

PROFIT, PEOPLE, PLANET
POLICY ISSUES & OPTIONS AROUND
TRIPLE BOTTOM LINE REPORTING

Prepared for the Ministry for the Environment
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S U M M A R Y

The purpose of this report is to examine how government, in partnership with others, can encourage enterprises, central and local government bodies and other organisations to take up *triple bottom line reporting*, i.e. external reporting that gives consideration to financial outcomes, environmental quality and social equity.

Sustainable development is a Government objective for New Zealand. Triple Bottom Line Reporting (TBLR) is one of the tools that can be used to help development become more sustainable through the *integration of economic, environmental and social aspects of decision-making*.

TBLR also is the means by which both the private sector and government bodies at all levels can demonstrate they are assuming their part of the responsibility for sustainable development.

Moreover, TBLR is the opportunity for New Zealand Inc. to substantiate its claims of operating in a “clean green” manner and making products that satisfy the environmental, ethical and social standards increasingly demanded in international markets.

The case for government encouragement of TBLR can be seen against the background of a recent Massey University survey, which suggests that the “environmental responsiveness” of New Zealand companies is lagging behind that of their competitors elsewhere. This finding is supported by the fact that relatively few New Zealand companies have so far published annual reports that, in addition to disclosing the traditional financial performance information, also give account of their environmental, health and safety performance.

This report examines the policy problem behind the wish to encourage integrated decision-making and discusses some likely solutions, including TBLR. It also *i)* evaluates the potential benefits and costs of TBLR and where these fall; *ii)* looks at the relevance of TBLR for New Zealand in terms of the demography of NZ businesses, and the incidence of the environmental

impact of the various business sectors; and *iii*) discusses the need for all government entities to demonstrate they can meet the same standards as those applied to the private sector.

Two important conditions need to be satisfied for TBLR to become a worthwhile practice.

First, it must be based on solid information of better quality than is generally available now. The required information can be generated through the use of environmental management systems (EMS) and updated accounting practices. TBLR should therefore be promoted in conjunction with EMSs and the promulgation of new accounting rules. The risk of failure would be great if TBLR were to be encouraged as a stand-alone project.

Secondly, TBLR will only be a meaningful exercise as long as there is a genuine commitment by practitioners. TBLR therefore needs to be perceived as good business practice for today as well as contributing to the more distant goal of sustainable development, and not as merely adding to the regulatory burden on business. This latter observation has consequences for the choice of policy instruments to be used to encourage TBLR.

Finally, this report presents for further discussion and analysis a muster of mutually reinforcing measures, of which some could be part of an overall strategy to encourage integrated decision-making in business and government bodies.

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2. INTRODUCTION

2.1. Preamble

The purpose of this report is to examine how government, in partnership with others, can encourage businesses and other organisations to take up *triple bottom line reporting*, i.e. (external) “reporting that gives consideration to financial outcomes, environmental quality and social equity” (Gilkison, 1999).

This report takes the goal of sustainable development as its starting point. In May 2000, Cabinet agreed that the role for central government in achieving sustainable development is to “*i*) ensure policies mutually reinforce one another and *ii*) encourage individuals, businesses, industries and communities to make choices that are compatible with, and indeed enhance, sustainable development, including, inter alia:

policies that support an effective and competitive economic and business environment that is flexible and responsive to changes both in the world and in New Zealand.”

Cabinet further agreed that sustainable development is critically dependent on the effectiveness of, among other things, policies relating to the regulation of business and human activity. Government policy on reducing the regulatory transaction costs imposed on business, announced in mid-2000, must also be taken into account in any decision on the introduction of triple bottom line reporting.

The Government’s call for “policies to mutually reinforce one another” requires *integrated decision-making*, ie., the integration of economic, social and environmental factors in decision-making at all levels.

Triple Bottom Line Reporting (TBLR) can serve two main objectives. First, it is a means of promoting integrated decision-making within businesses and other organisations. Secondly, it is a vehicle for organisations to render account of their activities towards a wide group of stakeholders and thereby respond to society’s growing expectations of transparency¹.

Accepting that TBLR is not an end in itself, but a tool at the service of the above two objectives, it is appropriate to rephrase the policy questions we are facing as follows:

- By what instrument or mix of instruments can government best encourage integrated decision-making? and
- What is the mandate for measures aimed at ensuring that business and other organisations give account of their activities to a wider group of stakeholders beyond shareholders and what is the best mix of instruments to achieve that?

2.2. New Zealand on the Road to Sustainable Development

Before tackling the main task before us, it is perhaps instructive to wonder for a moment about how far New Zealand has travelled on the road to sustainability. Or, if sustainability is

¹ The New Zealand Government has not explicitly accepted this second objective.

a journey rather than a destination, how can we be sure we are moving in the right direction? In fact, should New Zealand worry at all about making development sustainable, given its situation is so different from that of the densely populated, heavily industrialised countries of the North?

Table 1 **Economic growth and environmental pressures**

| | unit | 1980 | 1997 | % change |
|---|------------------------|---------------------|---------------------|----------|
| <i>Population</i> | 1000 | 3 144 | 3 679 | 17 |
| <i>Economic activity</i> | | | | |
| GDP | 1991=100 | 80.8 | 122.3 | 51 |
| Industrial production, value added as | % of GDP | 31.2 | 25.8 | -17 |
| Industrial production | 1995=100 | 74 | 103 | 39 |
| Agricultural production | 1995=100 | 93 | 119 | 28 |
| Sheep and goats | 1000 heads | 68 824 | 47 822 ¹ | -31 |
| Cattle | 1000 heads | 8 131 | 8 772 ¹ | 8 |
| Fish production | 1000 tonnes | 156 | 596 | 382 |
| Forestry production | 1000 m ³ | 12 110 ² | 20 784 ¹ | 72 |
| Tourism receipts | Million US\$ | 19 | 112 | 589 |
| <i>Selected environmental pressures</i> | | | | |
| CO2 emissions from energy use (excluding bunkers) | Million tonnes | 18 | 33 | 83 |
| Total primary energy supply | Mtoe | 9.3 | 16.7 | 80 |
| Water abstraction | Million m ³ | 1 200 | 2 000 | 67 |
| Nitrogenous fertiliser use | 1000 tonnes | 20 | 153 | 765 |
| Phosphate fertiliser use | 1000 tonnes | 338 | 390 | 15 |
| Fish production | 1000 tonnes | 156 | 596 | 382 |

