operations" run by large companies that have historically had bad reputations with NGOs. The Rainforest Alliance wants FSC to have a different policy on how to handle certification requests from these companies.

Given the wider acceptance of FSC label, an increasing number of large plantation and forestry companies are approaching for FSC certification, Donovan says. As some of them have a controversial background, he suggests a system in which FSC's certification body can issue a certificate only when a technical panel appointed by FSC reviews the evidence and approves the certification.

Currently, under FSC criteria forests converted into plantations after 1994 do not qualify for certification. But Donovan says FSC should review this policy in order to deal with the reality that a large number of conversions have taken place since the mid-1990s. He says FSC and stakeholders should acknowledge the challenge and develop a new tool to deal with such plantations. "If someone did convert after 1994, it's not that they cannot be certified; but what they have to do in order to get certified."

Other recommendations made by the Rainforest Alliance include introducing a set of common interim standards for all certification bodies, requiring all certification bodies to promptly make public all information related with assessments, strengthening the stakeholder engagement process, making the accreditation process more stringent and improving the oversight of certification bodies.

> ***"The entire value of FSC rests on its credibility. It has to be perceived to be working"***
> *Simon Counsell,*
> *Rainforest Foundation UK*

And FSC has announced some changes. In September 2009, it published new accreditation standards saying it will raise the quality of the certification process. It also revised standards that apply to group certifications, usually small community forestry groups coming together through one entity to seek certification to reduce costs.

Apart from the need to make its certification system and accreditation process more stringent, FSC faces a complex challenge of stopping NGOs leaving its fold. Equally important is to work with dissenting environmental and social groups and resolve more sensitive issues of ancient forests and large-scale plantations. Frequent media reports of NGOs withdrawing support or campaigning against those who use FSC certified products can erode customer confidence in the FSC label.

Counsell says: "The entire value of FSC rests on its credibility. It has to be perceived to be working and people have to believe the promise that it offers. The scheme will lose its value if NGO support continues to diminish."

Campaigners and activists on the other hand should be more willing for a constructive dialogue to save the scheme, as there are no alternatives. Killing FSC will not do any good to the cause of forest preservation and protecting the rights of local communities. FSC is too big to be allowed to fail. ■

Dirty business

By James Geary

Organised criminals are exploiting lucrative waste disposal markets, with serious environmental consequences

Gatherings of the International Commission for the Conservation of Atlantic Tunas (ICCAT) are usually pretty sedate. But the 2006 meeting in Dubrovnik was a stressful occasion. Measures to protect the Atlantic bluefin population were up for discussion, and some delegates alleged that organised crime was involved with the pro-fishing lobby.

One of the environmental groups taking part in the conference found a white lily, a flower commonly used at funerals, on its seat at the table. It wasn't quite as dramatic as waking up next to a severed horse's head – as in the famous scene from The Godfather – but the message, assumed to be from the mafia, was just as clear: don't mess with our business interests.

Crime boom

"Everyone is aware that organised crime is involved in drugs and sex trafficking," says one European policing official, "but they are just now identifying ecological crimes as a serious area they have to look into."

Ecological crime is a complex, sprawling activity, spanning everything from illicit bluefin tuna fishing, illegal logging and the smuggling of endangered species to carbon credit fraud, trade in ozone-depleting substances, and toxic-waste dumping. The increase in the amount of hazardous waste produced over recent years, combined with tougher laws regulating processing, has created a lucrative market for illicit trafficking.

The profit margins on toxic waste tend to be high for criminals since it is expensive to dispose of legally. Statistics are hard to come by, since the link between organised criminals and ecological crimes is still relatively new. But, perhaps unsurprisingly, one country has been out ahead on the issue, both in terms of the extent of the problem and the determination to do something about it – Italy.

The Italian environmental group Legambiente has been publishing its annual Eco-mafia Report since 1994. This year's version states that almost 26,000 ecological crimes were committed in Italy in 2008, amounting to 71 offences every day.

Nearly half the crimes took place in the Campania, Calabria, Sicily and Puglia regions, all of which are known mafia strongholds. The crimes ranged from illegal construction projects to the pollution of woodland, water and agricultural resources. The estimated turnover from all this criminal activity is €20.5bn.

Probably the most astonishing statistic to come out of Eco-mafia Report 2009 is Legambiente's estimate that a mountain of toxic waste 3,100 metres high – almost the height of Mount Etna – has gone missing. According to Legambiente, Italy produced 30m tonnes more industrial waste than was legally disposed of in 2008. And no one knows where that waste went.

"Criminal organisations traffic waste from the industrial north of Italy to the south, where it is dumped," says Laura Biffi of Legambiente's environmental and legal department. "It's cheaper to get the mafia to dispose of it than to dispose of it legally." Waste ends up hidden in the countryside, added to fertiliser and spread across fields, or mixed with concrete and used for public works.

Concrete criminals

Biffi tells of one case in Crotona, a small town in Calabria in southern Italy. Chemical waste was discovered in the building materials used to construct a schoolyard and part of the airport. Chemical pollutants had also leached into the water supply. The local government and public prosecutor traced the waste back to a nearby chemical plant that had been shut down. The plant's waste had been secretly mixed into the concrete that was used for a range of construction and renovation projects, including the schoolyard and the airport.

Officials are now monitoring the region for adverse health effects, which might not become apparent for years, or even decades. Increases in diseases such as leukaemia, colon cancer, and stomach tumours have been recorded in other areas where illegal dumping is known to have taken place.

According to the Legambiente report, the toxic waste trade was the mafia's biggest money-spinner in 2008, accounting for some €7bn in revenue.

"Other countries have stronger public controls on these kinds of things," Biffi says. "In Italy, waste management often involves companies that are informally controlled by the mafia, especially in the construction industry. These businessmen don't follow the rules."

These businessmen are, however, extremely entrepreneurial, continually finding new ways to dump toxic waste – including by sinking ships with contaminated cargo in the Mediterranean, a practice first identified by Legambiente in its first Eco-mafia Report in 1994. Earlier this year, a wreck apparently containing toxic waste was discovered about 30km off the Calabrian coast.

A 2003 European commission study of organised environmental crime in EU member states found that a lack of coordination and cooperation among national law enforcement agencies hampered the prosecution of ecological offences. Three-quarters the cases researched in the commission study involved cross-border crime.

This lack of coordination was especially acute among the EU's newest members

The profit margins on toxic waste tend to be high for criminals since it is expensive to dispose of legally

from eastern and central Europe, where the concept of organised environmental crime itself was still very new. The study recommended the harmonisation of environmental criminal law and organised crime legislation and the creation of specialised environmental crime units within national law enforcement agencies.

In Italy, the toxic trade flows from the industrialised north to the less prosperous south. The same migration takes place on a continental scale, with the waste from the developed north funnelled to countries in the developing south.

This "effluent of the affluent" typically leaves ports in western Europe and arrives in places like Nigeria and Ghana, which have particularly lax controls. These countries don't have the infrastructure to store or process the waste properly, so it ends up poisoning the water and soil, which can devastate areas that rely on agriculture and fishing for local livelihoods.

E-waste – defunct or outdated electronic equipment, such as phones, computers and printers – poses the biggest risk, according to Transnational Trafficking and the Rule of Law in West Africa, a threat assessment

Wherever there's cash, there's crime

published by the UN Office on Drugs and Crime in July.

A 2007 report by the UN University estimates that the European Union produces an annual average of 8.7m tonnes of e-waste, 6.6m tonnes of which is not treated within the EU. Most of the missing waste, officials believe, is sent to Nigeria and Ghana, where valuable materials like copper wiring are recovered and components with no commercial value are discarded or burned.

The UN Office on Drugs and Crime report suggests that only 95,000 tonnes of e-waste is documented as being imported into Nigeria and Ghana every year, where it has a market value of some $95m. Whatever the extent and value of the e-waste, the environmental damage it causes will eventually cost a lot more. A computer contains large amounts of lead, and significant amounts of other toxic metals such as cadmium and mercury.

In 2008, Greenpeace took soil samples from a handful of e-waste processing sites in Ghana and found lead concentrations at 100 times normal background levels. According to Greenpeace and the Basel Action Network, an environmental watchdog that monitors adherence to the Basel Convention – which criminalises trafficking in hazardous waste – between 10 and 15 shipping containers of used electronic goods arrive every day in Lagos.

The good guys

It's not all bad news, though. Non-governmental organisations have mobilised to document and deter this toxic trade. The Basel Action Network, which is based in Seattle, focuses on the export of toxic waste and polluting technologies to the developing world. Traffic, based in Cambridge, UK, protects wild animal and plant species from endangerment by trade. And the Environmental Investigation Agency, which often works undercover to expose illegal activities, tackles a wide range of environmental crimes. With offices in London and Washington, the EIA is currently working to stop trade in ozone-depleting refrigerants, which are also powerful greenhouse gases.

These and other organisations have wracked up some successes. Chemical waste trafficking to west Africa has actually

> ***Waste from the developed north is funnelled to countries in the developing south***

decreased since the late 1980s, though e-waste trafficking has increased during the same period. In Italy, Legambiente reports that 25 arrests were made for ecological crimes in 2008, the highest number ever.

There are also high-tech ways to track waste and detect when illicit dumping is afoot. Remote-sensing techniques such as ground-penetrating radar can pinpoint toxic dumps without digging into the soil. This avoids the risk of potentially disturbing toxins that can enter the air or water supplies.

But as ecological crimes – from tuna fishing to waste disposal – become more lucrative, the involvement of organised crime is unlikely to go away any time soon. "The mafia is everywhere that business is," Biffi says. "If the business is good, the mafia will be there." ■

For more on tuna fishing see p32.

Wind farms and the Sicilian mob

Contracts to build **wind farms** on the Italian island of **Sicily** have attracted the interest of organised crime. Lucrative grants to construct turbines and high guaranteed rates for the electricity they eventually produce, have combined to make the region very attractive for criminal gangs, colluding with local officials. Mafia families are suspected of offering money and votes in return for wind farm permits.

