

# Investor Responsibility bulletin

Towards a new role for investors in promoting international corporate responsibility and governance



## Delivering Investor Responsibility

Welcome to the Summer 2003 issue of the Investor Responsibility Bulletin. This bulletin summarises the work the Investor Responsibility team has done on behalf of our clients between April 1 and June 30 2003 to promote more responsible business practice by both investors and companies. It also includes progress made on topics covered in our previous bulletin. We hope that you will find this issue of interest.

We welcome your feedback and the opportunity to discuss any of the topics raised, so please feel free to e-mail us at [investor\\_responsibility@insightinvestment.com](mailto:investor_responsibility@insightinvestment.com).



Dr. Craig Mackenzie  
Head of Investor Responsibility

## Pushing for the effective implementation of the OECD Guidelines for Multinational Enterprises

In November 2002, Insight released its report *Defining Global Business Principles*. The report argued that investors and other stakeholders should use firm and consistent standards when assessing company performance on corporate responsibility. We believe that the best starting point for such standards are internationally recognised norms of corporate responsibility such as the OECD (Organisation for Economic Co-operation and Development) Guidelines for Multinational Enterprises (the Guidelines), which were first published in 1976 and substantially extended in 2000.

The Guidelines are recommendations from the 30 member governments of the OECD to multinational enterprises. The Guidelines provide voluntary principles for responsible business conduct on issues such as disclosure, employment and industrial relations, environment, bribery and corruption, consumer interests, competition and taxation, wherever companies operate.

The signatory governments, through their network of National Contact Points (NCPs), are responsible for promoting the Guidelines. In addition, the NCPs have a specific role in resolving

complaints brought against companies by stakeholders at home or abroad. This includes investigating complaints and offering conciliation and mediation to enable solutions to be agreed. Since 2000, some 30 cases have been brought internationally, covering issues such as health and safety at work, freedom of association, the use of forced or bonded labour and company operations in Burma. Many of these cases have yet to be resolved, reflecting the need to investigate cases and subsequently facilitate dialogue between companies and those bringing complaints. As public attention and concern about the activities of multinational companies heightens, there is growing recognition of the valuable role that NCPs can play in enabling complaints to be resolved and in helping prevent more adversarial forms of dispute resolution such as media campaigns or litigation.

The UK NCP (located within the Department of Trade and Industry) actively promoted the Guidelines in 2000 and 2001. It hosted meetings, published a booklet on the Guidelines and held discussions with various stakeholders. However, since then, the NCP has been significantly less active. In February 2003, Insight wrote to Stephen Timms MP (the Minister with responsibility for the NCP) to raise our concerns about the lack

of active support and implementation of the Guidelines in the UK. We suggested that the lack of visible government promotion of the Guidelines was undermining support for the Guidelines among business, NGOs and trade unions. In our letter, we presented our view that:

*“... in many respects the UK leads the world in CSR. It is therefore particularly jarring that many think that our NCP is not even in the first division in terms of its quality.”*

We subsequently consulted a range of stakeholders, including UK and international NGOs, UK listed companies, international trade unions and the OECD, and found widespread frustration with the weakness of the UK's implementation of the Guidelines.

We met with Stephen Timms to discuss our concerns about the Guidelines in June 2003. In the meeting, the Minister welcomed Insight's work on the Guidelines and indicated that Insight's letter to him had been helpful. He noted that NGOs and the international trade union movement had also been pressing his department on the subject of implementation of the Guidelines. The Minister went on to explain the significant changes that have been made to the NCP as a result. This includes the provision of additional resources, meetings between the new NCP representative and a range of stakeholders and work to develop a more robust complaint resolution process. He also expressed his desire to take further steps to ensure that companies are aware of the government's support for the Guidelines.

Insight greatly welcomes the reactivation of the NCP and the government's renewed support for the Guidelines. However, as we explained to the Minister, we believe that the Guidelines and the NCP should play a much more central role in the corporate responsibility debate in the UK than they do at present. In order for this to happen, a more robust contribution from government to the implementation of the Guidelines is essential.

The pressure for regulation at domestic and international levels (e.g. the CORE Bill and the Corporate Accountability Convention) has grown significantly. As noted by one company representative:

*“The implementation of the Guidelines represents a critical test of the concept of self-regulation. If properly implemented, the complaint resolution process offers the potential for the different stakeholders (companies, NGOs, trade unions and government) to work together to find solutions to frequently complex and contentious corporate responsibility issues. If it is not effective, the result could be unwieldy legislation that does little to advance responsible corporate behaviour.”*

In the meeting, we made a series of specific proposals in this regard.

### Suggested government actions

#### 1 Publicly reiterate its commitment to the Guidelines:

We suggested that the Minister write to major UK companies (e.g. the FTSE 350), in particular those with overseas operations or supply chains, clearly indicating the government's support for the Guidelines as a minimum set of corporate standards and recommending that companies make an explicit public commitment to complying with the Guidelines.

#### 2 Link the Guidelines to broader government policy:

We suggested, as examples, that the government call on all UK companies bidding for reconstruction work in Iraq to make a clear commitment to achieving compliance with the Guidelines and that Ministers across government (e.g. in departments such as DEFRA, DFID, DWP) explicitly refer to the Guidelines in speeches on corporate social responsibility and related issues.

#### 3 Communicate the government's support for the Guidelines to the investment community:

In particular, we suggested that the Minister encourage pension funds and other institutions to use the Guidelines as the framework for defining their expectations about the social, ethical and environmental performance of companies in which they invest.

### Suggested NCP actions

Insight also made specific recommendations relating to the operation of the NCP. We suggested that the NCP should actively promote the Guidelines by, for example, holding regular meetings with companies and stakeholders (trade unions, NGOs, etc.) to provide updates on the activities of the NCP. Other suggestions were that the NCP could hold seminars to discuss particular aspects of the Guidelines, publish a register of cases under consideration, report annually on its performance and publish a regular newsletter on its activities.

We also stated that we strongly supported the proposal that constructive dispute resolution be made available through the NCP and that we believe the effective implementation of this process to be a critical element in ensuring the efficacy and credibility of the Guidelines. We noted that the issue resolution process needs to be clear and well understood, with a commitment to transparency throughout the process. We suggested that the DTI consider holding a formal consultation on the proposed process.

### Insight's continuing work to promote international standards

Insight's meeting with the Minister was one of several steps we will be taking to promote the Guidelines. Our work over coming months will include:

- Promoting the Guidelines to the companies in which we invest
- Encouraging companies to make policy commitments to support and comply with the Guidelines
- Encouraging NGOs, companies and trade unions to use the NCP issue resolution process instead of confrontational media campaigns or litigation
- Encouraging the DTI to ensure the effective implementation of the Guidelines in the UK
- Encouraging the OECD and the UK government to ensure the alignment of the Guidelines with the OECD Principles of Corporate Governance (see article on page 5 of this bulletin).

## Corporate engagement summary

Insight launched its Investor Responsibility service in November 2002. The table below provides an overview of the engagement that the Investor Responsibility team conducted with the companies in our portfolios, on behalf of our clients, during the second quarter of 2003, i.e. from April 1 to June 30. Insight's engagement tends to focus on companies where the value of our holding is large, particularly where we hold a significant proportion of the company's issued share capital.