1. Refers to 1998; 2. Refers to 1986

Source: OECD, FAO

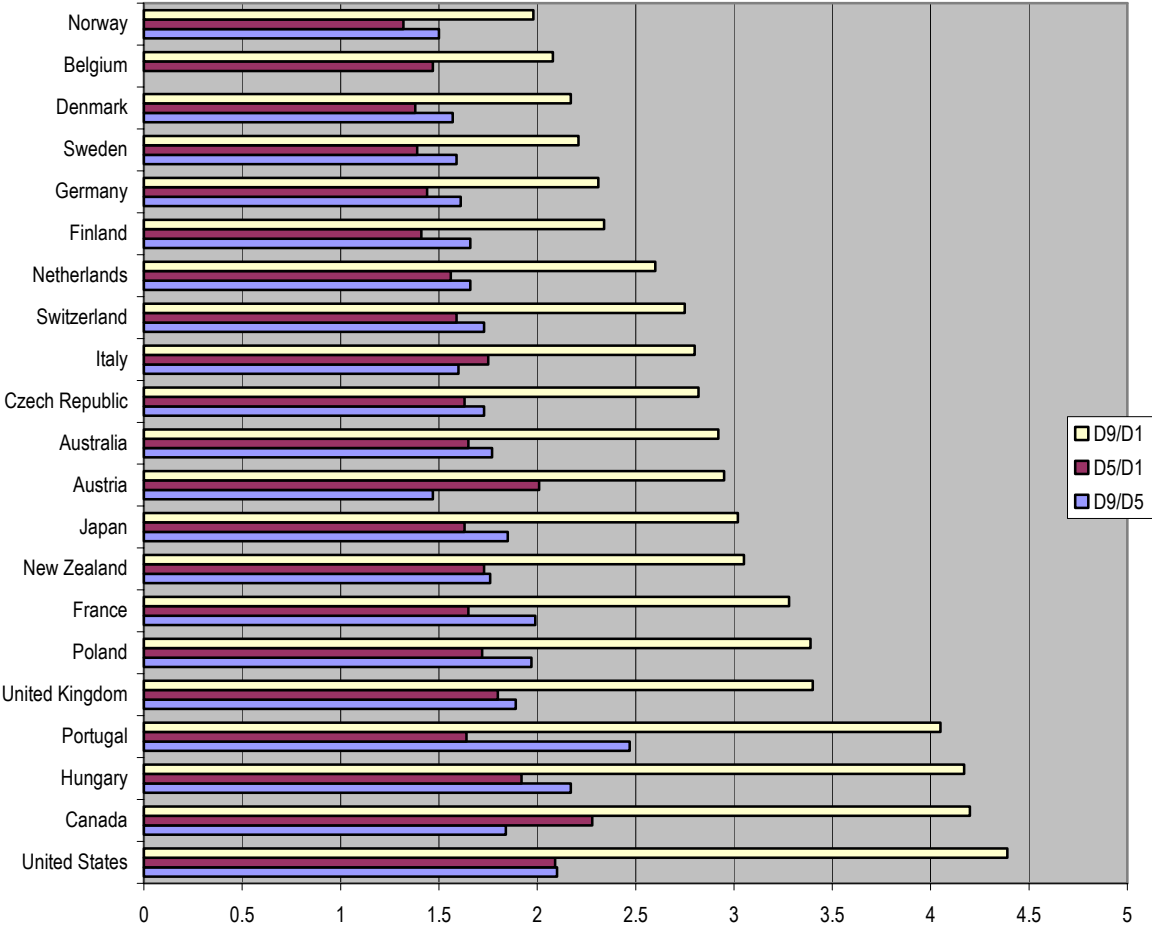
Of course, there are no short and simple answers to such questions, but Chapter 3 of MfE's 1997 report "The State of New Zealand's Environment," after tracing the history of production and consumption patterns in this country suggests we may have been drawing from our natural capital at an unsustainable rate:

So far, the small size of the New Zealand population and the relative large land area and water resources at our disposal have allowed us to have our environmental cake and eat it too. In effect, the environment, [...], has partly subsidised our economic development by providing a succession of quarried resources and plentiful energy resources to use, and abundant land, water and fresh air to absorb our wastes. However, those subsidies cannot be sustained indefinitely and will eventually be reduced or withdrawn if we cannot manage our activities sustainably.

Compared to other countries, we have relatively few hard facts about the pressures exerted by human activities on our environment, but the available data show that these pressures are not only growing in absolute terms, several are also growing faster than economic output, ie., there are no signs yet we are decoupling economic growth from the burden we put on the

environment (Table 1). The figures presented in the table suggest that, at least in terms of some important indicators, New Zealand is still moving away from sustainability.

Figure 1. Income dispersion in 22 OECD countries, mid-90s



Source : OECD. Income dispersion as the ratio of the 10, 50 and 90 per cent deciles of income

Some may argue that, even if New Zealand until recently was still heading in the wrong direction, the implementation of the Resource Management Act (RMA), the Hazardous Substances and New Organisms Act and other reforms will soon begin to deliver the desired outcomes and the statistics will follow to show that.

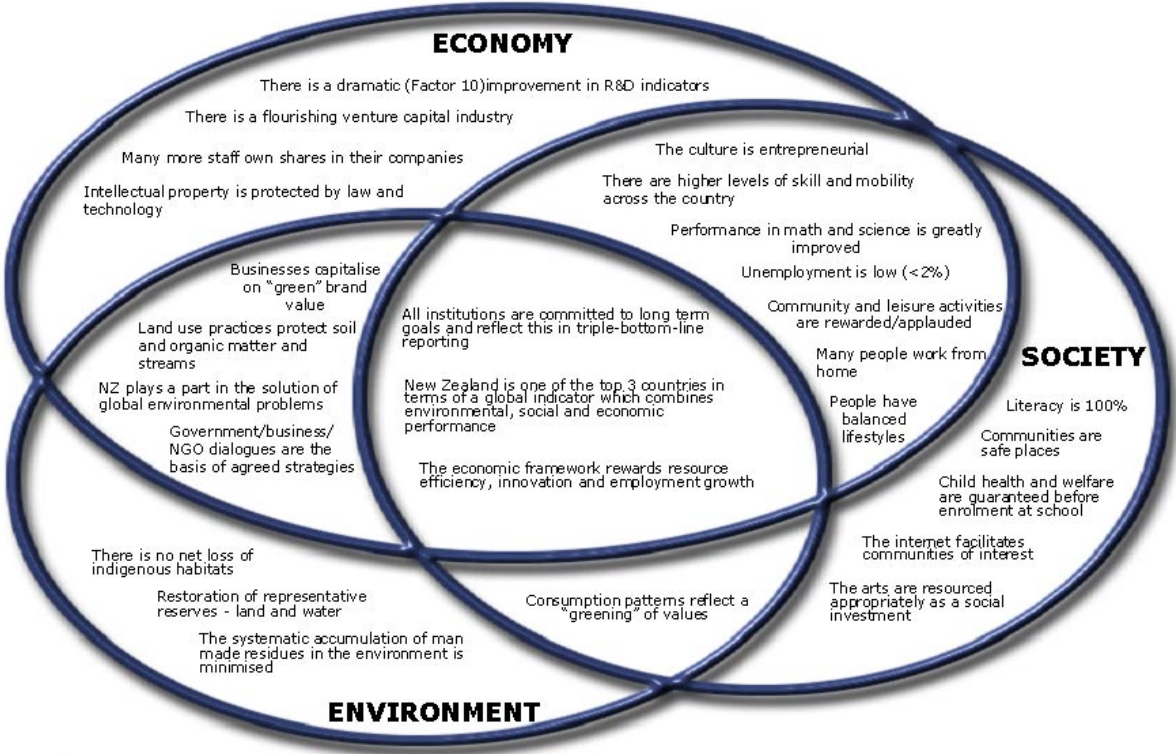
Time will tell, but it may be too much to expect legislation aimed at the sustainable management of natural resources to deliver sustainable development. Laws that *i)* are effects-based and do not address causes, *ii)* leave the “business of business to business” and *iii)* only occasionally intervene in the life of a proportion of the organisations discussed here, will probably not be able to firmly anchor the sustainable development paradigm in the minds of decision-makers in business and other organisations.

