

Industry - Leading Ecologically Sustainable Development

- 3.1 Industry leadership is vital to the take-up and effective implementation of ESD principles. However there is also a role for government in ensuring that appropriate frameworks are in place for market pressures to operate and to harness the drivers of ESD.
- 3.2 Sector agreements, business to business strategies and 'green' supply chains are demonstrations of the commitment to ESD from some industry quarters. Public environmental reporting, TBL reporting and SRI markets are also demonstrating a broad commitment to changed business and consumer priorities.
- 3.3 While one issue is the provision of a mix of initiatives to harness the drivers of ESD, from discussions and evidence presented, the Committee recognises the need to establish a pathway to ESD that can be integrated into business planning and practices. There is a lack of clarity in the terminology surrounding sustainability and SRI. Similarly, there are few practical tools to assist SMEs in particular in basic reporting and measurement of TBL or environmental outcomes.
- 3.4 The Committee has recommended initiatives which will provide a series of stepping stones onto the path of sustainability in the form of simplified 'ready reckoner' approaches to TBL, accessible reporting structures, and a commonly understood language to aid business managers, financial analysts and potential investors to measure and compare sustainability indicators.

Defining Sustainable Development

- 3.5 'Sustainable development' has become a standard term in government, industry and community planning at a local, national and international level. However, there remain several conceptual challenges regarding what is meant by 'sustainable development', for instance:
- What are the objectives of sustainable development and how are these objectives put into practice?
 - How do we shift current practices to the sustainability development path and what time frame is appropriate for this?
 - Is there a financial cost to the present generation or do increased efficiencies deliver financial returns? and
 - How is sustainability measured and what type of balances or even trade-offs may be appropriate?
- 3.6 For the purposes of this inquiry, the Committee has broadly interpreted the term sustainable development in line with contemporary definitions which define a sustainable path of development as 'One that allows every future generation the option of being as well off as its predecessors'.¹
- 3.7 This definition, which uses the broad concept of a generation being 'well off', provides a flexibility of approach that enables objectives to vary according to the developing needs of a nation as well as national priorities and cultural determinants of wealth.
- 3.8 There are commonly taken to be three measures of sustainability which may be ascribed different weightings of wellbeing according to national differences. The three measures of sustainable development cover economic, environmental and social wellbeing.

1 Solow, R. (1992), *An Almost Practical Step Towards Sustainability*, Invited Lecture, Resources for the Future, Washington DC (October 8).

- 3.9 The Australian Government Treasury article, *Sustainable Development – to what end?*, argues the connectedness of these three measures in the context of developing a future Australia:

Economic growth, a clean environment and sound social policy can be mutually supportive goals. They all contribute to improving the wellbeing of people, both now and in the future.²

- 3.10 The article goes on to note that ‘these three dimensions, commonly referred to as the ‘three pillars’, each correspond to a domain that has its own distinct driving force and objectives’.³

- 3.11 The article argues that, traditionally, the economic dimension is well-developed in Western countries. In recent decades the environmental dimension has strengthened at the government policy and legislative level. There is also growing community and corporate pressures to minimise long term environmental impacts. The article notes that the social dimension is the less developed of the three pillars – at least in terms of methodologies to assess outcomes and changes.

- 3.12 For this inquiry, the Committee has restricted its consideration of sustainable development practices to the ‘environmental pillar’. Where appropriate, the connections between environmental outcomes and economic gains are discussed.

- 3.13 TBL reporting, which takes into account all three measures, is considered later in this chapter. However the discussion on TBL again is weighted toward environmental reporting and the improvement of environmental outcomes, rather than providing a comprehensive discussion of the three components of TBL reporting.

- 3.14 From the evidence presented the Committee considers that substantial opportunities for the environment industry lie in the growth of environmental awareness across all sectors and the ‘greening’ of mainstream employment and investment. Accordingly this chapter focuses on ESD and market mechanisms to promote its uptake.

2 Treasury (2002), *Sustainable development – to what end?* www.treasury.gov.au, last accessed 21 October 2002.

3 Treasury (2002), *Sustainable development – to what end?* www.treasury.gov.au, last accessed 21 October 2002.

Drivers of Ecologically Sustainable Development

- 3.15 The Committee heard a range of evidence relating to the drivers for and prevalence of ESD. There were also a range of views presented during the course of the inquiry on the role of government in promoting or regulating a shift in business practices towards more sustainable development.
- 3.16 The submission from the South Australian Government refers to OECD research which suggests that economic returns are themselves a driver in ESD and growth of an environment domestic industry. The OECD research concluded that:
- ... countries which lag behind in developing environmental products and services may find themselves with substantial trade imbalances in this area and a reduced quality of the environment.⁴
- 3.17 DEH also gave evidence to the Committee concerning the drivers of ESD and the potential for employment growth in the environment industry:
- Environmental regulation is one of the major drivers of both public and private sector employment in this sector. Environmental education is another...
- Turning to potential growth in the sector, some of the drivers we would nominate are new regulation; consumer and community pressure and changed lifestyle or consumption patterns; changing business attitudes and, particularly, supply chain requirements; and, finally developments in technology.⁵
- 3.18 The EIA gave evidence to the Committee that the technology existed to address most of the environmental problems faced today. However, EIA suggested that there was not the desired uptake of these technologies as a key driver for change in environmental consideration continued to be legislation, and legislation was currently not demanding sufficiently high a benchmark. A representative from the EIA stated that:

4 OECD (1992), *The OECD Environment Industry: Situation, Prospects and Government Policies*.

5 *Transcript of Evidence*, p. 55.

... the major driver is still environmental legislation for people doing anything. I can give you examples at the top end of people who are leading the way in terms of product stewardship, being accountable and open in their public reporting and sustainable reports and doing some wonderful things. There are some magnificent examples at the top end. But when you come back to the bulk of industry and business, there is one driver, and that is legislation ...

If we look at the technologies, we have some amazing technologies that have been developed here. But they are not being used because there are not the drivers to do so. In other words, we actually could minimise the majority of our environmental problems today. We have the answers. There are some big ticket issues that we have to deal with. For the bulk of them we have the answers, but we do not actually have the incentive to do so on a legislative framework.⁶

- 3.19 ITR gave evidence to the Committee that overall trends toward sustainable development were positive. ITR suggested that, while the initial drivers for environmental accountability may be regulatory, once the change in business practices is made then other benefits for industry emerge. ITR told that Committee that:

A number of companies in a number of areas are now seeing the benefits of sustainable development to their own operations. Perhaps for other reasons they have found themselves needing to report on sustainable development outcomes from their operations. But once they are heading down that path, it is realising that that has led them to a company that is doing well. It is doing well in its overall governance and its overall performance. They have found areas to improve their performance in terms of sustainable development. Having headed down that path, they have also started to quantify a number of their inputs and costed some of their outputs so that it has led to more productive outcomes and more commercial outcomes ... In the past, maybe [reporting on sustainable development] was something that one endured rather than embraced. But I think that is changing. It is changing in a number of sectors.⁷

6 *Transcript of Evidence*, p. 46.