Insight holds shares in **83%** of all the companies in the UK FTSE All Share Index. Of those, during the second quarter of 2003, we engaged with 94 companies.

This represents **20.7%** of our holdings by number or **76%** by market value.\*

INITIATIVE	OBJECTIVE	COMPANIES ENGAGED WITH DURING THE QUARTER	TOTAL
Global Business Principles Project	To promote greater understanding and respect for global business principles.	Diageo, HBOS, J Sainsbury, Land Securities Group, Lloyds TSB Group, mm02, Prudential, Royal Bank of Scotland Group and United Utilities	9
Responsible Supply Chain Management	To encourage improved compliance with international standards in supply chain management.	Dixons Group, J Sainsbury, Marks and Spencer, Safeway, Tesco, Unilever and Wm Morrison Supermarkets	7
Human Rights	To encourage responsible corporate behaviour on human rights.	74 companies including: AstraZeneca, British American Tobacco, Cadbury Schweppes, Carphone Warehouse Group, Debenhams, Friends Provident, GlaxoSmithKline, GUS, HBOS, HSBC Holdings, Imperial Chemical Industries, Imperial Tobacco, JJB Sports, Lloyds TSB Group, Matalan, National Grid Transco, Rio Tinto, Selfridges, Standard Chartered, Vodafone Group and Wm Morrison Supermarkets	74
OECD Guidelines for MNEs	To promote and ensure effective implementation of the OECD Guidelines for MNEs.	Anglo American and Rio Tinto	2
UN Report on DRC	To assess alleged corporate breaches of the OECD Guidelines for MNEs in the Democratic Republic of Congo (DRC).	Anglo American, Barclays and Standard Chartered	3
Health and Safety Management	To promote high standards of health and safety management.	BP	1
One Million Sustainable Homes	To support and contribute to WWF's One Million Sustainable Homes Campaign.	Barratt Developments, Bellway, Berkeley Group, Bovis Homes Group, Crest Nicholson, George Wimpey, McCarthy & Stone, Persimmon, Redrow, Taylor Woodrow and Westbury	11
Biodiversity	To encourage companies to minimise their impact on biodiversity and support the implementation of the Convention on Biological Diversity.	Abbot Group, Anglo American, Antofagasta, BG Group, BHP Billiton, BP, Cairn Energy, Expro International Group, John Wood Group, Lonmin, National Grid Transco, Northumbrian Water Group, Premier Oil, Rio Tinto, RMC Group, Severn Trent, Shell Transport & Trading Company, Tullow Oil and Venture Production	19
Burma	To question ongoing operations in Burma.	British American Tobacco	1
CR Governance and Management	To discuss and understand companies' overall approaches to CR and promote best practice.	BAA, Barclays, BT Group, BG Group, Debenhams, Imperial Tobacco Group, mm02, Standard Chartered and Vodafone.	9

### Notes:

\*The figures are calculated as of July 2003. They include Insight-managed equity shareholdings in all companies listed in the UK FTSE All Share, but exclude indirect holdings in Investment Trusts, Unit Trusts and OEICs not managed by Insight and holdings in corporate bonds.

For further information about our engagement activity see <http://www.insightinvestment.com/Corporate/responsibility>

## Progress report

This section contains an update on progress made on engagement detailed in our previous bulletin.

### BAT and Burma

In the Spring 2003 bulletin, we reported that we were in discussion with BAT about its ongoing operations in Burma. Subsequently, the situation in Burma has deteriorated seriously: Aung San Suu Kyi has been rearrested and last year's optimism about the possibility of progress towards democracy has now evaporated. There is now a pressing need for BAT, and the other international companies that remain involved in Burma, to provide renewed justification for maintaining an ongoing presence in the country. We have asked BAT to inform us when they will be publishing their revised group statement of business principles. We expect these principles to provide a fresh and more robust basis for evaluating the company's position on Burma.

### BP and health and safety

In the same bulletin, we reported on the coverage of health and safety (H&S) at BP's Alaskan operations. We met with BP in April 2003 to discuss this issue further. In the course of the meeting, BP acknowledged that the challenge lies in ensuring that H&S is embedded throughout the organisation, and that the data collected on H&S is of sufficient quality to enable it to make well-informed management decisions.

Our view is that BP appears to have refined and updated its overall H&S management processes to reflect the lessons learned in Alaska. We have written to BP emphasising our conviction that, given the inherently risky nature of its business, effective H&S management is a critical indicator of the quality of the company's overall approach to corporate responsibility.

### Democratic Republic of Congo (DRC) and the OECD Guidelines for Multinational Enterprises

In the previous edition, we reported that a UN Security Council report had recently alleged that a number of companies operating in the DRC had breached the OECD Guidelines for Multinational Enterprises (the Guidelines). Insight has recently received a response to its enquiry from

the UN Panel of Experts on the DRC – the authors of the report. The Panel has been given a mandate from the UN Security Council to enter into dialogue with the companies named in its October 2002 report. Since March, the Panel has been in contact with the three UK companies named in the report in which Insight has substantial holdings – Anglo American, Barclays and Standard Chartered. The Panel stated that it could not comment on its discussions with individual companies, except to say that it is working with them towards 'mutually agreeable solutions.' Insight has also spoken with representatives of Anglo American, Barclays and Standard Chartered. All three companies reported having some difficulties in ascertaining from the UN the specific transgressions they are alleged to have committed.

Anglo American reported that it has had no substantive interests in Congo for more than 20 years. Anglo informed us that it held a licence to develop one project as part of a joint venture partnership, but that concerns about security of tenure, security and human rights meant that this project was never developed. Anglo sold its stake in this project to its joint venture partners in 2002.

Barclays stated that it had met with the Panel to establish the underlying reason for their inclusion in the report. The company provided the Panel with its position and hopes not to be named in the follow-up report. Barclays reiterated to Insight its support for the Guidelines.

Standard Chartered stated that it has established a dialogue with the Panel and "is confident" that its name will be removed from the Panel's follow-up report. The company also reiterated its support for the Guidelines.

In addition, we understand that the OECD Committee on Investment and Multinational Enterprises, which has a co-ordinating function in relation to the OECD Guidelines, has formally written to the UN Security Council asking for information regarding the basis for the allegations in the report. The Panel is expected to give a briefing to the UN Security Council in July, which will include the verification and an update of its findings. Insight awaits the findings of this report with interest.

## Corporate governance: building constructive relationships



William Claxton-Smith

Stories about chief executive pay are increasingly in the news. Recent examples of this include the rejection by shareholders of GlaxoSmithKline's remuneration report and substantial opposition to those of BAE Systems and Tesco. These votes

demonstrate a substantial surge in enthusiasm for a more activist approach amongst institutional shareholders. The enthusiasm for active shareholder involvement in the governance process is welcome. However, an overly combative relationship between shareholders and companies is not desirable, nor is a focus on remuneration to the exclusion of everything else.