2.3. Social Dimension of Sustainable Development

Compared to the environmental aspects, there has been little discussion in New Zealand thus far about the social dimension of sustainable development. As with people’s concepts of justice, social equity or democracy, it is unlikely there will ever be complete consensus on what this social dimension should or should not include, but this is no reason not to try and decide what we mean by it.

At the level of society, public health and educational issues are usually among the aspects considered to be part of sustainable development. Concern about the emerging “digital divide” could also be viewed from a sustainable development perspective, as could be various measures of income distribution (Figure 1).

Figure 2. NZBCSD scenario for a sustainable New Zealand



Source: NZ Business Council for Sustainable Development

At the level of individual enterprises, the social dimension of sustainable development must be considered in relation to several groups of primary and secondary stakeholders. Within the factory gate, occupational health and safety as well as employee relationships will be included. Beyond the gate, there are customers, investors, suppliers, the local community, regulatory authorities, NGOs, ... In effect, a company must make a decision on how to position itself in a very complex force field (Figure 2); its choice will depend on the nature and size of the business, on how a company perceives its long-term interests and on the personal values of the management/owners.

2.4. Business, Sustainable Development and Corporate Social Responsibility

The notion that business and industry have an essential role in making development sustainable has been recognised at least since the publication in 1987 of *Our Common Future*, the report by the World Commission on Environment and Development.

Awareness of the need for making development sustainable has been spreading ever since and continues today. More and more people are now reaching the view that, in a globalising world, the pursuit of economic development, social justice and environmental quality can only be successful if all three aspects are integrated in decisions at all levels of society, from the individual to supranational organisations.

Agenda 21, the document that came out of the 1992 Rio Conference, contains a separate chapter (no. 30) devoted to strengthening the role of business and industry. It calls on governments, business and industry to work towards the “internalisation of environmental costs into accounting and pricing mechanisms.” Under the heading of promoting cleaner production, it urges business and industry to “report annually on their environmental records, as well as on their use of energy and natural resources.” It also urges business and industry to “adopt and report on the implementation of codes of conduct promoting best environmental practice.”

Part of the business world has responded to this challenge. For example, the New Zealand Business Council for Sustainable Development is part of an international business initiative to assume responsibility for making economic development more sustainable and is taking a pro-active role. “New Zealand Businesses for Social Responsibility” is another business group promoting the concept of corporate social responsibility and striving to combine financial and social responsibility, ethical values and care for the environment. There are other examples, but it would be hyperbolic to say they form a ground swell towards sustainable development.

The changing demands of society on the business world require a dialogue between society and business about what is desirable and what is possible in the short and long term. Such a dialogue should include the idea of reciprocity: where business is showing to be willing to contribute to the goals of society, society ought to show an understanding of the conditions business requires in order to operate successfully.

2.5. Previous Initiative on Corporate Environmental Reporting

The National/New Zealand First Coalition Agreement of December 1996 included a proposal to amend the Companies Act to require statutory disclosure of environmental impacts by companies. MfE subsequently commissioned an information paper from KPMG (1998) and then invited responses from New Zealand businesses and sector organisations. This report draws on the submissions received from respondents received at the time.

2.6. Summing-Up

- Development in New Zealand is not yet sustainable and it is not even clear we are moving in the right direction.
- It is doubtful whether current practices and institutional arrangements aimed at sustainable management of natural resources will take us far enough, and fast enough, on the road to sustainable development.

- The transition towards sustainable development would be greatly furthered if all economic actors were to integrate economic, social and environmental factors in their day-to-day decisions.

2. POLICY PROBLEM AND THE CHOICE OF SOLUTIONS

The phrase “integrated decision-making” catches a very wide variety of circumstances that cannot be considered all at once. Following its brief, this report will limit itself to exploring the question of how to stimulate the integration of decision-making in businesses and other organisations.

2.1. Integrated Decision-Making

The problem with wishing to encourage integrated decision-making is that although it is possible to “take the horse to the water, you cannot make it drink.” Integrated decision-making requires thousands of decision makers to bring a certain attitude and behaviour to their decisions in an uncountable number of different circumstances and instances.

Governments – thankfully – cannot control people’s thinking directly through regulation, but they can indirectly influence or put pressure on decision makers in several ways:

1. **Education and suasion.** Encourage economic decision makers to voluntarily adopt concepts or schemes that will lead to integrated decision-making, for instance:
 - Triple Bottom Line Reporting or similar; and/or
 - Cleaner production concept; and/or
 - Environmental management systems (EMS) such as the ISO 14000 series or industry-specific schemes such as the Responsible Care scheme adopted by the chemical industry;
 - Life Cycle Analysis (LCA) of products;
 - Certification of products with the Environmental Choice eco-labelling scheme (ie. pressure from customers).
 - Cooperate with the Institute of Chartered Accountants and the Institute of Directors to bring about greater recognition of environmental and social factors in the “generally accepted accounting practice” (GAAP).
2. **Regulation of some related activity** in the expectation it will induce the desired attitude and behaviour:
 - Provide regulatory relief through the RMA to firms able to demonstrate good environmental practices and disclosure of environmental reports (done in the U.S.);
 - Oblige enterprises (above a certain size) to operate EMSs.
 - Make Triple Bottom Line/Corporate Environmental Reporting by firms and other organisations mandatory.
 - Develop a products policy that forces companies to carry out Life Cycle Analysis.
 - Oblige enterprises (above a certain size) to appoint a coordinator responsible for integrating decision-making in the firm.
3. **Pro-active government role in:**
 - information disclosure, in the hope it will induce organisations to respond appropriately:

- i) Amend the RMA in order for regional councils to regularly disclose the results of resource consent monitoring and publishing annual compliance reports naming serious or repeat offenders.
 - ii) Assign to MfE or the Parliamentary Commissioner for the Environment the role of regularly publishing the names of good reporters and bad performers.
 - iii) Extend the role of the auditor-general to report on the social and environmental aspects of the activities of government bodies.
- Creation of networks/supply chains allowing green-minded businesses to find each other and obtain synergies from individual efforts.