7 *Transcript of Evidence*, p. 27.

3.20 The Gold Coast City Council gave evidence to the Committee based on its local area and the challenges it has faced. In 2001, the Council commissioned a scoping study of the local environment industry to determine the major issues affecting the industry. The Council's submission to the inquiry reports on the findings of the study, which:

... identified that legislation and policies designed to protect the environment at all levels of Government were the greatest creators of opportunities for the environment industry. This higher standard of required environmental protection reflected the changing attitudes of society who now expect environmental protection measures as standard rather than additional features of industry activity. This change in community perception, as well as influencing government policy also creates a market in itself as people now include 'environmentally friendly' criteria in their selection of goods and services.⁸

3.21 The Committee recognises that traditionally, the market has been the driver of change in industry. A shift to ESD requires an attitudinal shift from governments, companies and communities to bring together an environmental and economic focus. While the Committee was of the view that environmental benefits often do deliver economic and efficiency benefits to industry, it was interested to hear views on how to meaningfully take this message of sustainability to industry and to consumers.

3.22 The Committee heard evidence from GreenChip's Managing Director, Mr Anthony Peyton, who described the approach of the company as:

I try and say, 'Look, there's probably a dollar in there somewhere if you look hard enough. Whether it be by becoming more efficient or through your product selection, there will probably be opportunities in the future by changing your company over time.' I try to develop strategies with companies to gradually move them across to the green side of being commercially viable.⁹

8 Submission no. 8, p. 5.

9 *Transcript of Evidence*, p. 116.

- 3.23 From discussions and evidence presented, the Committee identifies the key drivers of ESD operating in Australia as follows:
- Compliance with legislation or mandatory reporting requirements;
 - Economic returns due to increased business efficiencies and managing long term risk liabilities;
 - Capturing a greater market share or achieving market differentiation; and
 - Shifting cultural and attitudinal expectations by communities and industry to be more environmentally accountable.
- 3.24 Given this range of drivers for ESD, the Committee is aware that there is no 'quick fix' to achieve long term sustainability. A range of initiatives are needed to promote and facilitate the implementation of ESD business practices.
- 3.25 EBA gave evidence regarding the need for sustainable development and environmentally responsible business to be progressed through a 'suite of activities'. These measures must be responsive to the various industry drivers and appropriate to sectoral needs. EBA also stress the need to focus on practical tools for ESD implementation, stating that:
- Although we have had doom and gloom from environmental groups from the year dot, they have not done an awful lot to change consumer awareness or consumer action. Whether you look at people as consumers or taxpayers or voters, if we can go out to them with a suite of activities that say, 'We need to do this for this reason, and here is how we do it, and here is your role in it,' they will buy into that. But it cannot be a deluge – it has to be a drip, drip, drip approach that keeps on going. We are looking at a five-, eight- or ten-year campaign to achieve that, not a six-month blitz.¹⁰
- 3.26 The Committee agrees strongly with this view and endorses the need for practicalities and long term planning to enter into the debate. Sustainable development should not be reduced to gimmicky slogans. For real change to take place, the path to sustainable development must encompass real action and commitment from governments, industry and consumers.

10 *Transcript of Evidence*, p. 178.

- 3.27 The Committee is of the view that no one driver can bring about a widespread shift to ESD. It is the role of the Australian Government to implement a suite of initiatives that provide the framework, incentives and tools for business to respond to the diversity of ESD drivers and, in the long term, achieve ways of doing business that are economically viable and environmentally sustainable.

Industry and Joint Initiatives

- 3.28 The issue of the Australian Government's role in promoting sustainable development was examined in 2002 by a Working Group of the Prime Minister's Science, Engineering and Innovation Council (PMSEIC). The PMSEIC report, *Australian Industry's Sustainable Competitiveness*, recommended the development of a framework which would assist industry, and in particular SMEs, to develop and implement sustainability as part of standard business practices.¹¹
- 3.29 A key element of this framework that was recommended involved 'operationalising sustainability' by:
- Encouraging a greater focus on SME sustainability reporting through industry associations; and
 - Collaborating with relevant industries to apply voluntary sustainability sector agreements.¹²
- 3.30 There are a range of initiatives and programs underway – either driven by industry groups or cooperative agreements with the Australian Government which are encouraging ESD and reporting. EIA also noted that the mining and resource companies, in particular, have implemented codes of practices requiring member companies to report on environmental performance and meet standardised sustainability criteria.
- 3.31 A number of Eco-efficiency Agreements have also been signed between Australian industry associations and the Australian Government. Eco-efficiency Agreements are voluntary, three year agreements that are tailored to the needs and requirements of different industry sectors. In mid 2003 the Australian Government had signed 21 Eco-efficiency Agreements with, among others, the

11 PMSEIC (2002), *Australian Industry's Sustainable Competitiveness*, www.dest.gov.au/science/pmseic, last accessed June 2003.

12 Submission no. 27, p. 200.

Housing Industry Association, the Australian Food and Grocery Council and the Australian Chamber of Commerce and Industry.

3.32 There are also a range of Australian Government initiated programs either encouraging or requiring types of environmental reporting. These include:

- The Greenhouse Challenge Program;
- The National Pollutant Inventory;
- The Waste Packaging Covenant;
- The *Environmental Protection and Biodiversity Conservation Act 1999*;
- State of the Environment (SoE) reporting requirements; and
- Legislative disclosure requirements relating to environmental performance reporting.¹³

3.33 In addition to the more formal programs and agreements, the Committee heard evidence regarding business to business strategies to improve environmental performance throughout supply chains. In its submission, GreenChip outlined the role of supply chains in implementing a 'cascading' system of environmental awareness. By requesting suppliers to have in place an accredited environmental management system, GreenChip explained how larger corporations can:

- enhance their own marketing image;
- contribute to positive global outcomes; and
- ensure that the environmental risk of suppliers is minimised.¹⁴

3.34 GreenChip refers to Ford Australia and the work they have done to promote better environmental performance through their supply chains. GreenChip notes that:

Whilst the Ford example did not show a major increase in the number of Environment jobs, many people within the supply chain would have had a responsibility for environmental management included in their position description. Over time it is expected that more medium and large sized companies will employ people to take on such responsibility for the

13 A detailed outline of these joint industry and government initiatives is provided in the *ISR Environment Industry Action Agenda: Investing in Sustainability*, 2002, p. 32.