It is worth revisiting a little-remembered report written by Paul Myners in the late 1990s, which has been overshadowed by his more famous review. Entitled 'Developing a winning partnership: how companies and investors can work together', the report recommends that investors should work together with the companies in which they invest rather than simply pick fights with them. Investors have to be confrontational on occasion, but a partnership approach is preferable and likely to be better for the long-term interests of our clients. The collective aim should be to ensure that issues are resolved before they result in a battle at the annual meeting. A 'no' vote at the annual meeting is a sign that engagement has failed.

Insight's policy is to vote on all resolutions for UK registered companies and to exercise votes responsibly. In 2002, Insight cast a total of 7,573 separate votes and voted at 725 meetings of 539 companies.

Insight is concerned that voting is being used as a high profile weapon against companies before other channels of activism have been exhausted. Too few institutional investors appear to be prepared to invest the necessary time in engaging constructively with companies to make their case for change before the issue comes to the vote. It is much cheaper and easier simply to tick the box on the voting form and not to bother having a conversation with the company. No surprise, perhaps, given that few asset management clients currently reward investment in governance activity. As a senior executive at one of the world's largest investment institutions recently said:

*"I've got higher priorities... I want to do what I get paid for, and shareholder activism is not what I get paid for."*  
(FT Fund Management, 16 June 2003).

Perhaps the main reason why a negative and confrontational investor attitude is unhelpful is because it undermines the proper motivation of directors. While it is important that directors receive financial incentives for their work, these are not and should not be their only motivation for doing a good job. What investors look for in a chief executive is someone who has the intrinsic motivation to run a company well. Directors who are successful at creating long-term commercial success for the company deserve investors' respect and praise. If all investors do is complain, executives will wonder whether they want to be involved in running a public company in the UK. They do, after all, have an alternative in the unquoted sector.

A drift of talented directors from listed companies would deny investors the opportunity to invest in the best-run companies. While this argument can be overdone, the number of public to private deals that are in place at the moment indicate that many executives have concluded that they would be better off outside the quoted sector.

This argument applies to the rest of the board as well. Investors rely heavily on the quality of the non-executive directors of the companies in which they invest and these people are generally not motivated by money. There is a definite danger that endless grief and negative press will cause them to wonder why they should bother sitting on the board of a listed company.

It is important to weigh the costs of public confrontation, such as a vote against a company's pay policy, against the benefits. When progress is being made, and when independent directors demonstrate that they are listening to investors' concerns, the case for aggressive voting is hard to make. One of the most positive aspects of the Higgs review is the support it gives to institutional contacts with independent directors. When concerns have been flagged in the past, investors have not always been certain that they have penetrated through to the full board, or whether they have been 'filtered out' by the company's advisers, investor relations department or executive directors. Insight believes that the Higgs recommendations will make it easier to have the mutually beneficial dialogue that we seek.

Based on an article that was originally published in Financial News, 19–25 May 2003.

For more information, see Insight's Corporate Governance and Corporate Responsibility Statement of Policy at [www.insightinvestment.com/documents/00292\\_SRI\\_Policy.pdf](http://www.insightinvestment.com/documents/00292_SRI_Policy.pdf)

## Integrating corporate governance and corporate responsibility

As part of its Global Business Principles Project, Insight is urging the OECD to strengthen the corporate responsibility provisions in its 2004 revision of its Corporate Governance Principles.

As Insight's Corporate Governance and Corporate Responsibility policy indicates, we believe that a company's management of ethical and environmental issues is an important part of its overall corporate governance. For many companies, this is the practical, day-to-day reality: the board deals with ethical and environmental issues alongside other questions of corporate governance. An increasing number of leading companies consider corporate responsibility issues sufficiently important to create dedicated board committees to handle them.

This reality is not captured well by existing corporate governance codes. The UK's Combined Code on corporate governance does not make explicit reference to these topics, but, instead, handles them implicitly as aspects of risk management. One partial exception to this rule is the OECD Principles of Corporate Governance (not to be confused with the OECD Guidelines for Multinational Enterprises, see p.1). The Principles are backed by both the OECD and the World Bank and are expected to have growing international influence. Unlike

other governance codes, the OECD Principles do make clear the importance in considering other stakeholders in a governance context.

This exception is only 'partial' because the reference by the Principles to stakeholders is not backed by clear guidance to companies about what is expected of them. Fortunately, the OECD plans to revise its Principles during 2004, providing an opportunity to offer more substantial guidance on this topic.

At a meeting to discuss possible revisions to the Principles, hosted by the OECD/World Bank Corporate Governance Forum in Oslo in June, Insight expressed the need for corporate responsibility issues to be more effectively addressed in the revised OECD Principles. In particular, we recommended that the OECD Principles of Corporate Governance be formally linked to the OECD Guidelines for Multinational Enterprises. As we have made clear elsewhere (see p.1), we believe the OECD Guidelines for Multinational Enterprises provide a strong framework for governance of ethical and environmental topics. Formal links between these two OECD guidance documents would provide companies and investors with a more coherent and complete approach to these aspects of corporate governance.

## Biodiversity: implications for extractive and utility companies



Biodiversity is literally ‘the very stuff of life’. The variability among living organisms, including diversity within and between species and ecosystems, has many different uses. It provides food and the botanical medicines upon which 75% of the world’s population relies, purifies water, prevents soil erosion and floods and regulates the climate. It is also of incalculable cultural, religious and spiritual value to people world-wide.

But biodiversity is being lost at a rate that is unprecedented over the last 40 million years. As the Royal Society puts it: “The living world around us is disappearing before our eyes”. Their recent report points out that one tenth of all the world’s bird species and one quarter of its mammals are listed by the World Conservation Union (IUCN) as threatened with extinction. The proportion of less-studied groups, such as fish, mussels and crustaceans, is likely to be even higher – at between one and two thirds – and we are still losing between half and one percent of the world’s tropical forests each year. (See [www.royalsoc.ac.uk](http://www.royalsoc.ac.uk))

Since the Convention on Biological Diversity (CBD) was opened for signature at the Rio Earth Summit in 1992, 186 countries and the European Union have ratified it. Despite ten years of effort to achieve the CBD’s objectives of the conservation of biodiversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising from the use of genetic resources, international concern about the fate of biodiversity is growing. At the World Summit on Sustainable Development in Johannesburg in 2002, heads of state threw their weight behind a commitment to achieve a significant reduction in the current rate of loss of biodiversity by 2010.

Business’ engagement with the CBD has been limited to date, focusing mainly on issues where international regulation is imminent (such as the transboundary movement of living modified organisms under the Cartagena Protocol on Biosafety and access to genetic resources).

However, the direct footprint of oil and gas, mining and minerals and utilities companies on biodiversity is significant. They disturb habitats and species as they extract natural resources and install and operate mines, oil rigs, pipelines and powerlines. In many areas, larger, indirect impacts often follow as new roads are opened up along routes established by companies and economic migrants are attracted to the area to work. In addition, occasional accidents such as oil spills and leaks from the tailings dams that result from mineral extraction cause severe damage to ecosystems and the livelihoods of local communities dependent on the area’s biodiversity.