The government may not be the only party with an interest in encouraging TBLR. Civil society can also play a role. For example:

- Friends of the Earth (U.S.) in 1999 launched a corporate accountability project with the purpose of identifying and naming the cleanest and dirtiest corporations.
- Companies putting pressure on their suppliers to meet certain environmental or social standards.
- The Dow Jones Sustainability Group Index is a “family” of 25 indexes comparable to the long-standing Dow Jones Index, but comprising only companies that meet certain sustainability criteria. “The corporate sustainability assessment methodology consists of a multi-factor analysis including ecological, social and economic criteria that are equally weighted².”
- The Swiss asset management company SAM³ has established the SAM Sustainability RatingTM, which identifies and rates sustainable companies for investment purposes according to their strategy and management of sustainability opportunities and risks. For each company in a specific industry group, it provides a rating for both the opportunities and risks deriving from economic, environmental and social dimensions. This rating reflects a company’s effort to exploit opportunities by gearing its strategies and management to harnessing the market’s potential for sustainability products and services. This rating focuses on the defensive component of a company’s sustainability management and how it aims to reduce or avoid sustainability-related costs or risks.
- Environmental reporting award schemes are presently operating in about 17 countries, including New Zealand.
- In the U.S., individual shareholders have engaged in *shareholder activism*, i.e., confronting boards about their environmental/social performance at annual general meetings of shareholders.
- Also, an association of Dutch ethical investors in 2000 launched an online database to help investors assess and compare the environmental performance of key Dutch and international companies. A secondary aim of the database is to encourage wider publication of group level environmental reports by confronting companies with their record, or lack of it, in this area. There are now also ethical investment opportunities for New Zealand investors.
- In New Zealand, Massey University’s College of Business carries out an annual corporate environmental responsiveness survey. Companies disinclined to participate in the survey have so far not been identified, but it is proposed that from 2001 the

² http://indexes.dowjones.com/djsgi/index/key_index.html

³ http://www.sam-group.ch/e/center/c_reports.cfm

survey should follow current practice in the U.K., where an identical survey does disclose the names of reluctant companies.

The above examples show that, independently of any government initiative, groups with diverse affiliations have chosen to collect and disclose information about the sustainability performance of companies. This type of action, if encouraged by government, could be grouped under 1) above, or could be seen as a separate group:

4. **Independent action by civil society groups** such as NGOs, businesses, financial or insurance companies or universities.

2.2. Accountability to Stakeholders

Under New Zealand's current corporate governance regime, companies must disclose information about their financial situation to their owners/shareholders and, depending on the type of business, enterprises also have responsibilities and obligations under a host of other laws such as those relating to occupational health, the environment, or labour relations, but in these cases the accountability is towards the government. There is no legal requirement to disclose information to society at large.

No doubt there are good reasons for the current institutional arrangements⁴ and many will argue that, on the whole, these are serving us well and should not be tampered with. Yet, conditions and opinions change and what was acceptable yesterday may not be tomorrow. In recent years, the public in developed societies has demanded greater transparency from both governments and the private sector.

For example, the KPMG information paper on corporate environmental reporting invoked stakeholder theory, the notion that enterprises have stakeholders beyond their customers and shareholders. The paper notes the growing international recognition of the concept and how enterprises are beginning to include it in planning their business strategies (we will return to this issue in section 5.7). Moreover, globalisation reinforces the call for greater transparency as an essential element of the "global level playing field."

Recognising that the presence of stakeholders must be taken into account is a start, but it is a step further again to accept any concomitant responsibility, accountability and disclosure. Such steps have, in fact, been taken since the KPMG report. OECD countries have reached agreement on three pertinent texts. First, the OECD *Guidelines for Corporate Governance*, adopted in May 1999, say on this subject:

Disclosure also helps improve public understanding of the structure and activities of enterprises, corporate policies and performance with respect to environmental and ethical standards, and companies' relationships with the communities in which they operate.

Secondly, the *Guidelines for Multinational Enterprises*, approved by the OECD Council on 27 June 2000, reiterate and reinforce these points.

Enterprises should apply high quality standards for disclosure, accounting, and audit. Enterprises are also encouraged to apply high quality standards for non-financial information including environmental and social reporting where they

⁴ Report to MfE by Russell McVeagh McKenzie and Bartleet on corporate environmental reporting, July 1997.

exist. The standards or policies under which both financial and non-financial information are compiled and published should be reported.

**Box 1. Section 299 of the Australian Commonwealth Corporations Law
Annual directors' report—general information**

General information about operations and activities

- (1) The directors' report for a financial year must:
 - (a) contain a review of operations during the year of the entity reported on and the results of those operations; and
 - (b) give details of any significant changes in the entity's state of affairs during the year; and
 - (c) state the entity's principal activities during the year and any significant changes in the nature of those activities during the year; and
 - (d) give details of any matter or circumstance that has arisen since the end of the year that has significantly affected, or may significantly affect:
 - (i) the entity's operations in future financial years; or
 - (ii) the results of those operations in future financial years; or
 - (iii) the entity's state of affairs in future financial years; and
 - (e) refer to likely developments in the entity's operations in future financial years and the expected results of those operations; and
 - (f) **if the entity's operations are subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory—details of the entity's performance in relation to environmental regulation.**
- (2) The entity reported on is:
 - (a) the company, registered scheme or disclosing entity (if consolidated financial statements are not required); or
 - (b) the consolidated entity (if consolidated financial statements are required).

Prejudicial information need not be disclosed

- (3) The report may omit material that would otherwise be included under paragraph (1)(e) if it is likely to result in unreasonable prejudice to:
 - (a) the company, registered scheme or disclosing entity; or
 - (b) if consolidated financial statements are required—the consolidated entity or any entity (including the company, registered scheme or disclosing entity) that is part of the consolidated entity.

If material is omitted, the report must say so.

In an open society, citizens should expect to be informed of the actual or potential impact that the activities of others can impose on them. This is especially important when there is a power imbalance between the people causing an impact and those affected, as for example in the case of a large organisation and an individual citizen.

This general argument can also be applied to the environment and environmental health. An early example in the United States is the 1986 Emergency Planning and Community Right-to-Know Act (EPCRA), which encourages local communities to protect the environment and public health and safety from chemical hazards. EPCRA created the Toxics Release

Inventory, which forces companies to disclose the nature and size of their emissions to the environment.

One can further contend that companies using common property resources (eg. water, or the diluting capacity of air) should render account of their activities to the resources' "owners," namely society at large. Some will argue that the RMA already takes care of this, but while it is true that resource consents are public documents, compliance information (eg., the results of monitoring actual emissions and discharges) remains confidential between the consent holder and the regulator.

This takes us to the third OECD text to be mentioned here, which is about the public's "right to know." OECD Council Recommendation C(98)67 on Environmental Information tells member countries to, *inter alia*:

promote effective and periodic reporting by enterprises of appropriate and timely information on environmental implications of their activities, for example, on pollution emission levels, on use of natural resources, and on potential risks from hazardous activities and products, as well as information on environmental progress and achievements by enterprises;

and

promote the dissemination of relevant information to enable the public to assess the environmental consequences of activities of enterprises and individuals to take effective preventive measures, e.g. in case of emergency.