The Financial Times reported in May 2009 that – in an attempt to assert control on the sector – Sicilian crime organisations are suspected of destroying two wind towers in storage at a port on the island that had been delivered from northern Europe. Some wind farms established by companies with mafia links don't actually generate any electricity due to **poor construction standards.** Often Sicilian wind farms would be quickly sold by local developers to international energy companies who were unaware of any connection with organised crime.

Amidst confusion, several Italian regional governments, including Sicily's, have suspended authorisation of new wind farm sites to wrest control back from the criminal gangs.

Lucrative crime opportunity

China column

Bye-bye backhanders

China's initiative on removing corruption in tendering for public contracts are a victory for transparency, says Paul French, China editor

I sometimes have a bit of trouble with this column. I hear about something interesting in China that sounds like a good story. I go after it hoping that it will be a positive story and not negative, but, of course, what initially appears positive in China often goes sour. Take the recent stories we've covered on the rise of charitable donations in the wake of the Sichuan earthquake last year and then the government siphoning of the cash – a positive became a negative with a bit of digging.

So this month something that really is positive. Ask anyone who's been involved in tendering for a government contract in China how the process works and they'll probably roll their eyes and shrug their shoulders, with good reason. For decades it's been a murky world of backroom dealing and corruption involving senior Communist party cadres, corrupt local officials and rogue construction firms. More than one foreign company has found themselves (let's be charitable here) unwittingly involved in a dodgy deal. But perhaps no more.

China's ministry of supervision has introduced a new system of tendering for government procurement contracts that some are calling state of the art and far in advance of anything in Europe or the US, and it looks like they may be right.

Here's an example from the city of Chengdu, though the same system is operating now in Beijing, Shanghai and half a dozen other Chinese cities with large infrastructure spending and plenty of cash to dole out.

First, all public tenders are now announced on the internet and in relevant journals so everybody knows about them. Tenders are then submitted to a sealed and guarded tender box under the care of the ministry of supervision. That box is then opened publicly in front of officials and all who tendered. All the tenders are read out, again in public, and recorded to prevent any late changes.

Secret deliberations

They are then removed, under guard, while a computer randomly selects a panel to judge the bids. All are pre-approved experts notified by text message to attend the tendering panel. They don't know what the project is or who has bid. When they arrive at the tendering centre their phones are confiscated and they are sequestered in a secure room, much like a jury in Britain. During their deliberations they have no contact with anyone outside the panel; if the deliberations run overnight they're moved to a hotel and guarded.

The panel eventually all privately record scores electronically for each tender; the computer then calculates them all to decide the winner. All tender applications are retained by the ministry of supervision for 10 years for public inspection.

The system seems to work. OK, so procurement is only a small part of total government spending but the system is now being rolled out both geographically across China and into more areas of government spending. Local officials – where so much of the problem resides – get no choice on whether the system is used.

Sharp-eyed readers will have noticed that some problems are not caught by the new system. Firms can still form pre-bid cartels and agree among themselves to bid high to allow one to win and then split the proceeds between them. This is a problem – and not just in China. In September 2009 some of Britain's largest construction firms were fined by the Office of Fair Trading for just such practices.

Constructing a more transparent tender process

Beijing appears serious about tackling corruption in public procurement projects

China's plan is to introduce two systems to beat cartelism. First, set target pricing for contracts estimating the cost in advance and so excluding anyone bidding ridiculously high. And second, establish whistleblower hotlines that guarantee immunity to anyone revealing details of cartelism. This may work – whistleblower lines established to report corrupt officials have been inundated, leading to a range of prosecutions since they were introduced several years ago.

Beijing appears serious about tackling corruption and raising transparency standards in public procurement projects. The government was embarrassed by myriad scandals of missing funds and corruption allegations linked to the 2008 Olympics and then the sub-standard work on schools that reduced them to rubble during the Sichuan earthquake last year. The truly corrupt will always seek ways round any system – the ministry of supervision will have to be vigilant – but the new tendering procedures are a major leap for transparency and the anti-corruption crusade in China. ■

COLUMNIST: PAUL FRENCH

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Tuna fishing

Net decline

By Stephen Gardner

Tuna – the sandwich shop staple – has become a poster-fish for the rampant over-exploitation of the oceans. Can the destructive trends be reversed?

If you buy a fish sandwich in Britain today you can be fairly sure it will not contain thunnus thynnus, otherwise known as the Atlantic bluefin tuna. Overfishing means these zeppelin-shaped leviathans – they can grow to a length of four metres – are severely threatened, so serving them up has become taboo.

But there is a different attitude in Japan, where the bluefin is prized for sushi and sashimi, despite its endangered status. Up to 80% of the Mediterranean bluefin catch travels thousands of miles to the east, says Julie Cator of marine campaign group Oceana. For the Japanese, continued consumption of bluefin is a "cultural issue".

The bluefin catch should be regulated by the International Commission for the Conservation of Atlantic Tunas. But ICCAT's own figures show that 61,000 tonnes of bluefin were taken from the east Atlantic and Mediterranean in 2007. This is more than double the 29,500 tonnes agreed by ICCAT as the total allowable catch, which is itself double the 15,000 tonnes or less recommended as a "sustainable yield" by ICCAT's own scientists.

Raül Romeva, a Spanish, green member of the European parliament, says the tuna management

Hard of herring? Not in Norway

Fisheries management can work, says Kjartan Hoydal of the North East Atlantic Fisheries Commission. And the Norwegian **spring-spawning herring** proves it.

This species spawns off the coast of Norway, then goes on a circular migration route around the **Norwegian Sea**. It was a major fish stock "for centuries", Hoydal says, but after the second world war was comprehensively overfished until, at the end of the 1960s, it "simply disappeared".

However, by the mid-1980s, the Norwegian spring-spawning herring was back, though recovery was slow until the end of the 1990s, when there was a sudden increase in the spawning stock almost to the immediate post-war level. By the time the fish made a comeback, the North East Atlantic Fisheries Commission had been created, and measures were put in place to ensure there was no repeat of past mistakes.

These include regulations to protect immature fish, principally relating to net sizes, because most Norwegian spring-spawning herring are caught by purse seiners or trawlers dragging huge nets. Fisheries can also be temporarily closed if by-catches are found to be too great. But the main measure is a realistically set quota. The fish stock is now back to about 12m tonnes, according to Hoydal, of which 1.5m tonnes is allowed to be taken each year.

Hoydal says the Norwegian spring-spawning herring is "one of the really big success stories", and its management is based on cooperation between the states that are members of the commission – the EU and Greenland, Iceland, Norway and Russia. In other fisheries, such as tuna, such cooperation has been lacking, Hoydal says. But, "there is hope".

A dying industry

policy makes no sense. "When you are doing something that is obviously wrong, that is stupidity. This is what happens with the tuna," he says.

But in the UK at least, bluefin tuna rarely appears on the menu, although there are high profile holdouts, such as posh sushi house Nobu. The widespread British boycott is largely thanks to a high-profile and very successful campaign, led by Greenpeace and WWF, to persuade supermarkets to source their tuna sustainably.

Switch to skipjack

The campaigners' message has been rammed home by the documentary film The End of the Line, which graphically illustrates the damage done by tuna fishing practices. As a result, the tuna you will most likely find in your sandwich is skipjack, which is not considered endangered and makes up more than half of the global tuna catch.

Nicky Fisher of sandwich chain Pret A Manger says the company uses only "sustainable" skipjack caught in the Maldives by individual fishermen using a pole and line. A Greenpeace "tuna league table" shows that Sainsbury's pursues a similar policy, and others, such as the Co-op, are increasingly following suit.

But campaigners cannot yet claim total victory. Some in the tuna business, including Britain's biggest tinned brands, John West and Princes, still source tuna caught by purse seiners – vessels that trap fish in giant drawstring bags. This is insufficiently selective, campaigners argue, and has a disastrous impact on endangered species such as sharks, rays and turtles, which are also caught in the huge nets.

The tuna is a high-profile case but its plight is

In the developing world demand for fish is growing, and management structures are weak or non-existent

Yellow fin in peril too

The problem is a simple case of too many boats chasing too few fish

representative. The problem is a simple case of "too many boats chasing too few fish", Cator says. According to European commission figures, the global catch of all fish peaked at 96.7m tonnes in 2000, up from 85m tonnes a decade earlier. But by 2005, as a result of declining stocks, it had fallen back to 93.8m tonnes.

The European Environment Agency's latest assessment of fish stocks, published in February 2009, shows that about a third of assessed commercial stocks in the north-east Atlantic, and half of stocks in the Mediterranean, are "outside safe biological limits". In particular, all demersal stocks – fish that live on or near the sea bed – "have declined and are currently not sustainable".

The problem is compounded by the wastefulness of fisheries, to which management failings contribute. The European Union's Court of Auditors, in a 2007 report, said the failure of EU countries to reduce the size of their fishing fleets was an incitement to illegal fishing.

The EU's system of variable quotas for each species has led to an immense problem of by-catch and discards – unwanted fish being thrown back into the sea, usually dead. This can reach 60% of the catch in some areas. The EU's top fisheries official and European commissioner Joe Borg, in a speech in May 2009, admitted in a rather understated way that "some discards result from the implementation of the current regulatory system".

The need for a thorough overhaul of fisheries management is a constant theme of those in the ocean protection business. Cator says that "ecological sustainability is the key factor", rather than social or economic concerns, because the latter depend on the former. Too often, fisheries managers see scientific advice as something "to be taken into consideration, rather than [being] at the core of decision-making".

Romeva, the green MEP, says it is not too late. "We still have room for manoeuvre and the possibility of correcting big mistakes," he says. He emphasises the effectiveness of consumer action to control demand, as has happened in Britain with the bluefin. His home country of Spain has also seen bluefin removed from some menus, but more needs to be done and politicians should "try to explain that there is a problem".

Romeva adds that the voice of big industrial fishing conglomerates needs to be curtailed in forums such as ICCAT. These firms, he says, are backed by investors who "see the seas as a way to short-term and quick profit". When the seas are empty, the investors will simply seek profits elsewhere. "They are not talking in the name of the whole sector," he says. He argues that those working at the smaller-scale and more traditional end of the industry are conscious of the problems and want to address them, whereas the conglomerates "know that they are overfishing and overselling".