The future viability and profitability of extractive and utility companies depends in large part on their ability to access land and the hydrocarbons and minerals beneath it. To do so, they need to maintain their ‘license to operate’ – in other words, the willingness of host governments and local communities to grant them concessions and allow their work to progress unhindered. For this, companies increasingly need to demonstrate that they are operating according to high environmental and social standards, including clear commitments on biodiversity. There are other compelling reasons for operating according to high standards of biodiversity management. Companies face potentially significant environmental liabilities, rehabilitation and restoration costs if they manage operations poorly and damage habitats and livelihoods.

These issues are becoming more and more critical because, after centuries of extraction, companies are increasingly turning to wilderness areas and sites that are considered sensitive because of their high levels of biodiversity, endemism (i.e. occurrence of species limited to a particular locality or region), rarity or fragility. There are currently some 44,000 protected areas world-wide, covering 90 million km<sup>2</sup>, representing some 10% of terrestrial surface area. By September 2003, as many as 102,000 sites, which will account for 12.7% of the earth’s surface, managed in accordance with IUCN protected area management guidelines may be identified. (See [www.unep-wcmc.org/protected\\_areas](http://www.unep-wcmc.org/protected_areas))

Because biodiversity raises such important challenges for both sustainable development and long-term shareholder value, it is important for investors to take them into account in their evaluation of corporate practice. Unfortunately, at present, there is insufficient clarity about what investors should reasonably expect of companies in this area.

Over the next two years, Insight intends to undertake significant work on the issue of biodiversity. Insight is committed to working with companies and others to develop a consensus about standards of good practice in this area. As with other aspects of corporate practice, Insight believes that the starting point for such standards should be international legal frameworks such as the CBD, as well as principles that emerge from existing aspirational statements from business, such as those under development by the Energy and Biodiversity Initiative. In order to develop a robust approach, investors and companies need to tackle a number of other complex issues, including:

- how to measure corporate performance on biodiversity
- how to define companies' responsibility for their secondary impacts (described above), and
- how to reach a consensus on the basis for operating in particularly sensitive sites.

This quarter, we wrote to the chief executives of 20 companies, asking them about their policies on biodiversity and, specifically, on operating in sensitive sites. We asked whether they recognise the need to take special steps to manage their impact on sensitive sites, how they define such sites and what approach they take to operating in them.

We aim to refine our expectations through dialogue with companies and experts, but broadly we would like companies to:

- assess their impact on biodiversity
- publicly state their high level commitments to best practice on biodiversity, including principles for the minimisation of

their impact on biodiversity and positive contributions to its conservation

- demonstrate a strategic and targeted approach to biodiversity, setting out goals and priorities over time
- put management tools in place to implement these commitments
- establish indicators to measure progress in reducing their footprint on biodiversity, and
- report on their activities and performance against these indicators.

We are also looking for imaginative and constructive contributions by companies to conservation efforts, for instance, by offering support to government in implementing national and regional biodiversity strategies and action plans or establishing partnerships with communities, NGOs and protected areas.

## 'REACH'-ing for safety

Today, tens of thousands of chemicals synthesised from raw materials as diverse as petroleum and salt are in common use. Many of these chemicals have contributed significantly to improving the quality of life of millions of people all over the world, through, for example, the development of life-saving medicines and fertilisers and pesticides that enhance yields and protect crops.

However, there is increasing evidence that the widespread use of some chemicals has serious impacts on human health and the environment. Research has shown that it is highly likely that every person in the world now carries traces of persistent organic pollutants (POPs), demonstrating that synthetic chemical contamination has become globally pervasive. POPs are a special class of pollutants that include synthetic chemicals that do not readily degrade in the environment (and thus persist for years) and that can travel around the globe on a complex journey through air and water currents and in the food chain.

At a conference in Brussels earlier this year, Margo Wallstrom, the European Commission's member responsible for the environment, highlighted the pervasive nature of chemical contamination and the associated problems:

*"They are found in breast milk and the placenta, thus affecting the foetus and new-born babies. They are also found in deep-sea living organisms and in animals living in the Arctic and Antarctic, where they were never used. Various diseases are on the increase, such as testicular cancer and reproductive disorders and a link to chemicals exposure seems likely."*

Since 1988, the EU has been evaluating the impacts of all chemicals currently in use. It has determined that sufficient environmental and human health impact data does not exist for more than 90% of the approximately 80,000 chemicals that have been synthesised to date. The EU is therefore reviewing proposals that would update the current regulations and

transform the rules that govern the approval of chemicals, and thus have substantial implications for the industry.

Margo Wallstrom has proposed:

*"... a radical paradigm shift .. In the future, the chemicals industry will be responsible for generating and providing the necessary information about their own products in line with corporate responsibility. Not – as it is today – the public authorities having to prove a chemical is hazardous."*

This proposal has been integrated into the proposed new 'REACH' (Registration, Evaluation and Authorisation of Chemicals) system contained within the EU Chemical Strategy, rendering it one of the most far-reaching pieces of legislation currently under consideration in Europe. The direct costs to industry from the proposed testing regime alone are estimated to be between £970 million and £4.8 billion over a decade and are expected to come into force, following a consultation period, later this year.

It is clearly important that investors develop a strong understanding of whether and how these costs will impact investment portfolios. A recent report on European chemical companies by HSBC states:

*"Chemical companies are by their very nature at higher risk of litigation than the average corporation."*

Consequently, in addition to the direct costs arising from the new testing regime, companies may face longer-term costs and benefits related to tort law and civil actions that may be brought against them as a result of the more robust testing regime.

Insight will be promoting a responsible approach to chemical use among the companies in which we invest that sell products containing chemicals of concern. We will encourage those companies to adopt a precautionary approach to chemical use and to assess how they might phase out hazardous chemical ingredients in favour of less damaging alternatives.

# Taking human rights from principles to practice: Insight's human rights programme

## Establishing principles

Insight's Defining Global Business Principles report, published in November 2002, identified human rights as one of the key challenges facing the companies in which we invest. The report identified the 1948 Universal Declaration of Human Rights (UDHR) as the most widely referenced and authoritative international human rights standard. The preamble to the UDHR calls on "every individual and every organ of society" to respect and promote the rights set out in the UDHR.

Over the past ten years, a lively debate has been taking place about whether companies have obligations under the UDHR, given their ever-more powerful and indisputable role as 'organs of society'. Initially, discussion focused on whether companies have human rights responsibilities. In the last two years, that argument has broadly been won. There is now consensus that companies have responsibility for human rights issues such as non-discriminatory treatment of workers, children's rights, the provision of safe and healthy workplaces and the payment of remuneration that allows for an adequate standard of living for workers and their families.

Companies are also beginning to accept their obligations to respect broader human rights, such as the right to development, food, drinking water, health, housing and education. As a result, more than forty major multinational companies worldwide have made explicit human rights policy commitments, many of which reference the UDHR.

## Promoting good practice

Now that the points of principle have been established, companies are struggling to understand what these mean in the context of their operations and the countries in which they operate. Agreement is beginning to emerge about the systems and processes that companies need to put in place to manage their human rights impacts effectively. Companies are increasingly undertaking analyses of their impact on human rights, as BP has done on its Tangguh LNG project in Indonesia.

To help provide greater clarity about how the UDHR applies to companies, a United Nations working group has been established. It has recently released the results of its work to date, a series of principles known as 'The Draft Norms of Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights'. In early 2003, these were published separately by Amnesty International as 'The Human Rights Responsibilities of Companies'.