What instruments are available to encourage businesses and organisations to render account of their activities to stakeholders beyond their shareholders? We find some of the same instruments that could also be used to encourage integrated decision-making:

- Persuade firms and other organisations to practise TBLR.
- Make it mandatory for all public companies and private ones larger than a certain size to include certain environmental information in the annual director's report, as is the case in Australia (Box 1 and section 3.5.a below).
- Give MfE or the Parliamentary Commissioner for the Environment the role of regularly publishing the names of good and bad reporters.
- Amend the RMA in order for regional councils to regularly disclose the results of resource consent monitoring.
- Rely on information disclosure by civil society groups such as NGOs, financial or insurance companies or universities.

The merits and drawbacks of some of the above options will be discussed in greater depth in chapter 5 of this report. In the next chapter, we will first focus on triple bottom line reporting.

2.3. Summing-Up

- A decision on whether to promote TBLR should be based on consideration of a range of instruments for encouraging integrated decision-making and for enhancing accountability mechanisms.

- The argument that enterprises and organisations should be expected to render account of their activities, including social and environmental aspects, is finding increasing acceptance internationally.

3. FOCUS ON TRIPLE BOTTOM LINE REPORTING

Readers are referred to the literature for detailed information about triple bottom line reporting and related concepts. In particular, the book *Accounting for a Clean Green Environment* (Gilkison & KPMG, 1999) clearly sets out the basic issues for this country in respect of the environmental dimension. Annex 1 of this report reproduces a brief and useful introduction by the UK Department of the Environment, Transport and the Regions.

It will suffice to reproduce a few quotes for this report. The term triple bottom line was coined by Elkington (see Glossary) and is described as the “integrative measurement of a company’s economic, environmental and social performance.” TBLR can be seen as the synthesis of traditional financial reporting and two new concepts: corporate environmental reporting and corporate social responsibility reporting.

The KPMG information paper (1998) on corporate environmental reporting commissioned by the Ministry for the Environment (MfE) defines corporate environmental reporting as the periodic disclosure of information about a company’s environmental issues arising from its activities. The information may be qualitative and quantitative, covering a range of environmental, environmental management and financial areas.

“Corporate social responsibility refers to how companies act towards their workforce and their families, local communities as well as society at large. It entails the establishment of sound ethics and core values in a company’s relationship with its stakeholders. Issues to be dealt with include human rights, employee rights, supplier relations and community involvement. Corporate social responsibility is increasingly seen as a source of business opportunities. The identification of new markets, improving reputation and maintaining public support are examples for that” (see Glossary).

3.1. Potential Benefits to Reporters

The potential benefits companies and organisations can derive from TBLR can be classified as follows:

1. *Disclosure drives performance:*
 - a TBLR is an internal discipline that can expose performance issues within a company. TBLR can identify potential cost savings through the detection of wasteful activities, particularly when TBLR leads to adoption of and/or is based on:
 - i) an environmental management system (EMS); and/or
 - ii) activity-based costing (ABC), which will give firms a better grip on the true costs of activities.
 - b Potentially lower compliance costs: regulatory processes will run more smoothly if regulators have greater understanding of a company’s performance
2. *Improved market positioning vis-à-vis:*
 - a Clients and suppliers, who will have a positive and accurate perception of a well-run, responsible company;

- b Investors, who can feel confident they have a full picture of the firm's worth and prospects, with little chance of unpleasant surprises about hidden liabilities, etc. Also, the proliferation of "green" and "ethical" investment funds may soon make it very attractive for listed companies to meet the investment criteria of such funds (cf. proposals for the money set aside for the proposed national superannuation fund to be ethically invested).
3. *Better stakeholder relationships* with:
- a local communities, who will be more trusting of a company that communicates openly and honestly;
 - b NGOs, who will be better informed about, and more understanding of, a company's efforts at "responsible corporate citizenship."

On the face of it, this is an impressive list of benefits and in a rational world one would expect to see businesses rushing in to adopt TBLR. Yet, later in this report evidence will be presented that no such rush can be discerned in New Zealand.

3.2. Doing Well By Doing Good

In fact, the case for adopting corporate triple bottom line programmes could be argued more persuasively if the above list of the *potential* benefits could be complemented by real evidence of a positive pay-off in terms of business success. Such evidence is now coming to hand.

A U.S. report (*Green Dividends*, USEPA 2000) assembled a significant body of research and claims there is a "moderate positive correlation between a firm's environmental performance and its financial performance—regardless of the variables used to represent each kind of performance, the technique used to analyze the relationship, or the date of the study." However, the report also cautions that correlation does not necessarily signify causation.

A further, more recent report prepared by the U.K. firm SustainAbility Ltd. for the United Nations Environment Programme corroborates the EPA findings. The report, *Buried Treasure: Uncovering the business case for corporate sustainability*, subjects international research to an analytical model (Sustainable Business Value Model) that maps the links between 10 dimensions of sustainable development performance and 10 conventional measures of business success, including financial performance measures and underlying drivers of business value.

Buried Treasure finds that "a strategic focus on sustainable development is both significantly and positively aligned with mainstream business success." The report provides real life examples as supporting evidence; an open-access interactive Web site⁵ will track the issues over time in order to build up and disseminate further evidence.

3.3. Wider Benefits

If companies do the homework necessary to reap some of the potential benefits mentioned above, and assuming that various feedback mechanisms of public scrutiny will operate as they should, society can probably be confident that the "higher aim" of sustainable development is also served.

But widespread adoption of TBLR would serve two further, more specific interests:

⁵ Buried Treasure Online, <http://www.sustainability.co.uk/publications/engaging/buried-treasure.asp>

1. **Competitiveness through clean green positioning of New Zealand Inc. in world markets.** Firms that have adopted TBLR often say they have been motivated by the growing importance of environmental issues for firm competitiveness. That argument applies *a fortiori* to New Zealand Inc., which needs to substantiate its “clean green” positioning in world markets. The credibility of the clean green image will ultimately depend on New Zealand’s ability to demonstrate that *i)* its businesses are keeping their house in order and *ii)* the New Zealand environment is in good health.
2. **State of the environment reporting and policy formulation.** The environmental information typically found in TBLR reports includes information on resource use, emissions and discharges. In terms of the Pressure-State-Response framework used in state of the environment reporting (SER), this is information about the pressures exerted by human activities on the environment and precisely the type of data that is the hardest to get. The effectiveness of the SER system currently under construction would be greatly enhanced if this information were to be made part of it.

The effectiveness of environmental policies is critically dependent on the quality of the underlying information about changes in environmental quality and, even more so – for they tell us something about causes rather than effects –, trends in the pressures of human activities on the environment. Widespread adoption of TBLR would therefore also benefit policy making.