14 Submission no. 30 p. 222.

management of systems and environmental risks. This increase will be accelerated by the decisions of corporations such as Ford and Telstra to require their supply chain to improve their management of environmental aspects.¹⁵

- 3.35 A number of other companies operating in Australia, such as General Motors Holden, Toyota, Unilever, and Rio Tinto, are requiring their suppliers to monitor and improve environmental performance. Some companies are requiring suppliers to develop an environmental management system or prepare a public environmental report.
- 3.36 The Committee is highly impressed by the work being undertaken by major corporations to influence the environmental performance of companies in their supply chains. The movement to ESD must be seen as a 'cascading' process with consumers, governments and businesses working within their own spheres of influence.
- 3.37 However it is perhaps in business to business strategies that the more dramatic shifts in industry behaviour can be achieved. This is also the area in which the Australian Government has the lesser influence. The Committee commends the greening of supply chains undertaken by some companies and urges all corporations to demonstrate a corporate environmental responsibility and leadership throughout their suppliers.
- 3.38 The advantages for companies involved in greening supply chains are potentially improved corporate image and market differentiation (and therefore potential economic gains). Risk liabilities can also be reduced.
- 3.39 The Committee recognises that in many instances the success of these initiatives is dependent on the willingness of certain large industries to publicly drive sectoral or supply chain campaigns for ESD. The need for 'environmental champions' that can lead the attitudinal change in communities and across business has led the Committee to focus on the importance of leadership and different forms of environmental reporting and accountability. In particular, the Committee considers that this leadership is needed from industry, the finance sector and governments.
- 3.40 Leadership from industry on ESD can be demonstrated through a greater uptake of TBL reporting. The finance sector has a particular role in SRI and recognising the reduction of risk liabilities of those companies engaging in sound environmental management.
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15 Submission no. 30 p. 222.

- 3.41 The Committee considered a number of these issues and reports on its findings in this chapter.
- 3.42 The Committee recognises that leadership from all levels of government is critical in establishing environmental accountability and ensuring ESD. State and Australian Government department and agency reporting, green procurement policies and local government initiatives are an important means of creating employment and market opportunities for environmental goods and services.
- 3.43 The Committee considered the role of government in displaying leadership in ESD and discusses these findings in the chapter following.

Triple Bottom Line and Environmental reporting

- 3.44 John Elkington, co-founder of *SustainAbility* (a European management consultancy and think-tank) and author of *Cannibals With Forks: The Triple Bottom Line of 21st Century Business* (1997) has described TBL as:

At its narrowest ... a framework for measuring and reporting corporate performance against economic, social and environmental parameters.

At its broadest, the term is used to capture the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from their activities and to create economic, social and environmental value.¹⁶

- 3.45 A key aspect of this definition is that it requires not merely the minimisation of harm but also looks to 'create value' across the three pillars of sustainability. Arguments are now being put forward that TBL reporting is a key communication tool for sustainability in business decision-making. TBL, it is argued, must be regarded as a mechanism to operationalise sustainability.

16 www.sustainability.com, last accessed June 2003.

- 3.46 The Barton Group gave evidence to the Committee stating that the value of TBL lay not in the reporting itself but in the analysis that accompanied it. This analysis enabled a company to evaluate and hence upgrade its processes:

We are strong supporters of triple bottom line analysis before reporting. The key to it is the analysis, not so much the reporting. And it is important that companies know why they are doing the analysis and for what purpose in the first place. If it is reporting for reporting's sake, clearly it is almost greenwash. To some extent, the existing regulations have been dangled out there saying, 'This is what you have to report to. Once you have reported to them, soon you will learn that this is worthwhile stuff and you should be analysing it a lot more. If you are forced to collect it under legislation, you will be given an incentive to at least have it at your disposal and do some analysis.' The secret to it is the analysis, not so much the reporting, as such. At this stage, except for a small handful of dedicated and a smaller handful of large companies, we do not see the analysis being done.¹⁷

- 3.47 Similar views are put forward by the Ecos Corporation Pty Ltd (Ecos) in the discussion paper *Single Bottom Line Sustainability*. Ecos is an Australian consultancy firm who describe themselves as:

... a passionate group of business professionals and former social change campaigners who now work together as strategic advisers to large corporations – to help them convert Values to Value™.¹⁸

- 3.48 The Ecos discussion paper argues that:

... now we need a revolution. Sustainability needs to move to centre-stage for business decision-making and the TBL has a fundamental weakness if companies try to use it as a framework for business strategy ...

- The application of [the TBL] idea tends to encourage a separation of environmental, social and economic performance, with the unspoken (and unintended) message to business being 'we don't mind if you make money as long as you add social and environmental value while you're doing so'. What is needed is a concept that

17 *Transcript of Evidence*, p. 48.

18 P. Gilding, M. Hogarth and C. Reed (2002), *Single Bottom Line Sustainability: How a value Centred Approach to corporate Sustainability can Pay Off for Shareholders AND Society*, Ecos Corporation, p. 2.

integrates, not separates. It needs to clearly and simply say: 'If you create more social and environmental value the right way, you'll create *more* financial value as a *direct and measurable result*'.¹⁹

- 3.49 This and other evidence to the Committee suggests a lack of clarity around the practical forms of TBL reporting. As the Ecos discussion paper suggests, there is also limited awareness of the value of TBL as a management tool for good business practice. While TBL reporting is not a new concept, initiatives to support the uptake of TBL reporting will need to address fundamental issues such as what constitutes a meaningful TBL report.
- 3.50 The Committee agrees with the concept that TBL reporting is a valuable tool for company and community change. While TBL reporting is not an end point, public disclosure through TBL reporting can drive change by promoting market differentiation and awareness, increasing investor confidence and managing risk.

Uptake of TBL Reporting

- 3.51 Evidence presented to the Committee suggests that the uptake of TBL reporting varies considerably across sectors and company size. Despite this variance there are positive signs that the uptake of TBL reporting is gaining in momentum. A report released by the Sustainable Investment Research Institute (SIRIS), *Sustainability and Environmental Reporters Benchmarking Program 2001-2002*, surveyed a number of organisations producing sustainability and environmental reports and evaluated the extent to which different indicators were reported on.
- 3.52 The report found that:
- 14 per cent of the top 100 Australian Stock Exchange (ASX) listed companies produced stand alone environmental or sustainability reports;
 - A further 10 ASX listed companies provided environmental or social information within their annual reports; and

19 P. Gilding, M. Hogarth and C. Reed (2002), *Single Bottom Line Sustainability: How a value Centred Approach to corporate Sustainability can Pay Off for Shareholders AND Society*, Ecos Corporation, p. 6.