## Insight's engagement on human rights

This past quarter, Insight began its engagement with companies on human rights. As a first step, in April, we wrote to 74 UK companies enclosing a copy of the Amnesty International report, stating that we believe that this document is increasingly likely to be used by investors and others as a basis on which corporate performance on human rights will be judged. We chose companies in the oil and gas, mining, food and beverage, pharmaceutical, tobacco, retail, telecommunications, utilities,

banking and insurance sectors because they have the greatest exposure to human rights related risks.

We also took the opportunity to emphasise to those companies without formal policy commitments to the UDHR (62 of the 74 companies) that we see such a policy commitment as a necessary first step to institutionalising responsibility for human rights within their organisations.

We will continue to strongly encourage the companies in which we invest (in particular, those with the greatest exposures to human rights risks) to make explicit policy commitments to:

- protect and promote human rights
- support the UDHR and the Core Conventions of the International Labour Organisation (ILO), and
- implement systems and processes to ensure that these policy commitments are met.

We will also continue to highlight initiatives such as the UN working group and FTSE4Good to the companies in which we invest to assist them in staying abreast of emerging issues in the business and human rights debate.

## Promoting good human rights management processes

Many stakeholders, including investors, are now also stressing the importance of companies implementing effective management processes and systems to ensure that policies adopted at corporate headquarters are effectively implemented throughout their world-wide operations. Good management systems and processes are generally considered to include:

- an explicit human rights policy
- Board level responsibility for human rights
- systems for identifying human rights issues of relevance to the company
- employee training on human rights issues
- systems for monitoring, measuring and assessing human rights performance, and
- the integration of human rights into contracts and other agreements with partners and contractors.

These expectations are increasingly being placed on companies by a range of parties. For example, on its website, Business in the Community recommends twelve key actions, broadly reflecting the list above, for companies seeking to implement their commitment to safeguarding human rights. FTSE4Good has also recently issued new human rights criteria that companies need to meet to be included in the FTSE4Good Indices. As of September 2003, FTSE4Good will require companies in the oil, gas and mining sectors to have explicit policy commitments to:

- the ILO Core Labour Standards
- ensure that security forces uphold human rights
- the UDHR, and
- respect the rights of indigenous peoples.

These companies will also need to have management systems in place to implement the policy, again, broadly following the guidance above. FTSE4Good will soon require all companies with a significant involvement in countries with high human rights risks to have similar policies and management systems in place (with the exception of reporting requirements).

### Resolving more difficult issues

While the parameters of human rights management systems are increasingly well understood, complete and consistent implementation of human rights policies remains weak and patchy. Significant questions remain around what human rights mean for specific operations in specific situations and the most effective way to address the complex set of issues with which human rights problems are frequently intertwined such as poverty, lack of equitable access to health, education and water, and environmental degradation.

Despite these complexities, Insight fully expects companies to develop and implement clear and systematic processes for dealing effectively with the human rights challenges they face and to demonstrate clear improvements in performance over time.

We recognise that finding solutions to these problems is difficult and time-consuming. We are therefore committed to working with companies and appropriate stakeholders to find

workable solutions that afford greater protection and promotion of the human rights of workers and communities around the world. We have developed several engagement projects to focus on specific human rights issues within particular contexts. These projects focus on some of the key questions that Insight believes need to be resolved, such as:

- How far do companies' responsibilities extend into the supply chain?
- Do their procurement practices support or undermine ethical trading practices?
- How should a 'living wage' be defined, and how can it be implemented?
- How good is performance on health and safety issues in British companies' supply chains?
- How should companies act when operating in conflict zones?
- Should companies be required to publish the revenues paid to host governments to avoid being seen as complicit in human rights abuses?

We also aim to respond to allegations or stories related to human rights abuses that are brought to our attention.

Our work on many of these projects will be documented in future issues this bulletin.

## Shrimp farming, biodiversity and human rights: quite a cocktail

Trent / Environmental Justice Foundation



Over the past several decades, the international community has actively promoted shrimp farming throughout Asia and Latin America as a means of economic development and poverty alleviation. According to the World Bank, farmed shrimp currently account for 30% of world-wide shrimp production, up from only 5% in the early 1980s. Most farmed shrimp is exported to the UK, continental Europe, Japan and the US to meet growing consumer demand. Although shrimp farming has made significant contributions to the economies of many developing countries through job creation and foreign exchange generation, the financial benefits have not always trickled down to the communities most in need.

The Environmental Justice Foundation (EJF), a London-based NGO, recently issued a report highlighting the negative social, economic and environmental impacts of intensive shrimp farming in developing countries. Evidence provided by EJF

strongly suggests that these intensive shrimp farms have frequently contributed to an alarming increase in environmental and human rights problems including:

- the destruction of seabeds and mangrove forests, the pollution of drinking water and agricultural land and the depletion of wild fish stocks
- conflicts over land rights, illegal land takings for the development of shrimp farms, and associated violence, intimidation and murder, and
- the exploitation of workers, including poor working conditions, sexual abuse of female workers and child and forced labour.

Insight is concerned about the issues raised in the EJF report. We have significant holdings in a number of UK companies that import and retail seafood, including Marks & Spencer, Morrison, Safeway, J Sainsbury, Tesco and Unilever. Consequently, we have written to these companies to determine whether they:

- are aware of the issues raised by EJF
- are sourcing shrimp from countries identified as problematic by EJF, and
- have sourcing policies that address the environmental and human rights issues associated with shrimp farming specifically.

We look forward to responses from these companies.

## International support for revenue transparency gains momentum

Recent months have seen a flurry of reports and news stories around the opportunities and dilemmas facing Iraq, the Caspian region and several African countries as they expand their oil and gas production. A new publication from George Soros' organisation The Open Society Institute (OSI) entitled 'Caspian Oil Windfalls: Who Will Benefit?' published in May catalogues the economic and political problems that poor management of mineral wealth has given rise to in the past. The OSI counsels that such mistakes must be avoided by the emerging oil states.

The OSI and other recent reports (from the World Bank, Oxfam and Catholic Relief Services) have highlighted the sad fact that many countries that have generated great oil and mineral wealth have seen a decline in economic growth and human development indicators. The OSI report catalogues the cases of Venezuela, Nigeria and some OPEC countries where poor management of their new-found wealth has fuelled unproductive and misdirected domestic spending and thus inflation, exacerbated corruption and weakened democracy and accountability.

Commentators are now focusing on the importance of ensuring that lessons are learned from these countries so that this pattern is not repeated in new oil-rich countries. They point to the long experience of exploiting oil and mineral resources of countries such as Norway, Chile and the US (in Alaska). These countries set up funds that disperse the wealth gradually and equitably, either directly to their citizens, or via long-term social spending programmes. The OSI publication highlights similar funds that Azerbaijan and Kazakhstan have established recently to manage their oil wealth (as well as case studies of ten other countries). Transparency is identified as a critically important feature of such funds, as a means of providing citizens with oversight of the revenues and increasing the likelihood that they benefit fully from their new-found wealth.