Policies under review

The EU's fisheries policy is under review, but at a slow pace. European commission spokeswoman Nathalie Charbonneau says the commission is "still collecting inputs" on what could be done, and will "analyse all these inputs" in 2010, before publishing proposals in 2011. A reformed system could be in place by 2013 – some time off.

EU policy processes may be cumbersome and time-consuming, but there is a feeling that a make-or-break point has been reached. Kjartan Hoydal, secretary of the North East Atlantic Fisheries Commission, the umbrella management body for the cold seas to the west of Europe and south of Iceland, says there is a "turning point now".

Management plans can work, Hoydal says. For the north-east Atlantic, plans are in place for herring, blue whiting and mackerel, and are broadly working. And he cites the case of the Norwegian spring-spawning herring as an example of what good management can achieve.

Around the British coast, management measures such as restricting fishing in some areas, or limiting the fishing gear that boats can go out with, seem to be having an impact. Peter Hooley of the Marine and Fisheries Agency (MFA) says cod and sole have been overfished. Cod stocks dropped to a low point

Tuna off the menu? Not exactly

The environmental documentary film **The End of the Line** seemed to have an immediate impact in the UK earlier this year. A number of media outlets, including the Guardian, the Daily Telegraph and the Times newspapers reported that Julian Metcalfe, founder of sandwich shop chain **Pret A Manger**, was so horrified by the film that he immediately issued an edict removing tuna from the chain's 155 outlets.

But it wasn't true. It was only **yellow fin** tuna, which is increasingly threatened by overfishing, that the Pret ban applied to. The company's sustainability manager, Nicky Fisher, says Pret A Manger has never sold endangered **bluefin** tuna, but continues to sell sandwiches stuffed with sustainable **skipjack** from the Maldives.

The source of the misinformation was the Daily Mail, Fisher says. On June 6, the Mail published a confused story that said Pret was pulling bluefin from its sushi boxes and that it was taking tuna and cucumber sandwiches off the menu. However, the story did say, accurately, that skipjack would continue to be used. In the following two days, other newspapers lifted the story, but did not check their facts and omitted the part about skipjack.

Where bluefin ends up

in 1998, but "recovery measures are many and have seen some improvement, although anecdotal at this stage".

British fishermen, Hooley says, mostly try to stay within the rules because they recognise fisheries management "as a job to be done for the greater good". But the MFA will also wield a big stick when necessary, and the agency's website is full of case reports of fishermen fined thousands of pounds for offences such as falsifying log books or fishing in areas set aside for stock recovery.

A way out for the bluefin?

To the south, the bluefin tuna crisis may be tackled in another way. Monaco wants to list the species in Annex I of the Convention on International Trade in Endangered Species of Wild Fauna and Flora (Cites), meaning that international trade in the bluefin would be banned.

Monaco says it will go through the formal process of requesting the listing because of concern over the pillaging of bluefin stocks. The plucky principality suffered a small setback in September when the EU decided not to co-sponsor the request, because it was not backed by Mediterranean member states. But Patrick van Klaveren, Monaco's minister counsellor with responsibility for the environment, says the EU's failure to agree the request was for technical reasons, and Monaco remains "totally" committed to obtaining the listing.

Van Klaveren says that when the issue comes up at the next Cites meeting, in Doha in March 2010, he expects the broad backing of EU countries. However, the outcome is uncertain because "there may be a lot of countries lobbied by Japan," which will target the Cites members with no direct interest in bluefin tuna.

Monaco has also acted because ICCAT is seen as failing in its duty to sustainably manage tuna stocks. Maria Cornax of the Oceana campaign group says ICCAT, due to decide in November on tuna quotas, is "feeling the pressure" of a possible Cites listing and "they realise now that they must take measures immediately".

Fisheries management in general, Cornax says, should follow a simple three-stage approach. There should be no fishing without management measures; the global over-capacity of fishing fleets should be eliminated; and the period in which "we have been systematically ignoring scientific advice" should end. Management should be based on science alone.

It seems clear and straightforward, but the North East Atlantic Fisheries Commission's Hoydal cautions that it may be too simplistic. It is in the developing world where demand for fish is growing, and where management structures are weak or non-existent. Campaigners concentrate on the developed world but they should "start to look elsewhere", Hoydal says.

Romeva agrees but says "responsibility coming from the north is crucial" because "we love to take their resources". Industrialised countries are contributing to overfishing off the coasts of developing nations, he says.

The bluefin is a test case and the possible Cites listing or greatly reduced ICCAT quotas will be an indication whether the fishing industry can genuinely change its ways. But the outcome hangs in the balance, shortsightedness may prevail and, despite warnings and scientific understanding, bluefin tuna and other fish stocks may continue on the road to ruin. ■

Industrialised countries are contributing to overfishing off the coasts of developing nations

Corporate responsibility

Embedding ethics

By Ian Welsh

The secret to taking corporate responsibility seriously is making it part of normal business for all departments and functions

Leading companies have acknowledged the need to develop strategies that take account of the ethics of doing business. In the process, corporate responsibility has moved from a niche activity to the mainstream of business thinking.

But some central questions remain.

- What are the best methods for embedding the corporate responsibility agenda right across a company's activities?
- What is the role of a central corporate responsibility department?
- How can the corporate responsibility department work effectively with other business functions?

A recent Ethical Corporation report explores these questions, examining firstly the core issues that a central corporate responsibility and sustainability department should tackle, and secondly, how separate functions or departments can embed corporate ethics in day-to-day activity.

The report suggests there are a number of steps a company's central corporate responsibility department must take to establish and drive its agenda.

- Ensure senior management is engaged.
- Spell out how a sustainable agenda benefits everyone in the company.
- Measure success and report about it.
- Create strategy and programmes that are relevant to their context. One size does not fit all.

Getting the top people in a company to take on the corporate responsibility agenda is a crucial step. Man Group, for example, was one of many companies that suggested to Ethical Corporation's researchers that if the chief executive of a company is talking about ethics and sustainability, then everyone else takes notice. As there are corporate responsibility elements in Man's executive pay structures, if bosses don't deliver on these then their pay and bonuses are hit.

If the chief executive of a company is talking about ethics and sustainability, then everyone else takes notice

Among the issues that make senior executives take notice is risk management. This includes taking account of a company's exposure to climate and environmental risk, and minimising the impact of new and future statutory obligations. Conversely, companies that are leaders in tackling environmental and climate issues, for example, will be well placed as new rules and regulations take effect.

Novo Nordisk is a company that has taken the concept of embedding ethics and responsibility to the heart of its objectives. In 2004 the pharmaceutical company's articles of association were revised to state that Novo Nordisk would seek to conduct its business in ways that are financially, environmentally and socially responsible. This sends a very clear message to investors and anyone with whom the company does business. It means the board and senior management have a strict obligation to take environmental and social matters into account when making decisions.

Transparent procurement

Such decisions can have a beneficial impact when developing sustainable procurement and supply chain strategies, one of the functions that the Ethical Corporation report examines. These ensure continuity of supply and can protect against reputational risks. There are also benefits for supplier companies and their employees, both key stakeholder groups for the purchasing company.

Transparency in supply chains – information about who is working for or with whom – has been hard to achieve, as many companies have, understandably, felt that supplier lists are commercially sensitive. This is changing. In a move that surprised many of its competitors, technology giant HP released its list of top suppliers in 2008.

The company argues that this is a useful way to encourage its competitors to cooperate in improving conditions in the IT sector's supply base – releasing the list meant that it simply is not a competitive issue for HP any more. And making the list public also gives HP more leverage with suppliers to improve working practices.

There are, of course, benefits for suppliers in engaging in sustainability and responsibility programmes. Speaking to Ethical Corporation's researchers, Starbucks highlighted three advantages for its suppliers. First, adhering to Starbucks' standards means a farmer will be producing high-quality coffee beans that will command top prices. Second, as part of Starbucks' process of continual social and environmental improvements, suppliers will be eligible for premiums from the company's own buyers and for long-term agreements, if the supplier wishes. Third, Starbucks will make payments to community healthcare, education and other social projects as part of contracts with suppliers.

Crisp communications

Once such policies are in place, it is important that people – including internal and external stakeholders – hear about them. A sustainability report is a very useful tool. BT is one of a number of companies that says reporting on corporate responsibility should drive behaviour change in the company and not just be reporting for its own sake.

Vodafone agrees, telling Ethical Corporation's researchers that reporting communicates with stakeholders, providing a record of commitments against which the company will be judged. This focuses attention on the areas where improvements are necessary.

Also important is fitting the format to the message. Vodafone has experimented with a number of methods of communicating corporate responsibility messages across the company, and has found that in many instances traditional printed materials – that people can pick up and browse – can be more effective than emailing information or establishing blogs, for example. The company is also developing ways of getting information to staff using videos that can be sent direct to mobile phones.

Alongside procurement and communications, Ethical Corporation's report also examines best practice in human resources, operations and logistics, and accounting and finance functions. In these areas, as in the brief examples mentioned here, innovation, alongside clever use of existing technology and techniques, is what makes leading companies stand out. And for these leaders, the corporate responsibility agenda has moved from being a standalone function to being central to doing business well. ■

For more on the Ethical Corporation report "How to Embed Corporate Responsibility Across Different Parts of Your Company" go to www.ethicalcorporationinstitute.com/reports/csr

Recommendations for embedding corporate responsibility

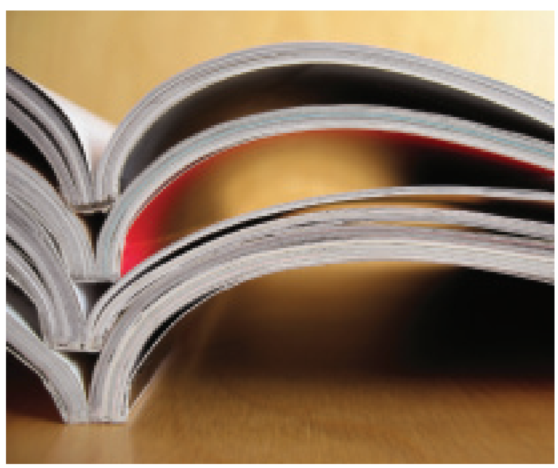
Creating pride in corporate responsibility achievements
Employees put a great deal of effort into their working lives, and want to feel proud of the organisations they work for. Make them aware of corporate responsibility policies, how they and other company stakeholders benefit from corporate responsibility programmes and how they can get involved. This is also crucial for recruitment of the best staff.