- Globally, the number of companies producing corporate or sustainability reports has risen by 10 per cent in the past three years.²⁰

3.53 These are promising figures although they also indicate that we have some way to go in achieving widespread public disclosure of company TBL performance. DEH gave evidence in its submission regarding the performance and attitudes of industry toward TBL reporting and environmental responsibility. The DEH submission refers to a report commissioned by the National Environmental Education Council (NEEC) which highlights the following issues:

- There is limited understanding of environmental concepts and approaches. Many companies have not heard of eco-efficiency or environmental management systems. Corporate citizenship is often taken to mean philanthropic activities and along with environmental considerations, is regarded as marginal to core business.
- The number of companies with well-developed environmental management systems is relatively low and these are restricted to larger companies.
- The most common environmental management initiatives by companies over the past few years have involved waste management, waste minimisation, and recycling. Product stewardship, marketing of 'green' products and life cycle assessment is very uncommon.²¹

3.54 ITR also acknowledged to the Committee that the take-up of ESD was sector variant with both exemplary and disappointing company practices taking place across Australia. ITR suggested that some of this variance was due to the degree of potential environmental impact a sector may cause and so the extent to which legislation, public opinion and shareholder confidence had made it necessary for a sector to address issues of environmental management and long term risk minimisation.

3.55 Sustainable development, as an opportunity for growth in the environment industry, was considered in part by the EIAA. The Action Agenda found that, to increase the uptake of sustainable development and growth in the environment industry, externalities needed to be costed, communicated and valued. In short the price of delivering improved environmental outcomes needed to be made more transparent in the marketplace.

20 SIRIS (2002), *Sustainability and Environmental Reporters Benchmarking Program 2001-2002*, p.ii., www.siris.com.au, last accessed 19 November 2003.

21 Submission no. 26, p. 198.

The industry believes that too often there is a lack of appreciation among consumers of the value of a better environment ... The industry has identified three factors that, if addressed, would help both industry and consumers correctly value and price environmental resources. These are:

- Increasing the flow of information available to the market by environmental reporting;
- Addressing the policy framework; and
- Influencing purchasing and investment decisions.²²

- 3.56 A series of EIAA recommendations, grouped under the broad theme of 'Valuing and Pricing the Environment', seek to promote greater awareness of public and private sector environmental performance. Strategies developed include greater use of existing reporting mechanisms and the further investigation of sustainability indicators and investment reporting.
- 3.57 While the Action Agenda recommendations go some way to addressing issues raised during the course of the inquiry, the Committee also sees scope to more immediately enhance the workings and implementation of the proposed EIAA initiatives.
- 3.58 The Committee was heartened by the leadership displayed by certain sectors and companies in Australia. The submission from the Western Australian Department of Premier and Cabinet included evidence from the Department of Mineral and Petroleum Resources. In the submission, the Department suggested that a number of State initiatives are promoting environmental excellence in the mining and petroleum sectors and that a 'robust reporting system' already applies to all minerals, petroleum and associated downstream processing projects.²³
- 3.59 The Committee also held discussions with BP Solar Australia and was interested in the leadership approach taken by BP Australia to TBL reporting. Community and stakeholder expectations, the need to reduce environmental risk liabilities and the desire for market differentiation are driving BP Australia's move to TBL and ESD.

22 ISR (2001), *Environment Industry Action Agenda: Investing in Sustainability*, p. 32.

23 Submission no. 22, p. 152.

- 3.60 In 2001, BP Australia produced its first combined TBL report (the company has produced separate environmental and social reports in earlier years). Mr Greg Bourne, Regional President South Asia and Australasia, explained the reasons for the company choosing this form of reporting:
- We are reporting this way because the overwhelming response from our stakeholders is that they want more transparency from companies. For us though, it is not the reports per se that are important but the behaviours that they engender.²⁴
- 3.61 The report goes on to state that ‘BP believes that a TBL approach to business makes good business sense and will provide us with a sustainable competitive advantage’.²⁵
- 3.62 This finding was confirmed by environment industry representations with the EIA commenting on TBL reporting that ‘certain sectors have been asked to do it by their codes et cetera. But we do not see enough of it in general.’²⁶
- 3.63 The Committee commends the leadership of certain sectors and companies in their uptake of ESD and TBL reporting. The Committee believes that an increased use of TBL reporting would promote greater environmental responsibility. To this end, the Committee considered mechanisms for promoting TBL reporting and the possible role for the Australian Government in facilitating more ecologically sustainable business practices.

Voluntary Versus Mandatory Reporting

- 3.64 The Committee heard evidence to support voluntary, rather than mandatory, environmental reporting for companies. This evidence even came from those consultants who would have the most to gain, in terms of increased business, from mandatory reporting.
- 3.65 The Committee heard that, while mandatory reporting and legislative change set benchmarks, change beyond these benchmarks is most appropriately driven by market pressures, attitudinal changes and the recognition of financial returns.

24 BP Australia (2002), *Triple Bottom Line Report*, p. 1.

25 BP Australia (2002), *Triple Bottom Line Report*, p. 5.

26 *Transcript of Evidence*, pp. 48-49.

- 3.66 The reasons for opposing mandatory reporting were several. Of greatest concern was the compliance cost this would place on companies. This issue was considered in the EIAA which notes that:
- Some within industry oppose mandatory reporting because of the cost and additional reporting burden such moves would impose. In addition, companies already provide compliance reports to government in respect of many pieces of environmental and social legislation, and may question the need to do more. A further problem with mandatory reporting is that it may not lead to better environmental or social outcomes. Unless mandatory reporting requirements were highly prescriptive, the reports produced could lack substance, report only on positive performance, or set conservative targets that can be more easily met.²⁷
- 3.67 The Institute of Chartered Accountants (ICA) provided an example of voluntary reporting. The ICA worked with DEH and the Victorian Environment Protection Agency to undertake a number of environmental management accounting case studies. The case studies examined the implementation of Environmental Management Accounting initiatives within several organisation, including Services@AMP, a service division of AMP.
- 3.68 The Office of the Minister for State Development, Tourism, Small Business, Western Australia, commented further on the role of government in promoting, rather than mandating, environmental reporting. Incentives, information and leadership are identified as key roles for the Australian Government in promoting better environmental performance and reporting:
- Promoting public environmental reporting is important, but the Government needs to encourage rather than prescribe public reporting. The Government's role in this processes could include providing financial assistance through industry support schemes to encourage companies to adopt public environmental reporting and provision of 'how-to' information promoting best practice examples of public reporting;
 - Leading by example, with the Commonwealth Government either encouraging or requiring national agencies to adopt public environmental reporting. State Governments may also consider this initiative; and

27 ISR (2001), *Environment Industry Action Agenda: Investing in Sustainability*, p. 66.

- Encouraging companies to demonstrate compliance with [the International Organisation for Standardisation] ISO 14000, which may be of increasing importance in winning international projects.²⁸
- 3.69 While the Committee recognises that environmental legislation is one key driver to ESD, the Committee also believes that a multi-faceted approach toward implementing sustainable development and public reporting is the most effective long term approach. Currently there exists insufficient basis for mandating TBL reporting. However, as the TBL concept becomes further refined and achieves a greater acceptance by industry and in the marketplace, the Committee sees value in revisiting the question of mandatory TBL reporting.