3.4. Implementation Costs

For TBLR⁶ to be meaningful, it must be based on solid information. Such information will be relatively easily compiled by companies already operating an environmental management (eg., ISO 14000) or accounting system. Pressure on enterprises to take up TBLR might therefore well lead to a greater uptake of EMSs and turn out to be a boost to the adoption of cleaner production methods in New Zealand.

The Global Reporting Initiative guidelines (section 3.5) have this to say on implementation costs:

The costs of preparing a GRI report will vary from organisation to organisation. For those organisations with strong information management systems in place, or those already preparing similar reports, the incremental cost may be minimal. For those new to reporting, or those without strong information systems, initial costs may be more substantial. The costs of various reporting media and frequencies (e.g., paper copy of full report, printed summaries of selected sections, electronic/Internet versions of full report with regular updates) need to be weighed against stakeholder needs and resources available. Preferences for independent verification also need to be considered when deciding frequency and medium of reporting.

TBLR *per se* is likely to be much less costly than the management systems needed to collect the information underpinning it. But such systems need to be justified on management grounds, rather than considered as a reporting cost. If the nature or size of a company’s activities does not warrant the adoption of such systems, TBLR would not be too onerous either. Third-party verification of TBLR, on the other hand, might well be more substantial.

⁶ In this report, where justified we will use the acronym TBLR to mean triple bottom line reporting or corporate environmental reporting or social responsibility reporting. When a distinction needs to be drawn among the three concepts, this will be made clear in the text.

3.5. A Special Case: the Role of the Financial Sector

Sustainable development can be described as a process of development that leaves at least the same amount of natural, social and man-made capital to future generations as has been available to current generations.

If capital allocation is crucial to sustainable development, then it follows that the financial sector has an important role in this area. At one level, the financial sector is comparable to any other and can be treated as such in terms of TBLR. But much more important is the sector's *leverage potential* to bring about greater weighting of sustainability considerations in economic decision-making.

Box 2. Global Reporting Initiative – Guidelines General Statement of Applicability

The *Guidelines* are intended to be applicable to any size and any type of organisation. This June 2000 release is developed primarily with the needs of business organisations in mind, but the *Guidelines* can be applied with some flexibility by organisations such as government agencies and non-profit organisations. The *Guidelines* are not specific to any industry or sector. Strengthening sector-specific reporting is on the GRI's future agenda.

Application of the GRI *Guidelines* is voluntary. They also are intended to support and supplement existing initiatives and agreements, particularly those international treaties and conventions that embody universal norms and practices. Where organisations are already subject to mandatory reporting regarding information covered in the *Guidelines*, the *Guidelines* in no way aim to override or contradict such requirements. Compliance with relevant local, national, or international disclosure requirements should be noted in the relevant section of a GRI report.

Reporting by Smaller Organisations

It may be a special challenge for many smaller organisations—whether for-profit or not-for-profit, private or public—to prepare and issue full GRI reports. They may find it more practical to adopt a phased or incremental approach to implementing the *Guidelines*. In the future, the GRI may consider creating an abbreviated reporting framework that addresses the special reporting needs of smaller organisations. Such a framework may, for example, focus initially upon disclosure of issues either already required by law (such as employment, workplace safety, or waste statistics) or easily available from conventional accounting systems (such as energy and transport costs, wages, earnings, and community philanthropy). Later, it may be enlarged to address more broadly the economic, environmental, and social dimensions of the small organisation. The GRI's future work in this area will be informed by experience in and feedback from applying the *Guidelines*.

The UN Environment Programme (UNEP) has recognised the pivotal position of the finance sector and runs a programme called the UNEP Financial Services Initiatives (FSI). Financial institutions can sign up to a statement committing themselves to a certain *modus operandi*⁷. As of March 2000, 260 institutions had signed the statement, of which one is in Australia (WestPac Banking Corporation) but none in New Zealand.

⁷ <http://www.unep.ch/etu/finserv/finserv/english.htm>

There are several aspects to the role of the financial sector, for instance:

- The extent to which environmental considerations are taken into account in the lending practices of the commercial banking sector. This is particularly important to small and medium-sized enterprises (SMEs).
- The investment sector, as valuers of risks and potential returns, can highlight the relationship between environmental performance and investment performance. To date, the sector has shown little interest in this aspect and its lack of long-term perspective has not been helpful either (Delphi Consultants, 1997).
- The insurance sector, with its ability to price various types of environmental risk and to help pay for environmental damage, can make businesses become aware of potential environmental liabilities and take action to reduce these. UNEP is running a separate Insurance Industry Initiative in addition to the FSI programme mentioned earlier.

The reason for emphasising the role of the financial sector is that all the above presupposes good information to be available to the financial sector. Such information must come from enterprises through the practice of TBLR.

3.6. The Global Reporting Initiative

Various methodologies or templates for TBLR or corporate environmental and social responsibility accounting have been proposed or are still under development. Readers interested in the details of and the differences among these methodologies are referred to the literature (eg., Gilkison, 1999).

Box 3. Organisations Represented on the GRI Steering Committee:

Association of Chartered Certified Accountants (United Kingdom)
Canadian Institute of Chartered Accountants
CECODES (Colombian Business Council for Sustainable Development)
Centre for Science and Environment (India)
Coalition for Environmentally Responsible Economies (United States)
Council on Economic Priorities (United States)
Environmental Auditing Research Group (Japan)
General Motors Corporation (United States)
Green Reporting Forum (Japan)
Institute of Social and Ethical Accountability (United Kingdom)
Investor Responsibility Research Center (United States)
ITT Flygt (Sweden)
New Economics Foundation (United Kingdom)
SustainAbility, Ltd. (United Kingdom)
United Nations Environment Programme
World Business Council for Sustainable Development
World Resources Institute

Source: Global Reporting Initiative

One of these methodologies is the so-called Global Reporting Initiative™ (GRI), which is “a long-term, multi-stakeholder, international undertaking whose mission is to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by

organisations reporting on the economic, environmental, and social dimensions of their activities, products and services.” Landcare Research Ltd. is the first New Zealand company to use the GRI methodology; it is now marketing its experience and is already helping five New Zealand businesses and one Australian local body implement the same methodology.

In June 2000, GRI published “Sustainability Reporting Guidelines on Economic, Environmental and Social Performance,” which provides companies and organisations with a template for TBLR reports. A brief statement about the applicability of the GRI methodology is reproduced here (Box 2); readers wishing to obtain full details about GRI are referred to the guidelines⁸. The list of participants and sponsors of the GRI is also reproduced here (Box 3).

TBLR is a very young field of activity that is likely to continue to develop and change for some considerable time. In other words, this is not a case of adopting a suitable method and declaring it a standard. The GRI works towards consensus among reporters and report users on the specific indicators for reporting on economic, environmental, and social performance.