Engaging with suppliers
How a company procures products and services is an area where it can make commitments to embedding corporate responsibility, and really make a positive difference to the lives of stakeholders. Working with suppliers to instil corporate responsibility in company practices will have financial benefits for purchaser and supplier, help the supply chain and is essential reputational risk management.

Reporting effectively
Producing a report is perhaps one of the more traditional practices for corporate responsibility departments, and it remains a highly effective tool. It provides a public record of what a company is doing and plans to do in the future. If previous targets are not met, the company has to explain why. The report can also be a good basis for a company's responsibility-related communications strategy.

Listening to colleagues
Some of the best corporate responsibility programmes focus on things that employees in operational departments can do to improve systems and make processes more efficient. And staff are in the best place to advise where efficiencies can be made and how to implement new procedures.

Measuring and recording data
The finance and accounting function within a company has a central role in developing systems for recording and analysing data. Increasingly, non-financial data is collected and analysed as part of the same process – which is an efficient use of resources and also brings the skills of finance professionals into responsibility data measurement and reporting.



Say what you'll do then do it

Reporting on corporate responsibility should drive behaviour change in the company

Biochar

Black environmental gold

By Zara Maung

Organic chocolate manufacturer Green & Black's is pioneering biochar, a new carbon-storage strategy

Dominic Lowe, managing director of chocolate maker Green & Black's, is a concerned man. To combat global warming Lowe believes that we need not only to reduce the amount of carbon we release, but also to absorb carbon out of the air. For this reason, more companies need to start experimenting with ways to store the carbon they release, he says.

Handily for Lowe, the organic chocolate manufacturer's founder, Craig Sams, thinks he's found a way to store carbon in the soil in the form of charcoal, otherwise known as "biochar". Sams's latest venture, a company called Carbon Gold, is on a mission to turn organic waste into charcoal, and then to mix the charcoal with organic matter and minerals and sell it on as a soil conditioner and fertiliser.

Although biochar is known to have been used by native tribes to fertilise the tropical soils of the Amazon for farming, the concept of using biochar as a reliable fertiliser that is also a way to store carbon is relatively new to scientists. Simon Shackley, lead researcher at the UK Biochar Research Centre, admits that more work needs to be done to prove both claims.

The storage of charcoal in the soil needs to be closely monitored, he says. "Some of the charcoal may be blown off the soil," Shackley points out. And while the biochar used by the Amazonians might have worked as a great fertiliser, it is by no means proven as an effective fertiliser in all soil types, he adds.

Despite biochar's uncertainties, the UK government is still keen to find out how it could be put to use as a form of carbon storage. Shackley has just finished putting together a research paper for the government reviewing the current science on biochar, and is keen for companies to get involved in trialling charcoal as a form of fertiliser and carbon storage in their agricultural supply chains. So far, even UK retailers that are most vocal on climate change, such as Tesco, have yet to make any announcements on experimenting with biochar.

Green & Black's seems to be a pioneer in the business world, then, when it comes to carbon storage. The company is working with Carbon Gold to see whether, with its financial help, biochar can take off as a self-produced organic fertiliser for its farmers in Belize.

Prunings to pyrolysis

Belizean farmers, currently supplying organic cocoa to Green & Black's, are being asked by Carbon Gold to prune their cocoa trees hard and send the cuttings for pyrolysis (burning in the absence of oxygen) to make charcoal. Green & Black's then pays Carbon Gold for the charcoal it has produced on the understanding that it is to be buried as carbon storage.

The model the two companies have created assumes that within one tonne of charcoal created, three tonnes of carbon has been stored. Green & Black's pays above the average carbon-offset price to Carbon Gold, about £20 per tonne of carbon, which translates into £60 per tonne of charcoal. Of the £60 per tonne, the Belizean farmers will receive £50, Lowe explains.

Carbon Gold will try to recoup its costs by

Biochar was used by native tribes to fertilise the tropical soils of the Amazon

Biochar's claimed benefits

- Increases crop yields, sometimes substantially if the soil is in poor condition.
- Helps to prevent fertiliser run-off and leeching, allowing the use of less fertiliser and diminishing agricultural pollution to the surrounding environment.
- Retains moisture, helping plants through periods of drought.
- Replenishes exhausted or marginal soils with carbon and fosters the growth of soil microbes essential for nutrient absorption, particularly mycorrhizal fungi.

turning the charcoal into fertiliser and selling it on either to Belizean farmers or for sale in Europe as a garden fertiliser. Carbon Gold says it is confident of biochar's soil conditioning and fertilising properties and intends to monitor the fertiliser as it is put to use by Belizean farmers on their cocoa trees in trials.

The experiment is still in its early days, having been set up in mid-2009, and so far less than 50 tonnes of charcoal have been created, but Green & Black's and Carbon Gold intend to create 1,000 tonnes per year by 2011. This amount will cover about 30% of the company's total carbon footprint, including that of its supply chain, according to Lowe.

Lowe is keen to promote biochar and seems certain it is a safe bet as a form of carbon storage. Carbon offsets, such as tree planting, are less convincing to him. "Some [companies] are planting trees, but I get suspicious about the tree-planting ones because I don't see forests springing up, and there's good science that they need to be in the right place," he says.

The charcoal experiment also brings extra benefits to Green & Black's. "The more you prune a cocoa tree, the more yield you get from it," Lowe explains. Farmers tend not to prune as hard as they should, however, because of hard work involved, so Lowe is keen to introduce the incentive of selling cocoa prunings to create biochar. "A rise in yields is good for us. We want more high quality Belizan cocoa, and we're locking up the carbon in biochar," Lowe says.

Green & Black's is willing to pay out extra for biochar carbon credits as it believes that its customers would expect the highest ethical standards from the company's carbon offsets. "These trees would just rot and turn into CO_2 if they weren't turned into biochar," Lowe says.

Global roll out

Lowe is keen that other companies should trial biochar production and he is willing to work with other cocoa producers to roll out projects worldwide. He is also in favour of growing trees especially to be turned into biochar, although he accepts that other environmental constraints, such as water

Chocolate from pod; charcoal from tree

scarcity, might render this difficult.

On the world stage, biochar is due to be discussed as a possible form of carbon storage at the climate talks in Copenhagen. However, the science behind biochar is yet to be reviewed by the official climate science body, the Intergovernmental Panel on Climate Change, which may stall talks on allowing biochar credits into carbon markets. Despite its promise, biochar may need to be trialled and proven by scientists on a wider scale before policy-makers can take it seriously. ■

Biochar is due to be discussed as a possible form of carbon storage at the climate talks in Copenhagen

Essay

Patagonia's steep climb to success

John Mullins and Randy Komisar explore how one company's experience provides lessons for good management practice in difficult economic times

Yvon Chouinard never set out to become a businessman. He simply wanted to make the world a better place. Even today, outdoor equipment company Patagonia – the company Chouinard leads – is not as much a business as a vehicle for doing the things Chouinard finds important. As he recently put it: "Patagonia is a private company, and the sole stockholders are me and my wife, so we can do anything we want." One thing Chouinard and his wife wanted was to sustain a company that lived up to a strong moral code, which contributed to society and put environmental protection and conservation at the top of its list of priorities.

Chouinard founded Chouinard Equipment (the predecessor to Patagonia) in the late 1950s. He and his rock climbing buddies all loved the outdoors; hanging on to a steep rock face with the help of steel pitons was their way of being close to nature. He eventually learned that the pitons his company produced were damaging the rocks.

Although pitons accounted for 70% of Chouinard's revenue, he decided to phase them out and introduce in their place aluminium chocks that were far less damaging to the rock face – a Plan B success for his company and for the rock faces he was so passionate about. This was the first example of Chouinard's commitment to the environment and the beginning of a professional life marked by putting profits at risk for his environmental values.

Chouinard's pro-environmental philosophy – his Plan A – served him and his business well. In 1977, Chouinard introduced the famed fleece jacket, made of polyester, a fabric ideal for the outdoors, which kept moisture out and heat in. To be more environmentally conscious, Chouinard soon changed the manufacturing of the fleece, using recycled plastic soda bottles to construct the fabric.

Patagonia's products were very popular with hardcore outdoor enthusiasts and fashionable city-dwellers, but its ensuing growth soon became unmanaged and out of control.

Big fall

In 1991, when the US economy fell into recession, Patagonia hit a wall. Sales slowed considerably, and its bank called in its revolving loan. The company was forced to file for bankruptcy. Patagonia's near-death experience taught Chouinard two big lessons about his business model. First, to stay in business he would have to manage the company's growth rather than let it get out of hand. Second, he firmly rejected the growth-for-growth's-sake pattern that had got his company into trouble.

Post-bankruptcy, Chouinard decided his company's environmental values were paramount. "The reason we hadn't sold out and retired was that we were pessimistic about the fate of the world and felt a responsibility to use our resources to do something about it," he says. Business-wise it was time for Plan C. His leap of faith was that Patagonia customers would pay higher prices, giving Chouinard the gross margins he needed to support his high internal cost structure and his company's pro-environmental creed.

He has since been able to grow Patagonia into a powerhouse marketer of premier outdoor products, while also improving the environment that is so important to Chouinard and his wife. By creating a

By creating a robust business model with high gross margins, Patagonia has been able to provide grants to organisations protecting habitat, wilderness and biodiversity robust business model with its high gross margins, Patagonia has been able to provide grants to organisations protecting habitat, wilderness and biodiversity. Between 1985 and 2006, Chouinard and his company donated $26m to environmental organisations. They have also created "1% for the Planet", an initiative encouraging Patagonia's partner organisations to donate 1% of their own revenue to environmental efforts.

