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## 5 Business and Industry Dialogue on SCP

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### 5.1 Introduction

Business and industry are key players in the SCP agenda. They are at the core of production and are also key organizational consumers. As the most important driving forces for innovation, they focus their efforts and investments on perceived profit opportunities. These in turn are shaped by consumer preferences and new markets, but also conditioned by evolving government policies and regulations. Responsible business and industry operations can play a major role in improving resource efficiency, driving economic growth, enhancing social well-being, minimizing waste and environmental impacts. The perspective and support of business and industry are essential for the development of the 10-Year Framework of Programmes on SCP. A new business and industry dialogue on SCP will support the elaboration of this global framework and the implementation of SCP.

The essential challenge of SCP is to de-link economic activity from environmental degradation, and it requires technological innovation and rethinking of existing business models. It also requires a conducive policy environment which sends the right price signals to business and industry to minimize any adverse environmental impacts. Many companies and business networks now recognize the limitations of prevailing business models and the urgency of taking a pro-active approach to environmental stewardship and social responsibility. Leading companies and business networks are introducing new technologies and strategies, such as eco-design, life-cycle assessment, and closed-loop production. They are involved in ongoing efforts to exploit renewable energies, improve resource management, and develop and manage their supply chains in accordance with codes of conduct on social and environmental responsibility and accountability. Finally, they are seeking to address the global challenges of SCP and climate change by working to measure and progressively shrink their carbon footprints and their impacts on other dimensions of the global environment.

### 5.2 Current Status

UNEP's 2006 Industry Report Cards<sup>34</sup> from 30 individual sectors state that business and industry have made tangible progress in corporate environmental and social responsibility (CESR) since the 2002 UN World Summit on Sustainable Development (WSSD).

In terms of mainstreaming sustainability criteria, activities and initiatives aimed at integrating sustainable development in decision-making have included capacity building, marketing strategies focused on sus-

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<sup>34</sup> Class of 2006, Industry Report Cards on environment and social responsibility, UNEP

tainability, new technologies, sector-wide policy statements and guidelines, specific targets and indicators. A number of industry groups have initiated activities related to the corporate responsibility agenda. Standards such as the ISO 9000 on quality management systems, ISO 14001 on environmental management standards (EMS), OHS 18000 on occupational health and safety, and the ongoing development of the ISO 26000 guidance standard on social responsibility have signaled the standardization and formalization of issue-based management into an integrated approach to organizational behavior and its environmental, social and economic aspects.

Industry groups, in some cases in cooperation with governments, have developed a remarkable number and scope of voluntary instruments as complement or alternative to regulations to address sustainable development. These include international or cross-sectoral initiatives such as the UN Global Compact; the UNEP/SETAC Life Cycle Initiative; UNEP's APELL programme; the Equator Principles; the Extractive Industry Transparency Initiative (EITI); the Global Reporting Initiative (GRI); and the ISO 14000 series of environmental management standards. Many industries have also developed sector-specific voluntary standards, such as the automotive sector's fuel efficiency standards in Europe. Many business sectors are focused on increasing energy efficiency to reduce GHG emissions, and some sectors, such as cement and aluminium, have set specific energy efficiency and voluntary emission reduction targets. As of 2006, a total of 15 global and 140 local business organizations and one industry association (in the postal services sector) participate in the UN Global Compact. A number of sectors participate in World Business Council for Sustainable Development / World Resources Institute (WBCSD-WRI) greenhouse gas (GHG) monitoring and reporting protocols.

### 5.2.1 Public-private partnerships on SCP

Government policy still plays an important role in catalyzing the internalization of social and environmental costs in business operations. While there are visionary firms which have espoused sustainability as a core business principle, many firms still adopt higher environmental standards mostly in response to government or public pressures. Even voluntary initiatives may be designed to pre-empt strong government regulation or to shape regulation in a way that is sensitive to business concerns. Government environmental policy has evolved to become more flexible and sensitive to efficiency and competitiveness concerns. Public-private partnerships have emerged in this context as an important vehicle for promoting sustainable development. Effective business engagement with government is essential to ensure certainty in future market frameworks and coherence of the mix of policy instruments, taking into account the complexity of interactions between government and industry. For example, the US Climate Action Partnership, an alliance of major corporations and NGOs, has produced a landmark series of principles and recommendations for the federal government to guide formulation of a regulated economy-wide and market-driven approach to reduction of greenhouse gas emissions. From the shareholder community, institutional investors have emerged as a powerful influence on corporate social and environmental practices. Mainstream investors are progressively asking questions about CCSR policies and practices, carbon footprints and greenhouse gas mitigation and adaptation plans, and their implications for the bottom line.