Not all the indicators included in the guidelines have achieved an equal degree of agreement. Environmental indicators have so far received the greatest degree of consensus; they have been subject to a robust review, assessment, and pilot-testing process. In contrast, the GRI’s economic and social indicators are less developed. Those contained in the guidelines originate from various sources, including a working group of NGOs and a selection of company reports. In New Zealand, we will have to find our own ways of expressing how firms affect Maori cultural values. The coming years will see a lot of experimentation and learning by doing and it is important to make sure that the lessons learned are shared among practitioners.

The GRI methodology is attractive because it *i)* allows a partial and incremental implementation, *ii)* involves a continuous learning process, *iii)* will adapt to new demands. The calibre and standing of its backers give it credibility. It also provides a framework for reporting that promotes comparability between reporting organisations while recognising the practical considerations of collecting and presenting information across diverse reporting organisations.

3.7. Social and Ethical Accounting Standards

As the GRI methodology is, for the moment, still mainly focused on environmental issues, two social/ethical accounting reporting methods are worth a brief mention here:

- In November 1999, the U.K.-based Institute for Social and Ethical Accountability (nicknamed AccountAbility) launched new guidance for organisations wishing to understand and improve their ethical performance. The AccountAbility 1000 (AA1000) standard also provides a means for others to judge the validity of ethical claims made. AA1000 can therefore be used as a complement to existing tools such as the sustainability reporting guidelines of the Global Reporting Initiative.

The AA 1000 standard is a process standard – it assists an organisation in the definition of goals and targets, the measurement of progress made against these targets, the auditing and reporting of performance, and feedback mechanisms. The involvement of stakeholder groups is crucial to each stage of the process, building trust in the organisation and the claims it makes.

⁸ <http://www.globalreporting.org/>

- SA 8000 is a social and ethical accounting standard developed by the U.S.-based Council on Economic Priorities Accreditation Agency, an affiliate of the Council on Economic Priorities. SA 8000 includes a set of social accountability standards and a guidance document. It is based on the conventions of the International Labour Organization, the Universal Declaration of Human Rights, as well as the United Nations Convention on the Rights of a Child. It is applicable to all companies regardless of scale, industry and location. Its objective is to ensure ethical sourcing and production of goods and services.

3.8. TBLR Abroad

Some countries now have several years' experience with TBLR. New Zealand should evaluate this experience before making a decision of its own on whether and how to proceed with TBLR. A selection (without evaluation) of some of the TBLR initiatives taken in other countries is presented below:

3.8.a. Australia

Australia launched a voluntary system for “public environmental reporting” in April 2000. Environment Australia developed and published a framework, based on the GRI template, following extensive consultation with industry, the community and government. Three extension officers were appointed for a period of twelve months with three of Australia’s leading industry associations; their task is to promote public environmental reporting with the membership of these associations. A national conference and various workshops are being planned, as well as a website, industry-specific guidelines and a handbook for SMEs.

The context of these measures includes:

- A mandatory National Pollutant Inventory, which requires facilities to report against a list of agreed chemical pollutants emitted to the air, land or water. These reports are made available to the public.
- Section 299(1)(f) of the Corporations Law, which is a mandatory reporting (of a firm’s performance in relation to environmental regulation) requirement within annual directors’ reports for public companies as well as private companies satisfying two of the following three tests: gross revenue in excess of AUS\$10 million, gross assets more than AUS\$5 million or having more than 50 employees (Box 1).
- Reporting requirements flowing from various voluntary agreements with industry or statutory requirements on local government in terms of state of the environment information.
- Voluntary or market-driven disclosure by industry associations and others.

3.8.b. Canada

The mandate of the Canadian Auditor-General has been extended to include environmental and sustainable development aspects of the activities of government bodies; the office of the auditor-general also includes a special Commissioner of the Environment and Sustainable Development with the task of producing annual “Green Reports”⁹ (Box 4). The Canadian Securities Commission requires companies to divulge similar information in an Annual Information Form. Also, Environment Canada operates the (mandatory) National Pollutant Release Inventory.

⁹ http://www.oag-bvg.gc.ca/domino/cesd_cedd.nsf/html/menu3_e.html

3.8.c. United Kingdom

The UK government has invited the country's top 350 businesses to report voluntarily on their greenhouse gas emissions and waste generation. This is now being extended to discharges to water. The Department of the Environment, Transport and the Regions has published guidelines initially designed for use by large companies - for instance the top FTSE 350 and other major companies operating in the UK.

The context includes the "Inventory of Sources and Releases," UK's pollution release and transfer register. The Environment Agency uses the data from the inventory to publish an annual list of the best and worst performing companies.

Box 4. The mandate of the Office of the Auditor General of Canada

Our Vision

We are committed to making a difference for the Canadian people by promoting, in all our work for Parliament, answerable, honest and productive government that reflects a commitment to sustainable development.

Our Mission

We conduct independent audits and examinations that provide objective information, advice and assurance to Parliament. We promote accountability and best practices in government operations.

3.8.d. Netherlands

As of 1999, the Dutch environmental management law requires about 300 companies active in certain branches (eg., chemical, petrochemical, metal, plastics) that require a resource consent from provincial regulators to formulate two environmental reports: one for the public and one to the regulator.

3.8.e. Denmark

In May 2000, the Danish government moved to tighten up its compulsory "green accounts" system for the most environmentally significant companies (numbering about 3000 overall). One aim of the legislative changes is to link the country's system of mandatory corporate annual environmental reports more closely to the granting of environmental permits.

The new legislation also widens the powers of the environmental authorities by spelling out in much more detail the obligatory content of the reports. Under new legislation, the reports would have to show:

- internal control procedures;
- waste treatment and disposal;
- provisional preventive and remedial measures;
- any serious complaints against the company;
- corporate environmental policy and concrete results of that policy;
- environmental requirements for suppliers; and
- corporate environmental history for at least the past five years.

Comments on the environmental accounts by local and/or regulatory authorities would be published with the reports.

3.8.f. Other countries

The above list is by no means exhaustive. The Toxics Release Inventory in the U.S. has already been mentioned. The US Securities and Exchange Commission requires all companies to disclose, inter alia, “material effects that compliance with environmental laws may have on the capital expenditure, earnings and competitive position.” The Norwegian Companies Act and the Law of Accounts state that the company must report whether it pollutes the environment and what is being done to prevent this¹⁰.

3.9. Summing-Up

- TBLR has potential to yield significant benefits to reporters.
- Other benefits can accrue beyond the organisations practising TBLR.
- TBLR implementation costs are likely to be small compared to the cost of the management systems needed to collect the underlying information.
- TBLR only makes sense if underpinned by solid information such as derived from an organisation’s management systems (EMS, ISO 14000, SA 8000).
- Information resulting from TBLR would enable the financial sector to play a pivotal role in the move towards sustainable development.
- The Global Reporting Initiative (GRI) deserves serious consideration as the basis for a New Zealand TBLR template.
- TBLR can be an instrument for enhancing New Zealand’s international competitiveness because it drives performance and validates the country’s clean green positioning in world markets.