By catering to environmentally conscious customers who appreciate and can afford top-quality outdoor clothing and gear, Patagonia provides lessons about business models and more: that an entrepreneur's values don't have to take a back seat to the company's bottom line.

The road to Plan B

How can you break through to a business model that will work for your business, even in the face of adversity as severe as that engulfing Patagonia in 1991?

First, you will need an idea to pursue. The best ideas resolve somebody's pain, some customer problem you've identified for which you have a solution that might work. Alternatively, some good ideas take something in customers' lives that is pretty boring and create something so superior it provides true customer delight, as was the case for Patagonia's fleece jackets.

Next, you will need to identify some analogues (companies that have gone before you worth copying in some way) that can to help you understand the economics and various other facets of your proposed business and its business model. And you'll need antilogues (companies whose experience you decide explicitly not to copy), too. Analogues and antilogues don't have to only be from your own industry; sometimes the most valuable insights come from rather unusual sources.

Having identified both analogues and antilogues, you can quickly reach conclusions about some things that are, with at least a modicum of certainty, known about your venture. But it is not what you know that will likely scupper your Plan A, of course. It's what you don't know. The questions you cannot answer from historical precedent lead to your leaps of faith – beliefs you hold about the answers to your questions despite having no real evidence that these beliefs are actually true. For Chouinard, an early and important leap of faith was that he could convert safety-conscious rock climbers from using steel pitons to using his new aluminium chocks.

To address your leaps of faith, you'll have to leap! Identify your key leaps of faith and then test your hypothesis. That may mean opening a smaller shop than you aspire to operate, or a small-scale experiment, just to see how customers respond. By identifying your leaps of faith early and devising ways to test hypotheses that will prove or refute them, you are in a position to learn whether or not your Plan A will work before you waste too much time, and money.

But what do you actually need to consider when developing your business model? Every business model needs to quantitatively address five key elements:

Your revenue model. Who will buy? How often? How soon? At what cost? How much money will you receive each time a customer buys? How often will they send you another check?

- Your gross margin model. How much of your revenue will be left after you have paid the direct costs of what you have sold?
- Your operating model. Other than the cost of the goods or services you have sold, what else must you spend money on to keep the lights on?
- Your working capital model. How early can you encourage your customers to pay? Do you have to tie up money in lots of inventory waiting for customers to buy? Can you pay your suppliers later, after the customer has paid?
- Your investment model. How much cash must you spend upfront before enough customers give you enough business to cover your costs?

Some good ideas take something in customers' lives that is pretty boring and create something so superior it provides true customer delight

Find the right market niche

Uncovering the right analogues and antilogues, identifying your most important leaps of faith, and testing a series of hypotheses to inform all five elements of your business model doesn't happen in a single "eureka" moment. Getting to a viable Plan B, as Yvon Chouinard discovered, is a journey that can take months, even years.

Like any journey that wants to go somewhere, this journey needs tools to point the way and track your progress, something we call a dashboard. A dashboard plans, guides, and tracks the results of what you learn from your hypothesis testing. In part, it highlights key indicators of your progress, much as the dashboard in your car tracks key information. But dashboards as entrepreneurs use them are much more than the dashboard in the family car. A dashboard in this sense is also a trip planner to help you determine the best route. It provides a detailed map of the hypothesis-testing journey you will take, as well as determining any necessary alterations as you travel.

Your dashboard serves four key roles:

1) It forces you to think strategically about the most crucial issues that can – quickly and inexpensively – answer the all-important question, "Why won't this work?"

2) It forces you to think rigorously about how you can examine your leaps of faith by testing hypotheses whose results can be measured quantitatively, wherever possible. Numbers are more persuasive than naïve hopes or dreams.

3) If one or more of your leaps of faith are refuted by the evidence you collect, the results displayed on your dashboard are visible and dramatic indicators of the need to alter your Plan A and move towards Plan B.

4) A dashboard is a powerful tool for convincing others – whether members of your management team, investors or others, even yourself – of the need to move from Plan A to Plan B. If your tenacity or perseverance is questioned, you can show the evidence to support the move towards Plan B. You are not being erratic or flighty; you are systematically testing hypotheses to prove or refute your leaps of faith, and you are listening to what the data tell you.

A dashboard forces you to keep track of the questions you have about your venture, while keeping your assumptions (often guesses, really) in mind. It focuses your attention on the critical issues and more efficiently deploys your precious time and resources to removing the critical risks. And it provides a way to respond to the real-life data you generate. Moving into the dashboarding stage in developing your business model means moving from spectator – observing others as you gathered analogues and antilogues – to doer.

The cold, hard facts

Most business plans assume that nearly everything is already known up front – not the case, as the Patagonia example has shown. As Douglas MacArthur, the famous American general, is reputed to have once said: "No plan ever survives its first encounter with the enemy".

There are many elements that need to be artfully combined in order to develop a successful business model. For Patagonia, and many other socially aware companies, a key component of their business models is leveraging the ability of their businesses to do more good for the world than they would be able to do individually. Patagonia was built out of a love of nature, producing innovative products that have been successfully marketed to other outdoor enthusiasts who are willing to pay a premium because they know the products are environmentally responsible and a portion of the revenue is donated directly to environmental causes. Patagonia has been able to do well financially in part because it works to do good for the environment, and it resonates with its target audience.

Connect with what enthuses your customers

There are lessons from Patagonia's inspiring story about more than its robust gross margin model. Chouinard's laser-like focus on his company's environmental values prompts us all to consider why we are in business. Chouinard was clear about this question. "The reason we're in business is to be in politics; it is to change the world, not to make clothes," he says. "I decided that if I was going to be a businessman, I was going to do it on my own terms. And I wasn't going to act like a lot of the other businessman. And I wasn't going to be bottom-line oriented. I believe that if you do everything correctly in business, the profits will happen. But you don't focus on it. My bottom line at the end of the year is how much good we've done, not how much money we've made."

The process articulated here is a healthy alternative to the straitjacket of today's business planning practices – to enable you to anticipate and move beyond a failing Plan A. It is a process designed for learning and discovering, rather than for pitching and selling. It's a process that recognises the cold, hard facts – most often, what ultimately works, is not the Plan A that was so persuasively articulated in the original plan. Instead, it's Plan B. ■

A key component of socially aware business models is leveraging the ability of businesses to do more good for the world than they would be able to do individually

John Mullins and Randy Komisar are authors of Getting to Plan B: Breaking Through to a Better Business Model, published by Harvard Business Press in 2009. Mullins is an associate professor of management practice at London Business School. Komisar is a partner at Kleiner Perkins Caufield & Byers and a lecturer on entrepreneurship at Stanford University.

Socially responsible investment

SRI's big debate

The SRI questions need to be asked

Christine Arena asks if the SRI industry is doing its job properly

Exactly what is a "socially responsible" company – and who gets to decide? For more than five years people have called on the $2.7 trillion socially responsible investment (SRI) industry for a concrete answer to this question. But while US SRI houses have done their best to respond and evolve, influential voices remain unsatisfied.

There is a continuing debate about the methods, standards and practices used by the SRI industry. The debate involves corporate leaders, research houses, industry analysts, reporters, bloggers, activists and investors themselves. It also involves trillions of dollars in assets, with some arguably being channelled in the wrong direction.

A few weeks ago Jeff Swartz, chief executive of clothing giant Timberland, wrote an article for the Fast Company website outlining his perception of a growing problem.

Swartz said: "We've earned a decent reputation as sustainable business and responsible brand … and yet SRIs only hold about 1% of our shares. If anyone can share similar data on the SRI percentages of the top 50 CSR companies, I'd be very interested to see it … because my guess is we're not alone.

"CSR funds need to take a more thoughtful approach to company screenings, in recognition that as the world of CSR has evolved, so too their criteria for judging a company's performance should be more sophisticated."

Several days later, SRI research house KLD Analytics responded to the post, arguing that methods used by the SRI industry were more sophisticated than Swartz realised. The KLD author wrote: "Mr Swartz specifically criticised 'index investing', which he described as investors 'weighting their entire portfolio as per the market'. These criticisms have more to do with market cap weighting than with indexing per se. Investors who focus on large-cap stocks may hold less Timberland simply because it is small.

"The FTSE KLD 400 Social Index is a 'long view bet on socially responsible companies', to use [Swartz's] phrase. Due to its construction, the FTSE KLD 400 holds Timberland at about twice the weight it would have in the S&P 500 – if it were in the S&P 500, which it is not."

Broken filter

Data indicates that SRI screening criteria allow questionable company selections to slip through the cracks. In 2008 Critical Sociology magazine reviewed the largest 41 US SRI funds, and noticed that three of the top eight holdings were AIG, Bank of America and Citigroup. Similarly, in the October 2008 issue of Ethical Corporation Jon Entine observed that both Calvert and the Domini Social Index included JP Morgan, Citigroup, Goldman Sachs, Wachovia, Lehman Brothers and Wells Fargo among their largest investments.

In all, billions of investor dollars that could potentially support publicly traded companies that deliver utmost social, environmental and financial value through the products they sell, are instead funding the institutions at the heart of the financial crisis.

So, is this what socially responsible investors really want?

Reader comments on KLD's blog shed some light on this issue. "Investors like me don't care so much about companies investing in so-called CSR programmes," says one commenter. "The companies that are worth the most to me are the [ones] producing the products and services that the world really needs." Another commenter says: "As an industry we need to pay more attention to documenting how the principles that [underpin] SRI and CSR contribute to a company's valuation."

SRI screening criteria allow questionable company selections to slip through the cracks

Measuring positive externalities – the triple bottom line benefits against costs to communities around the world – is something many organisations are still trying to get a handle on. To what extent do companies make the world a better place? This basic question may prove to be the greatest indicator of a company's ultimate worth, and rightful place in a socially conscious investor's portfolio.