One of the most promising business contributions to SCP is through the corporate environmental and social responsibility movement. Driven by increasing consumer awareness of life-cycle impacts, growing interest from stakeholders including NGOs, employees and investors, as well as regulatory requirements on corporate governance and reporting, progressive companies have started to take on more responsibilities through core business planning and strategies. The concept of CESR is now firmly rooted in the business agenda. Today, key challenges of CESR need to be addressed in order to move forward from concept to more concrete actions:

- The focus needs to shift to practical application of CESR approaches in a sector specific and local context. To prove its added value, the CESR debate needs to show more examples of the business case and how companies are using CESR commitments to revise their production processes, their marketing strategies and the manner in which they work with their employees, local business partners and communities.
- Reliable, meaningful and comparable performance indicators need to be applied more consistently to help stakeholders evaluate progress. The Global Reporting Initiative (GRI) was established as a common framework for voluntary reporting of economic, environmental and social impacts of organization-level activities to improve the comparability and credibility of sustainability reporting worldwide. To date, there are nearly 1000 organizations around the world using the GRI reporting guidelines.
- The importance of voluntary action and partnerships in CESR has been increasingly recognized. The UN Global Compact, as an example of such an approach, is a coalition of more than 3000 companies, trade unions and environmental, human rights and anti-corruption groups from approximately 100 countries, who have committed to engage under the auspices of the UN in a learning and dialogue approach. More companies are also joining collective efforts with non-profit organizations and UN agencies, including industry sector specific initiatives such as those facilitated by UNEP.

### 5.2.2 Business Partnerships along the supply chain

A powerful way of engaging companies from all regions, including small and medium sized enterprises (SMEs), in social and environmental improvements is through the integrated management of global supply and value chains. Environmental and social issues and concerns are increasingly integrated into supplier screening criteria and quality audits. However, very few companies have systematic processes for integrating environmental and social factors into their downstream consumer-focused relationship management. With respect to suppliers, the multiplication of *sui generis* codes can place heavy compliance burdens on suppliers who do business with multiple customers. Co-ordination, co-operation and partnership towards greater harmonization of codes and capacity building in their application can help in minimizing compliance burdens.

### 5.2.3 Investor engagement

Trends indicate that socially responsible investment (SRI) has expanded dramatically over the past three decades and is entering the mainstream in developed countries. In 2003, while global SRI totalled \$ 2.7 trillion, in the U.S. alone assets worth more than \$2 trillion were held in the portfolios that filter investments according to a range of social and environmental criteria. SRI is growing rapidly in Australia, Canada and some European countries. In the UK, SRI grew tenfold from 1997 to 2001, reaching \$354 billion.<sup>35</sup> In contrast, SRI in emerging markets is still quite marginal. Only about 0.1% of the world total SRI is in emerging markets, and more than half of that amount is held by investors from developed countries. The concept of SRI is still quite novel in emerging markets, as investor interest in and information on corporate environmental and social performance remain important barriers in those markets.

SRI has the potential to encourage not only better environmental and social performance but also improved financial performance. Through corporate sustainability initiatives, companies seek to assure investors that they are taking the potential effects of pollution and climate change into account. For example, under the Carbon Disclosure Project (CDP), the world's largest institutional investor collaboration on the business implications of climate change, more than 1000 large corporations are reporting their greenhouse gas emissions at the request of global investors. Mainstream investment houses are also making a commitment to responsible investment, in which SCP is a main element. The UN Principles for Responsible Investment (PRI) is the world's first charter for institutional investors. It provides a menu of possible actions for incorporating environmental, social and corporate governance issues into mainstream investment decision-making and ownership practices. Today more than 160 institutional investors worldwide, representing \$7 trillion in assets, have endorsed the UN PRI.<sup>36</sup> This signals a movement beyond SRI as niche market towards simply "responsible investment" in the mainstream market. In the terrain of project financing, the "Equator Principles" - adopted by 48 financial institutions to date - provide financial industry benchmarks for determining, assessing and managing social and environmental risks, particularly for projects in emerging markets.

### 5.2.4 Customer engagement

Rising customer demand for sustainable goods and services is another driving force for business and industry mainstreaming SCP into market strategies. The sectors that can benefit from SCP extend far beyond the obvious sectors like energy, transport, and manufacturing. Food processing, construction, distribution services, financial services and design services are just a few other examples. In mature markets, customers increasingly care about how companies produce goods and services. As organizational consumers, companies also feel the need for greater responsiveness from their business partners, suppliers and service providers in helping them meet new consumer demands related to quality and societal care. Today, in the borderless world of the Internet, ICT enables consumers to find information

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<sup>35</sup> Figures of 2003 are from *Towards Sustainable and Responsible Investment in Emerging Markets*, International Finance Cooperation, 2003

<sup>36</sup> *Report of the Informal Consultation with the Institutional Investor and Business Communities*, Jan. 2007

and alternative products and services more easily online. A growing number of sustainable product and service databases provide customers with objective and accurate information, normally based on sustainable criteria, such as eco-labeled products. The information linkage is crucial in helping customers to make sustainable choices. ICT is also enabling companies to monitor, exchange and process performance information more easily.

### 5.2.5 SCP innovative approaches in business and industry

Business, together with governments and other groups, has developed a variety of new approaches to encourage SCP.