Facilitating Change

- 3.70 ITR outlined to the Committee what it saw as the view of the Australian Government, namely that sustainable development in industry should be encouraged but not approached entirely through regulatory mechanisms. The Department stated that:
- Clearly, the government has outlined a view that it wants companies to decide that this is in their own interests to improve their credentials or however they want to go about improving their environmental performance. In doing that, they have put forward a number of initiatives to try to assist that process.²⁹
- 3.71 One of the most significant initiatives is the development of voluntary environmental reporting guides and the establishment of the online reporting database *Sustainability Reporter* (www.sirisdata.com).
- 3.72 This database of company sustainability reports and information is being developed by SIRIS. When completed, the database will provide:
- ... a publicly accessible resource where stock exchange listed companies can disclose core sustainability information. The database aims to encourage and provide an easy mechanism for companies not producing an environment or sustainability report to make some information available. For those companies already reporting, the database enables them to avoid repetitive requests for data from analysts and stakeholders.
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28 Submission no. 22, pp. 141-2.

29 *Transcript of Evidence*, p. 28.

On the other side of the ledger *Sustainability Reporter* will provide a one-stop-shop for investors to get a more transparent and consistent picture on the sustainability performance of corporate Australia.³⁰

3.73 The Western Australian Department of Premier and Cabinet recommended in their submission that:

... information [from environmental reporting] could be better utilised if collated into an environmental database contributing to the status of knowledge of the Australian environment. A consequence of this is better environmental planning and management, as demonstrated by the WA North West Shelf Joint Environmental Management Study, which drew on information collected by industry operating in the North West Shelf region.³¹

3.74 The Committee notes that SIRIS is a work in progress and there is some prospect that it will address issues raised by the Western Australian Government. A complementary SIRIS initiative is being undertaken to develop core environmental and social reporting indicators and methodologies. This should aid in standardising reporting frameworks, reducing the compliance and reporting burden on companies and providing greater transparency and comparability of company reports.

3.75 There are also a range of guides and reporting systems designed to encourage greater public environmental reporting by corporate Australia (see Appendix E). The publication *A Framework for Public Environmental Reporting – An Australian Approach*, was released by DEH in March 2000. The publication describes how to prepare an environmental report following the broad phases of planning, measuring, reporting and reviewing. Examples are also provided of performance indicators.

3.76 The Committee is of the opinion that this publication is a sound contribution to the body of information on environmental reporting. It provides accessible guidance for companies which seek to move along the sustainability path but perhaps lacks the 'how to' skills.

30 Beale, R. (25 July 2002), *Finance and Sustainability*, speech given by Secretary of DEH at Forum, Melbourne.

31 Submission no. 22, p. 153.

- 3.77 Although the report focuses on environmental rather than TBL reporting, it provides a practical guide to analysing and reporting on aspects of corporate performance beyond the traditional financials.
- 3.78 Internationally there are a range of initiatives and measures available to assess corporate performance. The most notable is the *Global Reporting Initiative* (GRI) which attempts to develop a methodology to effectively compare triple bottom line performance. The mission of the GRI is to raise the comparability and credibility of sustainability reporting practices worldwide.³² It provides guidelines aimed at increasing uniformity to assist organisations to assess their performance against others and to measure improvement over time.
- 3.79 The PMSEIC report, *Australia's Sustainable Competitiveness*, also refers in its recommendations to the development of 'a voluntary set of common national metrics and reporting structures, relevant to that industry, that are compatible with international frameworks such as the Global Reporting Initiative'.³³
- 3.80 The Committee supports the PMSEIC recommendation. The rhetoric of ESD is well developed but this must be accompanied by a developed approach to the implementation of ESD principles. There is an urgent need for the message of sustainability to be translated into the methods for its implementation and the measurement tools to track and report on progress.
- 3.81 The DEH submission noted that it is 'implementing and continuing to develop initiatives that provide an adequate response to the recommendations of PMSEIC'.³⁴ DEH noted that:
- Some 100 Australian companies have published such [TBL] reports. Greater corporate adoption of this form of reporting would appear likely to lead to increased management attention to environmental issues and consequent demand for environmental goods and services.³⁵
- 3.82 The Committee considers that a key initial step is to provide a collated site that enables businesses, consumers and investors to assess company TBL and environmental reports. This would enable product differentiation and the effects of good corporate reputations to operate more effectively as 'value' in the marketplace. There are also

32 www/globalreporting.org, last accessed 15 November 2003.

33 Submission no. 27, p. 200.

34 Submission no. 27, p. 200.

35 Submission no. 27, p. 202.

benefits for Australia in building a more comprehensive and accessible store of data on the Australian environment industry.

- 3.83 The Committee looks forward to DEH's response to the recommendations of the PMSEIC report and to the continuation of the department's work in assisting the uptake of public reporting. The Committee strongly supports the facilitative work that is being undertaken by Australian Government departments and agencies, research institutes and industry associations to promote better environmental performance, ESD and TBL reporting.
- 3.84 In line with recommendation 2 of the PMSEIC report *Australia's Sustainable Competitiveness*, the Committee also recommends that a collated site be established for company TBL and environmental reports. The public nature of this site would provide an incentive for better and more comparable reporting.

Recommendation 2

The Committee recommends that the Australian Government establish a centralised site for collating and making available comparative company triple bottom line reports and environmental performance reports.

Issues for SMEs

- 3.85 The need to develop the methods and measuring tools for sustainability is particularly applicable to SMEs. It was brought to the Committee's attention on a number of occasions that SMEs face particular challenges in implementing ESD and TBL reporting. The Committee heard that while TBL reporting is increasing, much of the guidance and assistance is not tailored to the specific content and limited resources of smaller enterprises.
- 3.86 The leadership of larger corporations appears to be influencing the reporting of environmental performance amongst SMEs. The submission from the Western Australia Government commented that:
- ... sustainability issues are now acting as a driver to generate employment in environmental services, as an increasing number of companies conduct environmental audits and

produce public statements on environmental management. While companies engaging in public environmental reporting so far have been larger companies, particularly those associated with minerals and energy, the use of such reports now appears to be spreading to smaller companies operating in a broadening range of industry sectors.³⁶

3.87 However the Barton Group emphasised that reporting must bring with it the benefits of improved business practices. Otherwise TBL reporting for SMEs may not be useful or cost effective and may become a formality rather than a functional tool. The Barton Group stated that TBL reporting:

... does help the big companies, but it does nothing to help SMEs and smaller companies who at the moment are being encouraged to do the reporting for no good reason without doing the analysis, which is a retrograde step.³⁷

3.88 The burden of TBL reporting for SMEs was also raised by EBA in its submission. However, EBA suggested that measures appropriate to SMEs were needed to facilitate the uptake of TBL analysis and reporting.