Attention has also focused on the establishment in May of the Development Fund for Iraq. The UN has created the fund to oversee management of the country's expected oil wealth. It is intended to provide transparency and to ensure that the revenues from oil exploration are directed to Iraq's long-term reconstruction and development.

In the last bulletin, Insight explained its work with the new investor group on revenue transparency. The group has continued to be very active this quarter, in preparation for various high-level governmental meetings.

On 16 May, a group of 10 investors, including Insight, representing £466 billion under management, issued a statement of support for the Extractive Industries Transparency Initiative (EITI) calling on extractive companies to be more transparent about the payments they make to governments (the principles). The statement notes the investors' concerns that:

*"... extractive companies are particularly exposed to the risks posed by operating in these environments. Companies that make legitimate, but undisclosed, payments to governments may be accused of contributing to the conditions under which*

*corruption can thrive. This is a significant business risk, making companies vulnerable to accusations of complicity in corrupt behaviour, impairing their local and global 'license to operate', rendering them vulnerable to local conflict and insecurity, and possibly compromising their long-term commercial prospects in these markets.*

*We believe that improved transparency about both payment and revenue flows is an important contributor to good governance by host governments, although its effectiveness will depend on the success of wider initiatives to combat corruption and the misuse of revenues.*

*We recognise that the root of the governance problem often lies in underdeveloped local capacity in many host countries. However, in the light of the G8 discussions on corruption and increased international attempts to create transparency about revenue flows, we believe that the corporate sector has an important opportunity to support government and multilateral institutions by taking action to protect its own long-term interests."*

However, the statement also acknowledged that:

*"... the corporate sector cannot single-handedly reform long-standing business practices such as lack of transparency over payments to government, nor can individual companies act alone without compromising their immediate commercial interests. However, we believe that reform will give the extractive companies in which we invest an opportunity to be seen as contributors to, and not just beneficiaries of, economic development and reconstruction."*

In closing, the statement called on companies to:

- support the principles of payments disclosure developed by the EITI
- work proactively with host country governments and other stakeholders, including other companies, to develop and implement payment transparency agreements within those countries that sign the principles, and
- become, or continue to be, active participants in the process to promote take-up of payment transparency agreements by host country governments that are not yet signatories to the principles.

Prior to releasing its statement of support, the investor group wrote to 25 oil, gas and mining companies world-wide to advise them of the investor statement and to encourage them to support and be active participants in international initiatives to develop an effective revenue transparency mechanism.

At their 2 June meeting held in Evian, France, the G8 heads of state also released a statement committing "to pilot, on a voluntary basis, an intensified approach to transparency" – essentially adopting the approach and recommendations of EITI. Specifically, the G8 committed to:

- encourage governments and companies to disclose their revenues and payments
- work with participating governments to develop and implement action plans on disclosure

- provide those governments with capacity building assistance, and
- encourage the IMF and World Bank to give technical support to participating developing country governments.

On 17 June, the UK government hosted a ministerial meeting at which a wide range of international stakeholders were invited to make statements describing their stance with respect to EITI proposals. The investor statement was presented formally to this meeting. There now appears to be a broad base of support for DFID's proposals among companies, developed and developing country governments,

the World Bank and other international agencies. DFID is expected to publish its proposals for how to take its initiative forwards in the coming weeks. NGOs represented by the 'Publish What You Pay Campaign' remain sceptical that a voluntary approach by governments and companies will achieve revenue transparency, and so continue to push for a legislative solution.

The investor group is due to meet in July to discuss the outcomes of the meeting and how we might offer further support and encouragement to companies and the UK government in developing and implementing the EITI further.

## Meeting the public health crisis in emerging markets: the challenge for pharmaceutical companies

The pharmaceutical industry is one of the world's most research-intensive and profitable sectors. The average cost of the discovery and development of a new product is now some £300 million. Pharmaceutical companies rely on the use of patents – now codified in the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) – to exercise a temporary production monopoly (usually 20 years). TRIPS enables companies to set prices over this period at the level necessary to make profitable returns on investment by ensuring that others cannot copy the product and sell it at much lower prices.

However, companies are becoming increasingly aware of the business and ethical imperatives of making essential medicine (to treat diseases such as HIV/AIDS, malaria and tuberculosis) available at affordable prices to poor people in developing countries. Following extensive critical campaigns by organisations such as Oxfam, pharmaceutical companies are aware that failing to address this issue comprehensively will risk reputational damage and fuel public concern about the legitimacy of the international intellectual property system – an issue of significant concern to investors.

Access to anti-retroviral drugs to treat HIV/AIDS patients in Africa illustrates the challenge for companies. Speaking on 27 May to announce a new bill providing US\$15 billion for HIV/AIDS, to be spent in 12 African and 2 Caribbean countries, President Bush noted that three million African children under 15 have the HIV virus and that the disease has left 11 million orphans in Africa alone. The issue is likely to remain headline news in the coming months, since it is one of the most controversial topics for consideration at the Fifth Ministerial Conference in Cancun, Mexico, in September this year.

Several leading companies have offered anti-retrovirals at highly-discounted, preferential prices to the poorest countries. The existing patent system also provides some opportunities to address the issue. World Trade Organisation (WTO) rules allow developing countries to benefit from compulsory licensing (i.e. to apply for a product licence without the consent of the patentee) in certain exceptional circumstances but to do so, they must produce and consume medicines domestically. Yet many developing countries lack the capacity to produce domestically. Governments are working to resolve this dilemma in the run up to the Cancun conference. Investors are also continuing to encourage companies to develop effective responses to the difficult situation faced by many developing countries.

Acknowledging the potential challenges to the pharmaceutical sector's current business model posed by the public health crisis confronting emerging markets, Insight is collaborating in an initiative of 11 institutional investors (see <http://www.pharmaproject.com/>). In March, the group launched a Framework of Good Practice, intended to guide pharmaceutical companies in their management decisions and reporting with respect to access to medicine, research on diseases prevalent in developing countries and associated issues.

The group has established its modus operandi and priorities for engaging with pharmaceutical companies. Members of the group are responsible for organising meetings with particular companies. Insight is leading the group's engagement with GlaxoSmithKline (GSK). We have analysed the company's public commitments against the recommendations in the framework, which covers issues such as:

- pricing and patents: establishing sustainable, differential pricing for relevant product ranges, facilitating access to information on pricing and exercising discretion and sensitivity in enforcing patents
- public-private partnerships: ensuring that these address priority health issues and are integrated into national health systems
- diversion: taking measures to prevent the re-importation of differentially priced products into developed country markets
- research and development (particularly on diseases prevalent in developing countries)
- product marketing, and
- leadership and the use of influence: using influence with governments to address the public health crisis.

The group hopes to meet with senior management from GSK in the near future to discuss these issues.

## Promoting responsible pesticide use in agricultural supply chains



Modern agriculture can, from the perspective of simple productivity, be characterised as having been highly successful, managing to keep pace with the rapid growth of world population, which is in excess of 6.2 billion today. Some of the success can be attributed to mechanisation and the increased level of agricultural acreage, but a great deal is also attributable to the use of agrochemicals such as pesticides. Pesticides have played a central role in ensuring reliable supplies of agricultural products each year, through improving and safeguarding yields by reducing competition from weeds and attacks by pests.