If ever there was a time to debate standards, criteria, methods, motives and goals out in the open, it's now. Here are the first questions to address:

- Is the SRI industry effectively meeting the needs, wants and desires of today's investors?
- How is the industry diverting funds from the companies that perpetuate environmental, social and economic crises, and channelling funds towards the socially and environmentally just companies that rebuild our economy?
- What are the industry's goals, and what will it take to achieve them? ■

Christine Arena is a freelance writer and strategist specialising in stakeholder engagement, business ethics and sustainability.

Action required

Scandinavia

Nordic companies lag on climate change

Rory Sullivan and Emma Ihre consider the performance of companies from a region known to be environmentally progressive

Nordic governments have been to the forefront of international policy debates on climate change. They have also recognised the necessity of leading by example. Norway, Sweden, Denmark and Finland have all committed to significantly reducing in greenhouse gas (GHG) emissions across all sectors of their economies.

To this end, a range of policy measures directed at companies – carbon taxes, emissions trading, grants – have been adopted. It seems clear that companies across the region will face increasing pressure to reduce their GHG emissions.

In mid-2009, Insight Investment and Ethix SRI Advisers evaluated how the ten largest listed companies in each of Denmark, Finland, Norway and Sweden are positioning to respond to the risks and opportunities from climate change.

The research – published in our new report, Taking the Temperature: Nordic Region – provides clear evidence that climate change is on the agenda for many Nordic companies. Most of the 40 companies have established or are in the process of establishing the governance and management systems they need to manage their GHG emissions with 90% having published environmental and/or climate change policies. Meanwhile 83% have published GHG emissions inventories.

There is also a notably high level of company and investor engagement with the Carbon Disclosure Project, which should drive improvements in reporting over time. But despite these encouraging findings, our research suggests that there are significant weaknesses in Nordic companies' responses to climate change. There are four distinct dimensions to this.

First, management systems and processes remain underdeveloped. Specifically, few companies have board or senior management oversight of climate change-related issues, climate change policies are weak (with few companies having explicit commitments to achieving significant reductions in their emissions over the longer-term), and most do not appear to be integrating climate change into their business strategies.

Second, the quality of the information published by companies falls short of that required by investors to properly assess the financial significance of GHG emissions for these companies.

Third, only ten of the 40 companies expect their emissions to reduce and a further four expect them to stabilise. The likely tightening of climate change policy over time means that this expected growth in emissions will represent an increasingly significant liability for companies.

Significant weakness

Fourth, six companies scored particularly poorly in our assessment, with little or no information available on how they are managing their GHG emissions. This result suggests that there may be significant weaknesses in these companies' management systems and processes.

Perhaps the most surprising finding from the research was how poorly Nordic companies perform relative to their European peers.

In 2008, Insight benchmarked the climate change practices and processes of 125 large UK and Continental European companies. A comparison of these results with the 2009 Insight/Ethix evaluation of Nordic companies presents a stark finding: Nordic companies lag significantly behind their European peers on all major aspects of climate change management and governance. Specifically, climate change policies are much weaker, the quality of GHG inventories is much lower, the targets being set are much more modest and the emissions reductions that have been achieved are much lower.

Nordic companies lag significantly behind their European peers on all major aspects of climate change management

There are two important conclusions from our analysis.

First, improving company management capacity on climate change should be a priority, for governments in the region and for investors in these companies. From a policy perspective, this will probably involve governments implementing a range of "soft" policy measures such as information and education campaigns, the provision of business support services (eg subsidising energy and GHG emission audits/assessments) and encouraging the development and reporting of GHG emissions. For investors, it means that they will need to explicitly focus on climate change governance and management in their discussions with companies.

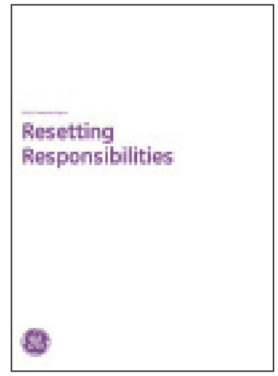
Second, the vast majority of Nordic companies seem to be adopting a "wait and see" approach, focusing their efforts on actions that provide clear, short-term financial benefits rather than taking a more proactive, longer-term approach that seeks to pre-empt rather than respond to policy.

There are no easy solutions to this problem, other than Nordic governments continuing to back up their commitment at the international level with tangible incentives and strong dependable policy measures at the national level. ■

Dr Rory Sullivan is head of responsible investment at Insight Investment. Emma Ihre is head of corporate engagement at Ethix SRI Advisers.

GE 2008 Citizenship Report

Resetting reporting



By Heather Rankin

GE's reporting remains ahead of the game

A corporate responsibility report titled Resetting Responsibilities raises expectations. Will there be a candid discussion of the transformation needed in big business – especially the financial sector – following the economic crisis? Will we see commitments to making these changes?

GE doesn't disappoint. Chief executive Jeff Immelt begins with powerful, honest but succinct rhetoric about the scale of the challenge. His letter uses strikingly frank language such as "meltdown" and "corporate social detachment", and the rest of the report maintains this level of candour. The Resetting Responsibilities chapter includes bold statements about how industries and governments need to change. A diagram on p8 depicts GE's vision for moving into "tomorrow's economy", calling for a greater government role and increased regulation of corporate governance – unusual from a US company, to say the least.

There are three pages dedicated to the "radical restructure" required in financial markets, including a description of how GE is shrinking its own financial services business and the reduction in its debt-to-equity ratio. However, there is no detail of GE Capital's policies and processes for responsible investment, and the paragraph on executive pay lacks substance.

This is not a performance report, more of a manifesto. It is a discussion of the impacts of the economic crisis, the action needed to create a more sustainable future, and why recession is no excuse to renege on commitments. People looking for inspiration will be largely satisfied, while those seeking a typical progress report can find this in spades on GE's citizenship website.

The approach has its drawbacks. Even those looking to GE for vision will expect to see an update on its flagship ecomagination programme, yet it is p34 before GE gives limited information on it. Explanations of the "reset" become a little repetitive; the report needs more balance between wider policy and the company's own approach and progress.

Dividing content between print and web is always tricky. It is appropriate for the report to focus on global trends, strategy and big issues, with detailed performance available online. However, too often the report is tantalisingly brief and directs readers to the web for more. GE's use of external perspectives is an example. There is an impressive variety of quotes from suitable experts online, but in the report these are edited so heavily they are too short to be meaningful. It would be better to select fewer, longer perspectives for the printed document.

The report is generally clear and well written, although the constant reference to GE in the third person makes for stilted reading, especially when used two or three times in a sentence. The citizenship priorities listed for each business are vague, and some, such as government and military sales, are not in themselves citizenship issues at all. The ethical issues raised by these sales aren't explained here.

The table showing progress against the commitments made in 2008 is welcome, but would be clearer if progress in each area followed on directly from the relevant commitment. Some of the 2009 commitments are surprisingly vague, although there are more detailed targets listed.

The report structure is sometimes unusual. The advisory panel letter on pages 12 and 13 would be better at the end, so readers could judge whether it is a fair assessment based on what they have read. The operational excellence chapter covers everything from corporate governance and employee training to water use and community capacity building, without pausing for breath.

More climate detail

Some might think it odd for energy and climate change to be the last chapter in a power generator's report. The policy described here shows real leadership, but charts would be useful for assessing progress. Descriptions of GE's plans for tackling climate change need more detail – when will innovations such as smart electricity grids and hybrid fuel-cell buses generate significant revenues?

The data tables at the back of the report are useful, although some metrics are odd. There are almost as many for philanthropy as for environment, health and safety combined, while the employee data focuses entirely on diversity, with nothing on training, turnover, or engagement.

These are details, though. All in all, this is an exceptional effort. It provides the vision, context, policy, commitment and honesty missing from most corporate responsibility reports. While there are areas for improvement, GE's reporting is already streets ahead of most and sets an example for others to follow. ■

Snapshot

Follows GRI? Yes, to application level A.
Assured? No, but there is a letter from an external advisory panel.
Materiality analysis? Yes
Goals? Yes
Targets? Some
Stakeholder input? Yes – too many voices with too little space.
Seeks feedback? Yes
Key strengths? Vision and candour.
Chief weakness? Report doesn't quite stand up on its own – it relies too heavily on readers visiting the web for more.
Pleasant surprise? Straightforward, frank language.

People looking for inspiration will be largely satisfied

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Coca-Cola Enterprises: 2008 Corporate Responsibility and Sustainability Report

Getting a taste for it

By Kyle Whitaker

The bottler of Coca-Cola's brands demonstrates some reporting fizz

Crisp, refreshing, and good to the last drop. Coca-Cola Enterprises' latest corporate responsibility and sustainability (CRS) report, entitled Our CRS Journey: Delivering on our Commitments, is every bit as satisfying as your favourite soft drink, but without the calories or caffeine to keep you up at night.

This year's report, CCE's fourth, is the kind you don't mind reading from front to back. The copy is concise, the tone fresh and approachable, and the report well organised around five key areas – energy conservation/climate change, water stewardship, sustainable packaging/recycling, product portfolio/well-being, and diverse and inclusive culture.

Performance, however, breeds expectations. And CCE has performed well recently, earning the top prize for creativity in communications at the 2009 Ceres-ACCA North American Reporting Awards. So the question remains: can CCE sustain and improve upon its communications year after year?

CCE has a perennial CRS communications problem: the company moniker is easily confused with similarly-named Coca-Cola Company. For the record, CCE and Coca-Cola Company are separate legal entities, although the latter owns 35% of CCE's common stock. Whereas Coca-Cola Company is the owner and marketer of brands including Coca-Cola, Diet Coke, Fanta, and Sprite, CCE is the world's largest bottler of Coca-Cola Company's products, serving the US, Canada and parts of western Europe.

In spite of this obstacle, CCE does an adequate job distinguishing itself from Coca-Cola Company from the outset, which serves the bottling company well from a reporting perspective. CCE rightly takes credit for key successes (like driving operational efficiencies throughout its energy-intensive business). In turn, it keeps its distance from industry challenges (such as marketing healthier alternatives to high-calorie products). Like it or not, it's hard to decide which company should bear responsibility for this challenge (among others), and so it is easy for CCE to pass the buck.