Life cycle assessment (LCA) is used to understand the environmental impacts of goods and services through all stages of production and consumption. ISO 14040 provides guidance on the methodology. Rather than focusing on one aspect of improvement in the sustainability of a product or service, LCA examines the overall environmental footprint. Beyond LCA, a broader concept of Life Cycle Management or Life Cycle Economy has been promoted for product development. It puts life cycle thinking into business practice, involving other departments such as marketing and procurement, and seeking new sustainable business opportunities. Some companies in traditional industries are making efforts to transform themselves to more sustainable business models. For example, some traditional oil and gas companies have broadened into energy companies, with significant renewable energy research and investment as well as investment in low-emissions fossil fuel technologies. Through cross-sectoral planning and collaboration, companies help their downstream clients to identify more or better uses of their products and services. Extended producer responsibility (EPR) encourages producers to attend to sustainable management at all stages of a product's life cycle, especially for take-back, recycling and final disposal, thereby internalizing environmental or social costs.

China's circular economy approach is designed for interlinked manufacturing and service businesses seeking to enhance economic and environmental performance by collaborating in managing environmental and resource issues. By working together, the community of businesses can achieve a major increase in resource efficiency through industrial symbiosis. In a similar vein, industrial ecology, offers an innovative solution to increase energy and resource efficiency through exchange of materials and energy between different industrial sectors and processes. The waste from one sector or process can be the feedstock of another. A number of eco-industrial parks in China are based on this new industrial model.

Business has dual roles to play in leading SCP innovations – both as producer and as consumer. Technological innovations and eco-design, including resource productivity and efficiency initiatives, are the major driving forces for internalizing environmental costs without compromising companies' competitiveness. As big organizational consumers, progressive companies are adopting innovative SCP measures into their business plans. New opportunities unfold as large corporate buyers start to go into a more proactive mode. Innovation is not limited to the R&D of large companies; many innovations have also been introduced to the market through SMEs. Asia Eco-Design Electronics (AEDE) is a major project working

with SMEs in the electronics supply chain and partners in China, India & Thailand, to improve their response to customers, legislation and waste issues.

### 5.3 Challenges and opportunities

Many business and industry entities are already engaged in some United Nations voluntary initiatives on SCP, whether the Global Compact or the UNEP Business & Industry network or others. However, the participation of business and industry in the international and regional consultations of the Marrakech Process has so far been rather limited. As they are crucial actors in all regions in the promotion of SCP, it is necessary to create new collaborative mechanisms to better engage business in the Marrakech Process. Business and industry could contribute to the 10YFP through participating in defining the actions needed to promote and adopt SCP, the mechanisms for implementation as well as the setting of realistic targets with indicators, such as responsible value chains and increased presence of sustainable products in the market. Meanwhile, business and industry could work with Marrakech Task Forces in various SCP areas to lend their expertise on specific topics and to develop joint projects on prioritized themes.

Significant challenges to a better engagement of business and industry in SCP include:

- Business and industry require an enabling environment in order to help shift markets towards sustainable consumption and production. This includes a rational mix of legislation, regulation, voluntary agreements, economic instruments, integrated product policies, stakeholder engagement. To shape this enabling environment, governments need to develop strategic and practical plans and engage business and industry in the process of consultation, policy formation and implementation.
- Currently early movers in business and industry have invested in development of sustainable products, but consumer preferences do not always match corporate aspirations. Education and information tools are important for enhancing the SCP awareness of consumers. In some instances, there may be cause for use of government incentives to promote SCP, and government can also shift certain markets as a major consumer.
- SMEs especially have constraints in resources and capacity to incorporate international standards in their business operations.
- Effective communication channels must be opened for business and industry to have meaningful dialogues with Governments and other stakeholders. For example, industry roundtable dialogues with Governments and other stakeholders might address specific industrial sectors on what public policy instruments serve best to promote resource efficiency and the life cycle economy.
- Business and industry have very sector-specific priorities, activities and perspectives on SCP. There is no one-size-fits-all policy solution for all sectors, groups and companies. A partnership mechanism cutting across sectors and identifying common concerns and issues can make the related SCP policies for business and industry more consistent and coherent. This cooperation will also benefit the Marrakech Process in both programme planning and policy implementation.

## 5.4 Key Questions for the Working Group

Based on the current status of business and industry engagement in SCP, the key questions to be discussed among the participants in the working group on the Business and Industry Dialogue to further develop the 10YFP (28 June, Group 5) are suggested as below:

1. How to encourage more corporate sustainability initiatives? How to advance implementation of voluntary commitments to corporate environmental and social responsibility (CESR) and adherence to internationally recognized standards via global supply chains and responsible value chains?
2. What can governments and public institutions do to facilitate the formation of joint voluntary initiatives and dialogue with business and industry, enabling environment for business and industry innovation on SCP?
3. What are the main strategies for promoting SCP of business and industry in emerging markets? How to assist developing economies suppliers, notably SMEs, in conforming to codes of conduct and help build their capacities?
4. What can be the main contribution of business and industry to the Marrakech Process and the development/implementation of the 10YFP?
5. How can the business sector support some of the activities of the Marrakech Task Forces and/or support the implementation of the regional or national SCP programmes?