However, significant problems are associated with extensive pesticide use. Insight believes that one of the most critical issues that deserves greater investor attention is the impact of pesticide use on the health of agricultural workers.

Almost half of the world's workers are involved in some way in agricultural production, with the greatest concentration of these in developing countries. While developing countries account for just one third of global pesticide consumption, the vast majority of pesticide poisonings occur in these countries. Studies conducted by the International Labour Organisation (ILO) suggest that pesticide misuse causes 14 per cent of occupational injuries in agriculture and, in some countries, as much as 10 per cent of fatalities. The World Health Organisation (WHO) estimates that each year more than 20,000 deaths result from three million pesticide-related poisonings.

Because UK supermarkets have extensive supply chains in developing countries, with suppliers in countries as diverse as Kenya, Chile and Thailand, Insight believes that they can and should play a critical role in addressing this issue.

As we articulate in our Defining Global Business Principles report of November 2002, Insight believes that the most significant corporate responsibility challenges lie with companies' direct or indirect activities in developing countries. The evidence in this case suggests that many developing country governments are unable to provide the strong regulatory supervision and

enforcement required to protect agricultural workers from the adverse health effects of pesticide application.

This quarter we began to lay the groundwork for our engagement on responsible supply chain management. This will lead to an extensive programme of activity with many companies that have extensive overseas supply chains to promote the adoption and application of comprehensive policies and codes of conduct based on the core conventions of the ILO.

One of our projects will focus on promoting the health and safety of agricultural workers in supermarkets' supply chains. We will be looking for evidence that supermarkets' codes address health and safety issues, as defined by ILO Convention 184, Safety and Health in Agriculture.

In our dialogue with these companies, we also aim to promote compliance with the International Code of Conduct on the Distribution and Use of Pesticides, Food and Agriculture Organisation (FAO), November 2002, which sets out guidelines to avoid health and environmental hazards. Article 3.8 suggests that a number of stakeholders, including the food industry:

*"...should play a proactive role in the development and promotion of Integrated Pest Management (IPM)."*

The FAO defines IPM as:

*"...the careful consideration of all available pest control techniques and subsequent integration of appropriate measures that discourage the development of pest populations and keep pesticides and other interventions to levels that are economically justified and reduce or minimise risks to human health and the environment."*

We will provide regular updates of our activity and discussions with companies on this issue in future bulletins.

# Insight supports the Business in the Community Corporate Responsibility Index

In March 2003, Business in the Community (BITC) published its first Corporate Responsibility Index (CR Index). Insight has been closely involved in the creation of the index through our participation in the steering group that designed the index and our overall sponsorship of the project.

The CR Index reflects a very welcome broadening of BITC's perspective on corporate responsibility. When BITC was formed, most people understood corporate social responsibility to be primarily about philanthropy and community involvement. In the last few years, a much broader definition of corporate responsibility has emerged. Arguably, the most important corporate responsibility issues concern how companies make their money, not how they give it away.

In launching the CR Index, BITC sends a very strong signal to the business community that this wider vision of corporate responsibility is legitimate. Insight believes that standards and benchmarks are an important practical way to encourage corporate progress on corporate responsibility issues.

An authoritative business-led benchmark provides a tangible basis against which companies can set targets for the development of their corporate responsibility management systems. Evidence from BITC's Business in the Environment Index over the last seven years suggests that many companies are likely to use their ranking in the index as both an internal and external performance target. We expect this trend to drive more rapid development of good environmental management practices in participating companies.

An influential benchmarking system that measures the right things in the right way is highly valuable to companies and investors alike. But herein lies the biggest challenge for corporate responsibility benchmarking. Many aspects of corporate responsibility are intangible and difficult to measure. It is also very difficult to balance an index so that it makes a fair comparison between the performance of a big international oil company (which faces a very heavily burden of responsibility) and a small UK-based IT company (whose impacts and challenges are relatively minor). Performance must surely be relative to the burden of responsibility.

Because of these problems, for the time being at least, corporate responsibility indices have little choice but to focus on comparing company policies and management systems, rather than comparing their actual performance. BITC acknowledge that the CR Index is not 100% perfect, in this, its first year, and that the index is at present a fairly crude measure of corporate responsibility. However, a great merit of BITC's approach is its willingness to consult and revise the index. Even in its current form, the new index provides investors with a useful basic indicator of the level of corporate commitment to the systematic management of corporate responsibility. As the CR Index progressively provides a more accurate measure of companies' overall performance on corporate responsibility, it will play an ever-more important role in shaping investors' views of companies.

## Insight

Insight Investment (Insight) is the asset management business of the Halifax and Bank of Scotland Group of companies (the HBOS Group). Built on a strong track record of successful fund management, Insight has brought together the investment expertise of different parts of the Group, including those from the recent acquisition of Rothschild Asset Management.

As an active fund management company, we have a clear investment philosophy and process and a solid performance track record across all of the major asset classes. We have more than £64 billion of assets under management\*, which makes us one of the largest fund managers in the UK today.

We have capabilities across a wide range of asset classes with particular expertise in equities, fixed income, property and investor responsibility.

Senior members of our **equity** team have an average of 14 years' investment experience. With a broad research capability in both UK and overseas equities, the structure is based on a team approach and split into product categories, allowing the team to focus on specialist areas.

We believe we have a market-leading team of experienced **fixed income** investment professionals. Our product and service expertise includes emerging markets, cash management, currency management and structured products, allowing us to offer customised solutions to our clients.

Our **property** team have been working together for over nine years. A top five player in the property market, we have one of the most experienced fund management teams in the business. A first class network of working relationships with property specialists augments our strong team approach.

Another key differentiator is the strength of our commitment to Investor Responsibility. In 2002, we recruited individuals from one of the UK's leading socially responsible investment teams to help us achieve our aim of becoming Europe's leading proponent of Investor responsibility. For further details of the team, see page 16.

\* As at 31 March 2003.

## HBOS launches initiative to support WWF's One Million Sustainable Homes campaign

In June, HBOS launched an exciting new project in collaboration with WWF – the global environmental network – to support the development of its One Million Sustainable Homes campaign (OMSH). Insight will be playing a key part in OMSH too, as will be described later in this article. But why should HBOS be concerned about sustainability in UK housing?

Building and renovating our homes imposes very significant environmental and social costs at local, national and global levels. The most substantial of these is the housing sector's contribution to energy use and resultant climate change. Housing in the UK contributes around 27% of the total CO<sub>2</sub> emissions associated with energy use, and domestic energy use is projected to rise by 6% by 2010. Typical newly built homes in the UK use three and a half times more energy than those in Denmark and Germany. Also, a high proportion of the 70% of timber used in UK construction goes into the housing sector, most of which is not certified as having come from sustainably managed forests. Additional but unseen impacts of new home construction include quarrying to provide basic raw construction materials such as aggregates. Water is often used wastefully and inefficiently in homes. The widespread use of toxic chemicals in building materials can also pose significant health risks for the occupants and can have severe environmental impacts on wildlife. Of equal or perhaps greater significance (though not well documented) are the wider environmental costs associated with the provision of transport and other infrastructure to housing developments. Currently, little is done to incorporate sustainability factors into infrastructure design and development.