3.89 EBA suggested that:

Triple Bottom Line reporting is increasingly being taken up by business although it is noticeable that the SME sector finds this an added constraint to business. Engaging the finance and insurance sector will be key to making sure that the approach is widely adopted.³⁸

3.90 The development of simplified reporting templates would be a useful tool to introduce SMEs to the practices of sustainable development. At the Sustainability and Investments roundtable held by the Committee in Sydney, it was emphasised that there was a need for 'scaled down' versions of TBL reports. Some participants suggested that simplified TBL reports could be aligned with or based on the Business Activity Statement programs used by SMEs.

3.91 The Committee was appreciative of the ideas presented at the roundtable and the commitment of those present to work cooperatively to develop the sector tools and networks that will drive ESD.

36 Submission no. 22, p. 139.

37 *Transcript of Evidence*, p. 48.

38 Submission no. 34, p. 266.

- 3.92 The recommendations of this report are for the most part directed to establishing the market framework that enables the drivers of ESD to operate most effectively. The recommendation to establish a collated site for public environmental and TBL reports gives greater prominence to the management of environmental risk and raises market awareness of environmental outcomes. However the Committee believes that, for such a vital national issue as improved environmental outcomes, it is also the role of the Australian Government to ensure that the drivers of ESD are underpinned by ready access to the appropriate tools.
- 3.93 Several of the recommendations of this report go to the development of a set of methods, measuring tools and messages for sustainability that will provide the strategies for ESD implementation.
- 3.94 The Committee is aware of the particular resource and skill constraints faced by SMEs and the need to tailor reporting guides and tools to meet these needs. The Committee considers that, if environmental performance is to be integrated into reporting and business planning, then the assistance provided needs to be practical and appropriate to SMEs. The Committee suggests that such assistance should give working examples and advice on how SMEs might adapt TBL reporting to their own business context. In addition, advice must make clear the potential gains to SMEs of integrating environmental considerations into business management.
- 3.95 While the guides produced by the DEH and the work of SIRIS and the EIAA are assisting the uptake of TBL reporting, more direct means are required to meet the needs of SMEs. The Committee recommends that in, addition to the initiatives under development, a 'tool-kit' approach appropriate to SMEs should be developed.
- 3.96 The Committee welcomes the innovative ideas of many of those working in the financial sector. Suggestions raised at the Sydney roundtable forum by some key players included the development of a modified triple A rating system (along the lines of E1, E2, etc.). Such ideas should be investigated as part of the development of a toolkit for SMEs.
- 3.97 The Committee suggests that the tool-kit include an online or CD-ROM guide that provides a means for SMEs to develop rudimentary public reporting for assessing environmental performance and efficiency returns.

- 3.98 Included in such a tool-kit should be practical assistance to enable companies and suppliers to work cooperatively with the aim of 'greening' supply chains. This assistance would provide a greater incentive for SMEs to shift business practices towards more sustainable measures. It would also assist in establishing cooperative networks to progress SMEs to implement sustainable development and reporting.

Recommendation 3

- 3.99 **The Committee recommends that the Australian Government:**
- **Develop, as part of the small to medium enterprises set of environmental tools, an adaptable software package that would facilitate assessment and reporting; and**
 - **Develop a set of measuring tools, appropriate to small to medium enterprises, to introduce companies to basic environmental performance assessment and reporting.**

Socially Responsible Investment

- 3.100 While aspects of sustainability reporting, such as social responsibility and corporate governance, are beyond the scope of this inquiry, the Committee recognises their connectedness to a corporate mindset of sustainability.
- 3.101 SRI enables investors to differentiate companies based on sustainability performance and provide returns for companies who are implementing sustainable development.
- 3.102 SRI can also act as a market driver for companies to improve environmental performance and reporting. SRI, or ethical investment, most simply means 'the conscious inclusion of ethical and/or social considerations in the investment decision'.³⁹

39 Wilmot, B. and Mathews, S., *Ethical Investment Now Part of the Mainstream*, Philanthropy, p. 9.

- 3.103 SRI is emerging as a growth industry in Australia, although there remain some issues to address such as screening methodology, standardised reporting, comparative assessments, disclosure and consumer awareness.
- 3.104 The Committee believes that SRIs are an important contribution to better environmental outcomes and an important means of harnessing market drivers for ESD. However a robust SRI industry is reliant on sound information marketing – that is, companies declaring their social and environmental outcomes in a manner which is comparable and clearly understood, and investors being aware of the SRI market and able to access that information.
- 3.105 As SRI or ethical investment was not mentioned specifically in the terms of reference, the submissions received to the inquiry did not directly address these issues. However, during the course of some public hearings, the Committee inquired about the SRI market in Australia and its possible impact on corporate behaviour and reporting.

Market for SRI

- 3.106 The Committee conducted a roundtable on sustainability and investments with representatives from the finance sector, consultancies and environmental NGOs.
- 3.107 The Sustainability and Investments roundtable made the following points regarding the SRI market in Australia:
- SRI has the potential to change corporate behaviour;
 - The credibility of SRI relies on good data and screening processes;
 - Some companies are facing multiple requests for different types of SRI returns; and
 - Much of the current reporting could be synthesised into a standardised SRI assessment.

3.108 In June 2002, SRI assets in Australia were across a range of categories as indicated in Table 3.1.

Table 3.1. SRI Assets in Australia.

Assets invested	Category
\$1.8 billion	Managed SRI funds
\$124 million	Private SRI portfolios managed by financial advisers
\$6.7 billion	Investments in religious organisations
\$116 million	Invested by charitable trusts using SRI criteria
\$5 billion	Employer superannuation funds using SRI overlays
\$164 million	Community finance investment
\$13.9 billion	Total SRI assets invested in Australia

Source Deni Greene Consulting Services (September 2002), *Socially Responsible Investment in Australia*, p. i.

3.109 The report by Deni Greene also notes that the total SRI assets figure of \$1.3 billion is conservative, as there were limitations on the data that was able to be collected.

3.110 SRI managed funds are a subset of the total assets, and investment in 2001-2002 rose from \$1.3 billion to \$1.8 billion. In 2002 there were 74 SRI managed funds which represents an increase of 61 per cent from 2001.⁴⁰

3.111 Despite the strong growth indicated by these figures, SRI continues to represent a small market share (around 0.5 per cent) and investor awareness of SRI options remains low.⁴¹ Less than one third of Australian investors were aware of SRI products, although many stated that they would consider them if given the option.⁴²

40 Deni Greene Consulting Services (September 2002), *Socially Responsible Investment in Australia*, p. i.

41 The ABS defines managed funds differently from the Deni Greene survey. The ABS data for the value of assets held by managed funds at 30 June 2002 is \$154 billion (Reserve Bank of Australia Statistical Table B15 – Managed Funds). Adjusting Greene figures would suggest SRI managed funds total \$868.73 million, or 0.5 per cent of the overall market.