On the bright side, this shortfall appears to be an isolated communications or public-relations issue rather than a broader strategic one. CCE embeds environmental and social criteria into the risk management process of its core business. While it does so in place of a formal materiality process, this more-integrated approach is a clear indication that CRS is considered an integral part of CCE's business.

Like integration, good governance is another hallmark of best-in-class sustainability performers, and governance figures prominently into this year's CCE report. A board committee has oversight for CRS, executive pay is tied to CRS performance, and a cross-functional team manages the workload at both the business-unit and facility levels. Furthermore, CCE works closely with Coca-Cola Company on sustainability issues to ensure and maximise alignment and collaboration between companies. For some stakeholders (not all), this attempt at coordination will further mitigate the concerns raised earlier regarding ownership and accountability.

Effective governance structures would be meaningless, however, without grassroots support, and CCE delivers on both fronts. Pull-out boxes in the report highlight how employees contribute to innovation and drive sustainable business practices within each of the company's five focus areas. CCE's sustainability initiatives appear more tangible and credible as a result.

Innovation driving sustainability

Attention-grabbing technologies such as "light pipes", which direct daylight into work areas using no electricity; hybrid-electric tractor trailers that convert braking energy into electric power; and plant bottles, which use less petroleum and reduce carbon emissions, underscore CCE's commitment to critical sustainability issues such as climate change.

These examples, however, have the effect of pointing up gaps in innovation. For example, CCE states its goal to minimise water use by 2020 (cutting water use per litre of drink produced from 1.79 litres to 1.3 litres). Because CCE currently uses 35bn litres of water annually, it must find ways to conserve billions of litres a year to meet its stated goal. Yet CCE's water-saving and conservation initiatives seem to lack the firepower needed to do so. The innovations described will save hundreds of millions – but not billions – of litres in all. Consequently, stakeholders are left wanting more information about CCE's forward-looking strategy.

In sum, CCE survives its post-award hangover, but there is still ample room for the company to improve in terms of both content and style. Clearer descriptions of how CCE will achieve its long-term goals will enhance report credibility. Stylistically, greater interactivity and a sleeker web design will make this report more accessible. The good news is that CCE is doing the difficult things, such as innovation and good governance, right. ■

Snapshot

Follows GRI? Yes, application level B.
Assured? No
Materiality analysis? No formal process in place.
Goals? "Commitment 2020" goals; one goal headlines each of five strategic focus areas.
Targets? Yes, short-term targets support broader "Commitment 2020" goals.
Stakeholder input? Yes, first Engagement Roundtable, held during US Democratic National Convention, was 2008's signature effort.
Seeks feedback? Yes, via email.
Key strength? Sustainability clearly made part of core business strategy.
Chief weakness? Disconnect between current performance and long-term goals.
Pleasant surprise? Employee innovations drive cost savings and sustainability performance.

The copy is concise, the tone fresh and approachable, and the report well organised

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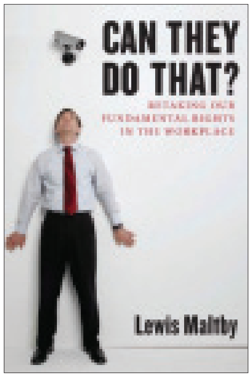
New books

Some suggested new ethical reading from Ethical Corporation's shelves

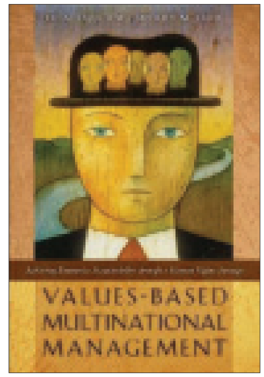


Can they do that? Retaking our fundamental rights in the workplace

By Lewis Maltby

Hardcover: 256 pages, $25.95
ISBN: 1591842824
Publisher: Portfolio
Published: December 2009

A nationally recognised expert and prolific writer on human rights in the workplace, Maltby writes from his perspective as the founder of the National Workplace Rights Office of the American Civil Liberties Union. This book is notable for its practical advice on getting rid of discrimination.

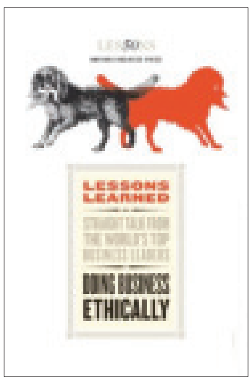


Values-based multinational management: achieving enterprise sustainability through a human rights strategy

By Lee Tavis and Timothy Tavis

Paperback: 368 pages, $38
ISBN-10: 0268042349
Publisher: University of Notre Dame Press
Published: October 2009

This timely book argues that multinational firms must embrace an ethically proactive stance in their own long-term interests. The authors lay out an agenda for practical action, backed up with real-life examples and clear analyses.

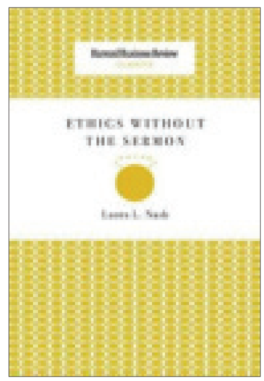


Doing business ethically: lessons learned

By Fifty Lessons

Paperback: 112 pages, $9.95
ISBN: 1422139859
Publisher: Harvard Business School Press
Published: December 2009

Concise and engaging, this volume contains a dozen essays from top leaders in industry, the public sector, and academia on their most pressing ethical issues at work. Using engaging anecdotes and authoritative advice, this book provides executives with a useful guide to navigating the moral mazes of the modern workplace.

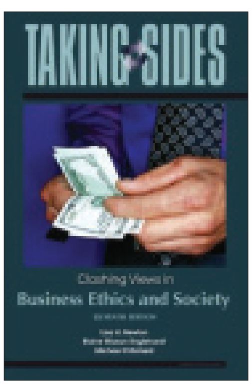


Ethics without the sermon

By Laura L Nash

Paperback: 64 pages, $8.95
ISBN: 1422140261
Publisher: Harvard Business Press
Published: January 2010

This short, punchy book provides managers with a signpost on making responsible decisions in their everyday jobs. It presents the reader with a dozen fundamental questions, such as "Whom could my decision injure?" and "Have I defined the problem accurately?".

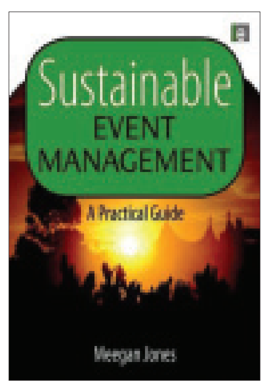


Taking sides: clashing views in business ethics and society

By Lisa Newton et al

Paperback: 480 pages, $31.27
ISBN: 0073527319
Publisher: McGraw-Hill/Dushkin
Published: December 2009

Now in its 11th edition, this classic account presents updated material on controversial contemporary issues. Information is divvied up in a debate-style format, together with an annotated listing of selected websites and an online resource guide.

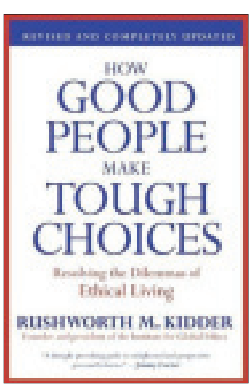


Sustainable event management: a practical guide

By Meegan Jones

Paperback: 384 pages, $47.95
ISBN: 184407739
Publisher: Earthscan
Published: January 2010

Whether your event is an academic conference or business expo, large events all have a massive impact on the environment. This how-to guide is designed to help event organisers keep sustainability concerns at the core of their planning and decision-making.

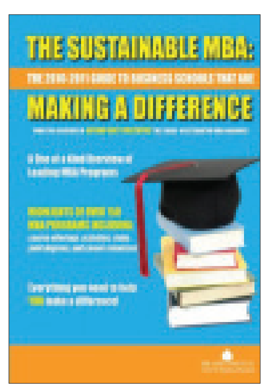


How good people make tough choices: resolving the dilemmas of ethical living

By Rushworth M Kidder

Paperback: 272 pages, $14.99
ISBN: 0061743992
Publisher: Harper Published: November 2009

Should you protect the endangered owl or maintain jobs for loggers? Have a heart-to-heart with a lying employee or fire him on the spot? Some ethical dilemmas are easy to resolve. Others are not. This book concentrates on the latter, offering a values-based decision-making process to guide managers through ethical problems that aren't black and white.



The Sustainable MBA: the 2010-2011 guide to business schools that are making a difference

Paperback: 328 pages, $30
ISBN: 1439246289
Publisher: Booksurge
Published: October 2009

A key resource for anyone considering an MBA with a social, ethical or environmental dimension. Produced by the Aspen Institute, this guide provides highlight on over 150 MBA programmes located in 20 plus countries.

Academic news

Business school bulletin

By Oliver Balch

Fast food calorie content, whether to allow shareholder proposals and the psychology of gifting

Counting calories

"Big Mac. Large fries. Large Coke." Who hasn't made that order, if only once in your life? But would you choose the same if the menu were more explicit? "Big Mac, 540 calories. Large fries, 500 calories. Large Coke, 310 calories."

That's what researchers at New York University set out to discover. The idea wasn't purely theoretical. The Big Apple (note: McDonald's Apple Dipper dessert, 35 calories) passed a pioneering anti-obesity law in July 2008 obliging large restaurant chains to publicise the calorie content of their dishes.

The researchers took their clipboard to four restaurant chains: McDonald's, Burger King, Wendy's and Kentucky Fried Chicken. All the restaurants were located in low-income neighbourhoods of New York City. The headline responses conformed to what the lawmakers had hoped. More than half noticed the information about calorie content. Just over a quarter of those then acted on this information. And, of that number, nine in 10 said the calorie quantities had influenced their order.

Yet when the researchers checked the customers' receipts, they found that their calorie intake had actually gone up, not down. NYC consumers had a mean consumption of 825 calories before the new law came into force. In the month afterwards, that figure jumped to 846 calories.

Happy meal?