Poorly planned and designed homes and communities also impose significant social costs. A 1997 Royal Institute of Chartered Surveyors study estimated that poor quality public housing costs around £246 million a year in terms of extra health care, crime and fire service costs. The impact on individual's mental and physical health can also be staggering. An estimated 2.7 million English households currently live in poor conditions, with the most vulnerable living in the worst housing. Around 2.5 million homes are estimated to be cold enough to cause ill health. In any one winter, Britain has around 40,000 more deaths during December and March than in other months – a much larger 'winter excess' than most other comparable European countries – which has been attributed to old, poorly insulated and poorly heated housing.

Clearly, if the UK is to reduce its environmental and social impacts, substantial changes need to be made to how we plan, design, build, refurbish and live in our homes. Bringing the UK's

housing stock up to twenty-first century standards will require concerted action on the part of a wide range of actors in the private and social housing sectors.

WWF-UK has launched a major new campaign to do just that. Its goal is to enable the 'sustainable home' to become standard practice across the UK by 2012. (The definition of a sustainable home being based on the Building Research Establishment's well-established EcoHomes standard.) WWF has a strong track record of bringing together businesses and governments to seek solutions that bring social, environmental and economic benefits. Through the OMSH campaign, WWF is working with a wide range of stakeholders involved in both building new housing and refurbishing existing housing, within the private and public sectors, to turn this vision into a reality. Insight's Rachel Crossley sits on the Sustainable Homes Task Force, a steering group for the campaign.

OMSH has already attracted strong support from a range of important stakeholders, including the Office of the Deputy Prime Minister, DTI, the House Builders Federation, individual housebuilders and the sector's professional bodies. (See [www.wwf.org.uk](http://www.wwf.org.uk)).

WWF was keen to have a financial services sector partner in OMSH. Through their sale of a wide range of financial products, financial services companies provide the essential lifeblood of the whole housing market. During the initial consultation phase for the campaign, WWF was often told that one of the barriers to sustainable homes is the perception that investors and financial services providers don't care whether homes are sustainable or not, and that they are only really interested in "a quick profit".

Because of HBOS's commitment to corporate responsibility and Insight's stance on Investor Responsibility, WWF invited HBOS to partner on OMSH. This is an opportunity that HBOS is very pleased to accept, for a number of reasons. HBOS, Insight's parent company, is the one of the largest financial services companies in the UK. Comprising a large number of businesses that provide a range of financial products to serve the housing sector.

For example, the company is:

- the leading mortgage lender in the UK, with £145 billion of current commitments – one in five of all mortgages
- the leading provider of finance to housing associations, with more than £4.5 billion of current commitments
- a provider of over 2.3 million home insurance policies (valued at £374 million)



- a major player in the estate agency sector through [www.rightmove.co.uk](http://www.rightmove.co.uk), 'the UK's number one property website', and the 350 Halifax Estate agency branches in the UK
- a major equity investor, through Insight, in many of the UK's housebuilders, and
- a major provider of banking and lending services to UK housebuilders.

If OMSH is successful in changing the way that homes in the UK are designed, delivered and lived in, that in turn could have a major impact on the many HBOS businesses that serve the housing sector. Consequently, in June 2003, HBOS created a working group made up of specialists from across the business who will offer their technical expertise to the OMSH campaign over the next year.

Rachel Crossley of the Investor Responsibility team will chair the group, reporting progress to Phil Hodgkinson, Insight's Chairman, Chief Executive of HBOS's Insurance and Investment Division and HBOS Board member.

HBOS hopes that its involvement in OMSH will not only make a significant contribution to WWF's campaign to mainstream sustainable homes, but that the Group will also be able to build a strong understanding of the business implications of a move towards more sustainable housing. HBOS also has a strong commitment to corporate responsibility (as described in its Corporate Responsibility Report published in May 2003) and hopes that this project will contribute to demonstrating its responsibility in a practical way that makes business sense.

## Insight to benchmark housebuilders' sustainability performance

In support of the HBOS-WWF tie-up on OMSH, Insight has begun a project to benchmark UK housebuilders' management and performance on sustainability. In June 2003, Insight wrote to 19 UK housebuilders to announce the project, as well as to solicit their co-operation in the research phase. The research is to be carried out by Upstream, a strategic sustainability consultancy with extensive experience working in the property and construction sectors.

Insight will be evaluating the companies' commitment to CR, their policies and management systems in this regard, and the extent to which they have already improved their sustainability performance through, for example, increasing energy efficiency, reducing site waste or using sustainable materials more extensively.

...on the lighter side



## The Investor Responsibility team

Several IR Team members sit on committees and boards of various organisations engaged in promoting knowledge, understanding and action on a range of CR and sustainability issues.



**Craig Mackenzie**  
Head of  
Investor Responsibility

- Deputy Chair of the advisory committee for the FTSE4Good Corporate Responsibility Advisory Committee
- Member of the OECD/World Bank Corporate Governance Forum Stakeholder Taskforce
- Member of the Advisory Board of Just Pensions, a UK government-funded project to encourage pension fund investors to make a more positive contribution to international development
- Member of the Steering Group of the Business in the Community's Corporate Responsibility Index launched in 2002. The article on page 13 describes this in more detail
- Member of the Review Board of the Journal of Corporate Citizenship, which provides a forum for academics and practitioners to share research on questions of corporate responsibility



**Rachel Crossley**  
Director,  
Investor Responsibility

- Financial sector representative to the Mayor's London Sustainable Development Commission, an independent body charged with setting targets and monitoring performance on sustainable development in London
- Member of Amnesty International's UK Business Group
- Member of the National Steering Committee of WWF's One Million Sustainable Homes Campaign
- Board Director of Sponge, a network for young professionals that promotes sustainability in design and construction
- Trustee of The Forestry Fund, which promotes and assists the uptake of Forest Stewardship Certification by forest managers in developing countries, especially Asia



**Kerry ten Kate**  
Director,  
Investor Responsibility

- Associate Fellow at the Royal Institute of International Affairs (Chatham House) in the Sustainable Development Programme
- Policy Adviser, Royal Botanic Gardens, Kew, where she worked prior to joining Insight
- Senior Visiting Fellow at the Institute of Advanced Studies of the United Nations University, focusing on sustainable development policy and bio-diplomacy
- Occasional broadcaster for BBC Radio 4



**Rory Sullivan**  
Director,  
Investor Responsibility

- Member of the Steering Committee of International Alert's Conflict Risk and Impact Assessment Project, which is working to develop a series of tools to enable companies in the extractive sector to assess the business and human rights risks associated with operations in conflict zones
- Recently completed PhD in Law at Queen Mary College, University of London
- Member of Amnesty International's UK Business Group



**Steve Waygood**  
Associate Director,  
Investor Responsibility

- Doctoral candidate at the University of Surrey, writing a thesis entitled 'A Critical Assessment of the Practices of UK Non-Governmental Organisations in Using the Capital Markets as a Campaign Device'
- Member of the Advisory Committee on Business and the Environment (ACBE) Pensions Sub-Committee, which produced a guide for investment consultants, fund managers and trustees of pension funds on evaluating social and environmental risk to capital

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