42 ASSIRT (April 2002), *Proactive Investor Survey*, www.assirt.com.au, last accessed June 2003.

3.112 DEH attributes the growth in SRIs to risk sustainability management, stating that:

I think we are seeing a growing interest and a growing demand from the finance sector—by which I mean banks as lenders and large institutional investors, like superannuation funds, as purchasers of equity—in the environmental and the social performance of companies to whom they lend or in which they invest from that risk perspective. I think that you can class the forms of risk as being risk to intangibles in the sense of the reputation of a company ... Obviously brand and image of the company or its products can be quite badly damaged by some sort of environmental disaster or perhaps by poor labour practices. Those are examples that would readily spring to mind. The other form of risk which perhaps has not always been at the front of the mind and does not necessarily come to light terribly clearly in corporate accounts would be, say, the costs down the track of rehabilitation of a mine site or cleaning up of contaminated land, where the industry's processing site has retained chemicals on site over many years and will ultimately mean that somebody pays the bill, probably the company.⁴³

3.113 The report *A Capital Idea - Realising value from environmental and social performance*, released in August 2001, considers how companies can attract equity capital for ethical funds. The report states that:

Financial success for business is increasingly linked to good environmental and social performance. Companies are subject to the ever-rising expectations of shareholders, including customers, employees, the community, non-governed organisations, and lenders, insurers and investors.

Mounting evidence shows that companies that are environmentally and socially responsible are more profitable and provide greater returns and lower risks to their shareholders. Eco-efficient firms are able to create greater shareholder value than their industry competitors while minimising environmental risk and impact.⁴⁴

43 *Transcript of Evidence*, p. 58.

44 Deni Greene Consulting Services (August 2001), *A Capital Idea – Realising value from environmental and social performance*, Executive Summary p. i..

Rate of Returns

- 3.114 Australia now has the highest rate of share ownership in the world, having risen from 15 per cent of adult Australians owning shares in 1991 to 52 per cent a decade later.⁴⁵ The growing rate of ownership is highest amongst young people and those with higher education and higher income – these are also the categories most likely to be concerned about environmental issues.
- 3.115 SRI has traditionally been seen as a niche market in which economic returns are traded for ethical returns. This image of the SRI market has been challenged recently with reports of SRIs outperforming other investments. The EIAA suggests that:
- One reason for this [outperformance] may be that SRI focuses on investments in firms that pay attention to their economic, environmental and social performance and as a result they are better managed overall.⁴⁶
- 3.116 Interest in corporate responsibility and ethical investment has increased markedly in Australia in recent years. More Australians are investing in shares and also demanding some accountability from the companies they have invested in.
- 3.117 The most reliable and comprehensive data on the size of the SRI market in Australia is the report *Socially Responsible Investment in Australia – 2002* which was conducted for the Ethical Investment Association by Deni Greene Consulting. The report found evidence of a strongly growing domestic SRI with an increase in SRI-type products of 32 per cent (from \$10.5 billion to \$13.9 billion) over the financial year 2001-2002.⁴⁷
- 3.118 There appears to be contradictory evidence regarding the rate of returns in Australia from SRIs. Some of this variance may be explained by the small market in Australia for SRIs and a lack of clarity used regarding the screens and relative assessments of companies. The lack of comparable trend data is also making the SRI market appear volatile, when in reality it may simply be displaying expected variations in return rates. This point was made to the Committee by GreenChip during a public hearing:

45 Deni Greene Consulting Services (August 2001), *A Capital Idea – Realising value from environmental and social performance*, Executive Summary, p. i.

46 ISR (2001), *Environment Industry Action Agenda: Investing in Sustainability*, p. 36.

47 Deni Greene Consulting Services (September 2002), *Socially Responsible Investment in Australia*.

One of the funds has been tracking at two per cent above the All Ordinaries Index over the last three years, so the returns are higher than those you would have received if you had invested in mainstream stocks. In the last 12 to 18 months it has been a shocker. The ethical investment funds have dropped four per cent, but that may be competing against other funds that have dropped six per cent. There will always be the ups and downs of the share market. In the US and the UK, 15 per cent of funds under management are screened. In Australia we have only about one per cent ...The problem is that there are not enough companies in Australia to invest in.⁴⁸

Screening Filters

3.119 One of the issues facing the SRI market is the different types of screens applied to assess appropriate companies and possible investor confusion over the types of products available. While SRIs consider a range of non-financial factors, in Australia environmental issues attract the greatest investor concern. In discussions with the financial sector, fund managers and NGOs, the range of filtering processes applied to SRIs was outlined to the Committee. Typical approaches include:

- Negative screens - meaning certain industries (for example, tobacco manufacture, gambling, weapons or uranium mining) are excluded automatically due to the production they are involved in and regardless of any environmental minimisation strategies;
- Positive screens – meaning preference is given to sectors and industries which are considered to have positive and sustainable attributes, for example renewable energy or future-orientated industries such as biotechnology;
- Best of sector - meaning leading companies are selected from every business sector based on the best environmental, social and financial outcomes. This approach lacks any baseline benchmarking and hence a company in a particular sector may not even approach best practice, however, as the ‘best of a bad sector’ they may be included in SRIs;

48 *Transcript of Evidence*, p. 127.

- Constructive engagement - meaning investment options are selected using traditional financial criteria, then an overlay is applied to reject companies with poor social or environmental performance; and
- Indexed - meaning a similar method to constructing mainstream investment portfolios is used, however particular TBL indexes are applied.

3.120 The Committee considered that the range of approaches was appropriate to meet the different concerns and portfolio needs of investors. However, the Committee was concerned that investors did not always appreciate the distinctions between different approaches and the terminology was loosely applied in some instances and relied on different interpretations. There appears a lack of consistency, stemming from the absence of standardised terms and methodologies in the SRI market, that could enable meaningful comparisons.

3.121 Currently, terminology that does not distinguish how filters are applied and how SRIs are assessed is unhelpful to investors and does not promote or reward better environmental performance in industry.