How to explain the discrepancy? First, it's not as easy to change people's consumption patterns as public health or public affairs professionals may think. Smoking is a case in point. Smokers still light up regardless of increasingly graphic health warnings. Moreover, it takes time; the study took place in the month after the calorie-counting rule kicked in. Income level is also a factor. The poorest are probably the least amenable to calorie labelling, putting the impact on their pockets above the impacts on their health.

"Calorie labeling and food choices", Brian Elbel et al, Health Affairs, October 2009.

Campus news

The **Network for Business Sustainability**, an online resource for academics, has revamped its website. Among the highlights of the new site – nbs.net – are one-page summaries of seminal papers in the corporate responsibility field.

Professor Thomas Donaldson of **Wharton Business School** has been awarded the Lifetime Achievement Award in this year's Aspen Institute Faculty Pioneer Awards.

Was Scrooge really that unhappy?

"It's better to give than receive." So the maxim runs. But academics, in only the way academics can, have taken a pop at the age-old saying. Giving, it turns out, doesn't make you happy after all. Or, at least, not noticeably happier than others. So reads the new thinking from the fields of psychology, economics, and neuroscience. This timely working paper seeks to interrogate the revisionists. Using research from a variety of samples, ranging from adults to monkeys, the authors find that happier people give. Evidence from correlational and experiential studies back this up. The notion that giving gives greater happiness is also defended. The subtlety of the argument lies in the hypothesis that giving and happiness operate in "circular fashion" rather than one of linear causation.

Receiving's pretty good too

The paper has a sting in the tail too. It considers whether modern charity advertisers are responsible for the breakdown in the giving = happiness equation. Could persuading people to give in order to be happy actually pervert the giving process? The intrinsic, selfless motivation inherent to giving suddenly becomes replaced by an economic, self-centred rationale, the authors argue. That shift reduces consequent happiness for the giver, and reduces giving as a whole.

"Feeling good about giving: the benefits (and costs) of self-interested charitable behavior", Lalin Anik, Harvard Business School, working paper August 2009.

Shareholder proposals: nuisance or necessity?

When US food company Iroquois Brands was asked to look into the origins of a pâté de foie gras product that it distributed, it dismissed the request out of hand. For starters, the request came from a minor shareholder: Peter Lovenheim only owned 200 Iroquois shares. Second, the issue seemed, well, slightly off the wall. Lovenheim wanted to know if the French producer from which Iroquois sourced the pâté brutally force-fed the geese that went into the product.

Iroquois turned out to be wrong on both counts, as would be later proved when the US Securities and Exchange Commission ruled against it. Lovenheim might not have held many shares. But as government relations counsel for the US Humane Society, he did hold sway. Nor was his query immaterial. Under SEC rules, a shareholder proposal must be distributed in proxy materials before an annual or special shareholder meeting if that proposal requires the board to "take action". Iroquois deemed no action was required. The SEC thought otherwise.

Although the case occurred 25 years ago, the lessons are salient. Companies have come to accept the value of permitting social proposals, even though most stand no chance of being voted through. Why? Because they can provide "a relatively inexpensive safety valve for dissent", Telman argues. This in turn permits the kind of beneficial exchange between management and shareholders that promotes the legitimacy of the corporate decision-making processes.

"Is the quest for corporate responsibility a wild goose chase?", Jeremy Telman, Law Review, September 2009.

People on the move

By Victoria Jordan, Ruston Wheb Search & Selection
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Partners In Planning Financial Services Ltd (PIP) has announced the appointment of **David Carson** to the position of chief compliance and ethics officer. Carson is responsible for regulatory matters, sales and marketing compliance, corporate ethics, and for ensuring the highest level of ethical standards, policies, procedures and compliance. Prior to joining PIP, Carson held management positions with a number of leading financial organisations including Citigroup Global Markets Canada, Nesbitt Burns and Connor Clark & Company.

Co-operative Asset Management has promoted **Abigail Herron** as corporate governance manager in its responsible investment team. Herron was previously a corporate governance analyst at the company.

PricewaterhouseCoopers has appointed **David Adair** as its new head of community affairs. In his new role, Adair will take charge of schemes aimed at promoting social inclusion in the areas where PwC is based. Adair joined PwC's community affairs team in 2001.

Nigel Smith is stepping down as head of **KPMG**'s corporate responsibility advisory to establish his own boutique consultancy, **Corporate Balance**. In his new role Smith will be offering clients strategic corporate responsibility and broader sustainability support.

Total has appointed **Chibuzor Ugwoha**, as managing director of the Niger Delta Development Commission (NDDC).

Ethics SA, the international ethical standard certification company, has appointed **Johan Schotte**, **Jean-Jacques Miauton**, **Patrick A Sulzer** and **Nicolas Leuba** to its board of directors. They will begin to serve on the board of Ethics SA immediately as they were voted in unanimously at an extraordinary general shareholders' meeting held at Ethics SA's global headquarters near Geneva in Switzerland.

Shanghai-based **Advent-Oriental Asset Management**, a private equity boutique, has appointed **Brandon Freztner** to address sustainability matters within the company and to advise portfolio companies on environmental, social and governance issues. Freztner joins from JM Merrick where he was an associate director in the risk and sustainability team.

H&M and cotton

In our September issue we stated that H&M has stopped sourcing all cotton from Uzbekistan. It appears that this is not the case. H&M guarantees that none of the organic cotton used in its clothing is from Uzbekistan. The company says it is investigating how to trace the origin of the cotton in its other ranges.

The contrarian

Sifting oil sands for grains of truth

Is oil from tar sands a climate crime, as activists claim? It's an argument at the heart of debate between energy security and environmental security, says Jon Entine

OK, but what are the realistic alternatives?

Throughout the autumn, environmental activists blockaded oil production at tar sands facilities in Alberta, Canada, owned by BP, Shell, ExxonMobil and other transnationals. They shut down operations and unfurled a huge banner, seen on TV around the world, proclaiming "Tar Sands: Climate Crime".

And they may be right. But that doesn't mean reasonable people should want them to win the battle to scuttle one of the most massive oil projects of modern times.

The question that needs to be asked: do you want to bask in the glow of soft moralism or make tough choices within the constraints of the real world, balancing a variety of stakeholder interests?

Here's the problem: conservation, shifting to wind and solar energy, and ramping up nuclear energy – the silver bullets of greenhouse gas reduction – will not put a serious dent in the growth of world energy consumption. The countries of the developing world demand the kind of energy-intensive middle class lifestyles the west takes for granted, which is why they resist the energy cutbacks now on the table. That means industrial giants, such as the US and the EU – even if they reduce energy consumption – are forced, for decades to come, to depend on fossil fuel discoveries only now coming online. Oil sands are one of the most promising – and dirty – sources.

The world's largest deposits are in Canada and Venezuela, which have reserves roughly equal to the world's known reserves of conventional crude oil. With Venezuela a political quagmire, that leaves for exploitation the Canadian tar sands, which span an area the size of Florida beneath the Boreal Forest of Alberta.

Extracting oil from tar is messy. It takes four tonnes of tar sands to produce one barrel of oil. The first step involves clearing wilderness for open-pit mining. Plants, trees and topsoil must be extracted by the truckload. Nearly 80% of the oil lays so deep that it needs to be either injected with steam or put through a "fireflood" process. Because five barrels of water are needed to produce a single barrel of oil, surrounding rivers must be routed to the pits, with the black water rerouted to man-made toxic sludge lakes.

Heavy machinery sucks out the dirty oil slurry known as bitumen, which generates lots of greenhouse gases, though how much is contested. The National Resources Defense Council claims barrel for barrel oil sands extraction generates three times the emissions of extracting a barrel of conventional oil. "There are good sources of energy we can turn to that don't involve turning entire forests into a moonscape," says NRDC's Ann Alexander.

But two studies released last summer by consulting companies funded by the Alberta Energy Research Institute concur with US government analyses that greenhouse gas emissions of the two extraction methods are almost comparable. Scientists are also dedicated to developing ways to soften the environmental impact of tar sands, including a focus on nanotechnology, which can reduce the industry's thirst for fresh water and remove many impurities that enter the environment.

So why are these projects going forward? The potential environmental impacts must be weighed against the energy security and economic benefits offered by these reserves. It has been estimated that the oil sands could provide upwards of $500bn for the North American economy and generate about 5.4m person years of work between now and 2020 – an enormous economic jolt in desperate times.

The potential environmental impacts must be weighed against the energy security and economic benefits

Geopolitics is also at play. Secure energy resources are critical in a hostile world. Oil sands production is expected to almost double in Canada by 2015. Of the 1.25m barrels extracted daily from the sands, 1m goes directly to the US, possibly growing to 5m by 2020. Because of growth of oil sands production, Canada is already the largest supplier of oil and refined products to the US.

With those factors on the table, campaigns to scuttle the projects are hopeless. With so much at stake, neither the US nor Canada is likely to agree to curtail production, no matter what pressures come out of Denmark. The legislatures in both countries appear disinclined to embrace unrealistic – indeed disingenuous – hard targets for energy consumption cuts now being discussed.

With the political situation among Opec countries fragile, western countries are looking for secure ways to address energy needs. In that context, the Canadian reserves are strategically critical, and at least at this stage environmental concerns will take a back seat. And that's not a bad thing. ■

COLUMNIST:
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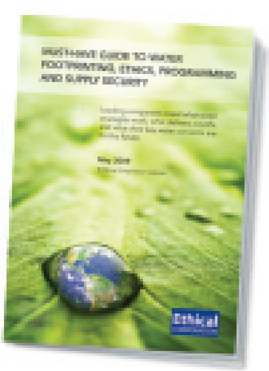

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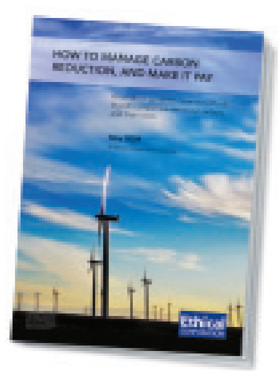

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How big UK companies cut carbon, and their costs

Published: March 2008
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