3.122 The lack of data and lack of transparency has been identified by several sources. A recent article in the *IPA review* noted that:

Most information available on ethical funds is provided by their many promoters and is unreliable. Indeed there is a dearth of independent research, a distinct absence of basic descriptive information.⁴⁹

3.123 The EIAA also refers to the lack of transparency regarding environmental accountability and more broadly ‘corporate responsibility’:

Not only are SRI investment opportunities still rare, but also there are limited opportunities for finding out about the environmental and social performance of a particular company when a potential investor does want this information. There is a significant lack of transparency about the ‘corporate responsibility’ performance of companies listed on the stock exchange. Requirements for non-financial disclosure, including environmental disclosure, are still very limited.⁵⁰

49 Hoggett, J. and Nahan, M. (September 2002), *Ethical Investment – Deconstructing the Myth*, IPA review, p. 3.

50 ISR (2001), *Environment Industry Action Agenda: Investing in Sustainability*, p. 37.

- 3.124 In response to this, the EIAA has recommended investigating disclosure of residual corporate liabilities as a means of making more explicit environmental risks and management. In addition to this, investigations are underway to assess the feasibility of a sustainability index on the ASX.
- 3.125 The Committee agrees with the direction of the Action Agenda recommendations and the principle that ‘Disclosure helps markets make informed decisions’.⁵¹
- 3.126 When DEH appeared at a public hearing with DEH, the Committee inquired about the need for a generic framework governing the sieves or filters applied to SRIs and the need to promote transparency in the industry. A representative from DEH replied:
- I think the issue driving some developments in this area is the growing demand from the many different funds and companies interested in performance in this area. What we could call survey fatigue is starting to creep in. There may be quite onerous requirements for companies—even large companies listed on the Stock Exchange—to respond to these requests for information. I think this will tend to drive the emergence of some kind of standard for reporting by companies. Within government we have been concerned to assist in the development of some sort of standard, or at least to make research that has been conducted publicly available to perhaps satisfy curiosity and reduce the number of demands made. We have supported a project by the Sustainable Investment Research Institute. We referred in our submission to the web site they operate. In the course of the next few months they expect to provide information on their web site about the top 300 listed Australian companies as a result of survey work they have undertaken.⁵²
- 3.127 The *Sustainability Reporter* database being developed by SIRIS, may go some way to addressing the lack of easily accessible and comparable company information. A further initiative, which will assist transparency in the sector, is more detailed disclosure for investment products.

51 ISR (2001), *Environment Industry Action Agenda: Investing in Sustainability*, p. 37.

52 *Transcript of Evidence*, p. 57.

Disclosure Guidelines

- 3.128 Changes under the *Financial Services Reform Act 2000* (FSR Act), in March 2000, require detailed product disclosure statements (PDS) for investment products. The PDS requires disclosure of the consideration given to labour, social, ethical and environmental issues. A PDS is usually required to be given to a consumer prior to the acquisition of a financial product. The PDS is information to assist the consumer in deciding whether to acquire a financial product.
- 3.129 The reforms gave the Australian Securities and Investment Commission (ASIC) the power to develop guidelines relating to claims made in a PDS. While the legislation does not refer to SRIs and this is not part of or driving the requirement for disclosure in a PDS, ASIC has referred to the process as SRIs. ASIC states that this is the term 'commonly used to refer to these types of investment considerations'.⁵³
- 3.130 In December 2002, ASIC released a discussion paper seeking public comment on whether ASIC should:
- ... produce guidelines on the new requirement that all products with an investment component that have a product disclosure statement (PDS) will now need to disclose the extent to which labour standards or environmental, social or ethical considerations are taken into account in the selection, retention or realisation of the investment.⁵⁴
- 3.131 Apart from the pressure of public reporting, the FSR Act does not require any changes to company practices. The effect of the PDS is to make more transparent the long term risk management practices of a company to enable more informed consumer investment decisions. ASIC emphasises that any guidelines would not relate to the setting of standards or establishing methodologies for measuring ethical considerations. The discussion paper reiterated that:
- The law does not require ASIC to specify the labour standards or environmental, social or ethical considerations that may be taken into account of, or the methodologies that should be used, and we do not intend to do so.⁵⁵
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53 ASIC (December 2002), *Discussion Paper: Socially Responsible Investing Disclosure Guidelines?* www.asic.gov.au, last accessed June 2003, p. 7.

54 ASIC (December 2002), *Discussion Paper: Socially Responsible Investing Disclosure Guidelines?* www.asic.gov.au, last accessed June 2003, p. 7.

55 ASIC (December 2002), *Discussion Paper: Socially Responsible Investing Disclosure Guidelines?* www.asic.gov.au, last accessed June 2003, p. 7.

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- 3.132 ASIC consulted widely in producing the discussion paper and notes that the majority of those consulted (including industry associations, NGOs and government departments and agencies) favoured ASIC developing guidelines.
- 3.133 The discussion paper noted that the development of ASIC guidelines for SRI disclosure would provide greater clarity regarding the legislative requirements and may improve the quality of reporting that is currently undertaken. Guidelines could also provide greater clarity for consumers wishing to make informed investment decisions and would encourage a form of disclosure which is meaningful, accessible and enables product comparability.
- 3.134 The discussion paper also outlined possible arguments against ASIC developing PDS guidelines. These arguments included the need to wait until the law has been operational for some time and then determine if and in what areas guidance is needed. There was also concern that any guidelines may be too prescriptive and so unnecessarily increase compliance costs.
- 3.135 The Committee acknowledges the concerns of ASIC not to be overly prescriptive in developing PDS guidelines. However, the Committee also recognises that ESD, SRI, TBL and other forms of environmental reporting can, at times, confuse rather than enlighten industry and consumers. Initiatives are needed to improve market awareness and achieve consistent, transparent and meaningful forms of reporting. PDS guidelines would provide greater clarity for industry and assist consumers to make more informed choices. Accordingly the Committee supports the development of trial PDS guidelines by ASIC.
- 3.136 However, the Committee considers that there are more immediate issues surrounding consistency in SRI terminology and methodology and recommends that these be addressed as a priority.
- 3.137 Fundamental to a robust SRI industry is the marketing of the information which differentiates SRIs from other investment options.
- 3.138 Future growth of the industry is dependent on the provision of robust, reliable and consistent data on company performance across a range of criteria. Investors must be able to access this information in a meaningful and comparable manner and, similar to environmental labelling, make investment decisions based on product
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differentiation. The Committee strongly supports the SRI market as a means of responding to community expectations for greater corporate ethical responsibility and also as a means of providing possible economic incentives for better environmental accounting and outcomes.

- 3.139 Accordingly the Committee sees an important role for the Australian Government in ensuring that the framework governing SRI market information is effective in maximising the potential of this industry. The primary issues identified by the Committee relate to the terminologies and methodologies utilised. The Committee sees a pressing need to develop standard ratings and easily understood indexes to make the SRI market more accessible and transparent to investors. There is also a need to raise the profile of the SRI market to potential investors. The Committee believes that a robust SRI market would positively contribute to improved ESD in Australia.

Recommendation 4

- 3.140 **The Committee recommends that the Australian Securities and Investment Commission:**

- **Develop standardised terminologies and methodologies, which can be used by the investment community and consumers, to measure and verify the claims made in relation to socially responsible investment;**
- **Undertake an awareness raising program to increase consumer understanding of the range of socially responsible investments, and the methodologies and terminologies associated with them; and**
- **Develop guidelines to assist industry in preparing product disclosure statements and to enhance consumer understanding of product disclosure statements.**