4. TBLR IN NEW ZEALAND

4.1. Views of New Zealand Businesses

In September 1998, MfE distributed the KPMG information paper on corporate environmental reporting to about 300 New Zealand businesses and selected organisations, and invited comments. Although only thirty-nine submissions were received in reply, most were well-considered responses to the issues raised in the KPMG paper.

In March 1999, MfE summarised the key messages contained in the submissions as follows:

- The KPMG paper did not go far enough to stimulate further debate on corporate environmental reporting.
- The purpose and benefits of corporate environmental reporting were not adequately addressed.
- 90 per cent of submissions supported the idea of corporate environmental reporting and 70 of these preferred such reporting to be voluntary rather than mandatory.
- Effective environmental management is driven by several factors, not just corporate environmental reporting. The KPMG paper overstated the potential of corporate environmental reporting to improve environmental performance.
- Improving environmental quality must be balanced against compliance costs.

¹⁰ The information in this paragraph is taken from a letter of KPMG to MfE of 11 April 1997.

It is worth going back to the 1998 submissions and to quote how some of the respondents saw the benefits of corporate environmental reporting:

- One large company commented that publishing a CER helped companies “develop an open and honest relationship with their stakeholders. Another large company found that this is an important aspect of its environmental management: “Other large companies throughout the world have also found that a strong relationship with its stakeholders is beneficial in the event of issues or problems arising.”
- Yet another large company said that “such a public statement would be an extremely effective driver for improvement in a company’s environmental performance.” An NGO representative said “disclosure drives performance.”
- One submission made the point that corporate environmental reporting may encourage businesses to revise their financial systems to implement environmental accounting. This in turn can have environmental benefits if the true costs of waste generation is realised and a company is then encouraged to invest resources to minimise waste and improve environmental performance.
- Others mention “public relations” and “market positioning.” For investors from overseas, corporate environmental reporting has become part of normal due diligence investigations into a company in which they might want to invest.

The above comments largely echo the benefits already identified in chapter 3 above. However, there was not only support for corporate environmental reporting. Some submissions were highly critical of the idea and most did not like to see it made mandatory. The following objections were voiced:

- Benefits to shareholders, government and communities are unclear
- Duplication with existing law on corporate information disclosure requirements
- Corporate environmental reporting is based on overseas models that are not directly comparable with the New Zealand situation
- Reporters are disadvantaged compared to non-reporting companies because they expose themselves to prosecution
- It is difficult to decide which businesses should report and which not
- Lack of stakeholder demand
- Standards are not yet sufficiently developed
- Firms are not the only ones to have negative environmental impact, so why pick on them?
- Corporate environmental reporting should only be made mandatory after the “regulatory regime for monitoring licences to generate a continuous improvement culture” has been put in place
- A firm’s environmental impact is an issue between the firm and the regulator: there is no place for third parties.
- Compliance costs will be too high
- There is insufficient evidence about the link between disclosure and actual performance, and between the level of disclosure and the level of environmental impact
- RMA is sufficient
- Mandatory system would increase resistance by reporting entities and have perverse effects
- Quality of reporting likely to be lower under a mandatory system;

- Mandatory disclosure could remove the competitive driver behind corporate environmental reporting as a company's statement of environmental responsibility

Overall, it could perhaps be said that respondents welcoming reporting, appeared to accept the idea of wider stakeholder accountability, whereas the more sceptical ones seemed to reject it.

4.2. The Track Record To Date

What are the prospects of a good uptake of TBLR by New Zealand businesses? Will the government's planned efforts to encourage TBLR fall on fertile ground or is there still a lot of spadework to be done? We can marshal the following evidence:

1. A small number of New Zealand companies have so far published either stand-alone environmental reports or safety, health and environmental reports, but the 1996 triennial KPMG survey of corporate environmental reporting placed New Zealand last among the 13 OECD countries surveyed. New Zealand does not feature in the 1999 cycle, reportedly due to the lack of development since 1996¹¹.
2. The report of the Massey University Survey of Corporate Environmental Responsiveness (2000) found that the overall levels of "environmental responsiveness" among the 60 participating companies (out of 134 that had been invited to participate) was modest when compared to the results of a near-identical survey carried out in the United Kingdom. The following figures provide some detail. Of the 60 participating companies (with a combined 1999 revenue of almost \$45 billion):
 - 13 currently produce either a stand-alone environmental report or a combined Safety, Health and Environment Report.
 - 7 companies had ISO 14001 certification in one or more sites and 3 further companies were working towards certification.
 - 24 companies had adopted stand-alone environmental policies and a further 15 had a combined health, safety and environmental policy.
 - 26 companies were more than half overseas-owned.

An interesting observation made in the report is that companies appeared to have reached a "compliance ceiling or plateau" in that "companies are more likely to have in place strategies for gaining consents under RMA, and are paying less attention to parameters which extend beyond 'impacts' and towards sustainable development."

3. Perhaps the uptake to date by New Zealand organisations of EMSs, ISO 14000 series and similar schemes can be taken as an indication of how receptive these organisations are likely to be to TBLR:
 - In October 1999, 55 ISO 14000 certificates had been issued.
 - The PRINCE Accreditation Scheme run since 1995 by the NZ Chemical Industry Council (but not limited to NZCIC members) has accredited 10 firms so far and a further 30 (comprising 125 sites) are in the process of obtaining accreditation.
4. "Green Market Signals" (1999), a report commissioned by MfE and the Trade Development Board, found that the "prevalent attitude of New Zealand business shows some complacency with respect to substantiating our environmentally sound image." It

¹¹ Otago Daily Times, 18 November 2000 "Environmental Reporting Poor."

also concluded that "at this point in time New Zealand's environmentally sound image requires further substantiation in response to increasing retailer and consumer scrutiny."

5. The NZ Business Council for Sustainable Development is preparing an initiative for Sustainability Reporting (NZBCSD, 2000) among its members, who collectively represent a significant share of the country's GDP. One NZBCSD member, Landcare Research Ltd., has already produced such a report and was placed 14th in the worldwide UNEP/SustainAbility benchmarking project *The Global Reporters*.

In summary, the conclusion must be that:

- only a small number of companies, albeit with a considerable combined share of the country's economic activity, have embraced TBLR; and
- in general, voluntary uptake of environmental initiatives (environmental policies, EMSs, reporting) has been poor to date;
- given the combined weight of the NZBCSD member companies, their TBLR initiative may prove a catalyst for greater activity in this field beyond the NZBCSD.

4.3. How Relevant is TBLR for New Zealand?

One of the reactions to the KPMG paper was that "corporate environmental reporting is based on overseas models that are not directly comparable with the New Zealand situation."

That may or may not be so, but we have already seen earlier in this report that the New Zealand situation certainly is comparable in the sense that we, just as densely developed industrialised countries on the other side of the globe, have to worry about sustainability.

Our situation is also comparable in the sense that we are an open economy competing on the same markets as our competitors. Globalisation means there is no shelter and New Zealand firms are subject to the same discipline as their competitors in other countries.

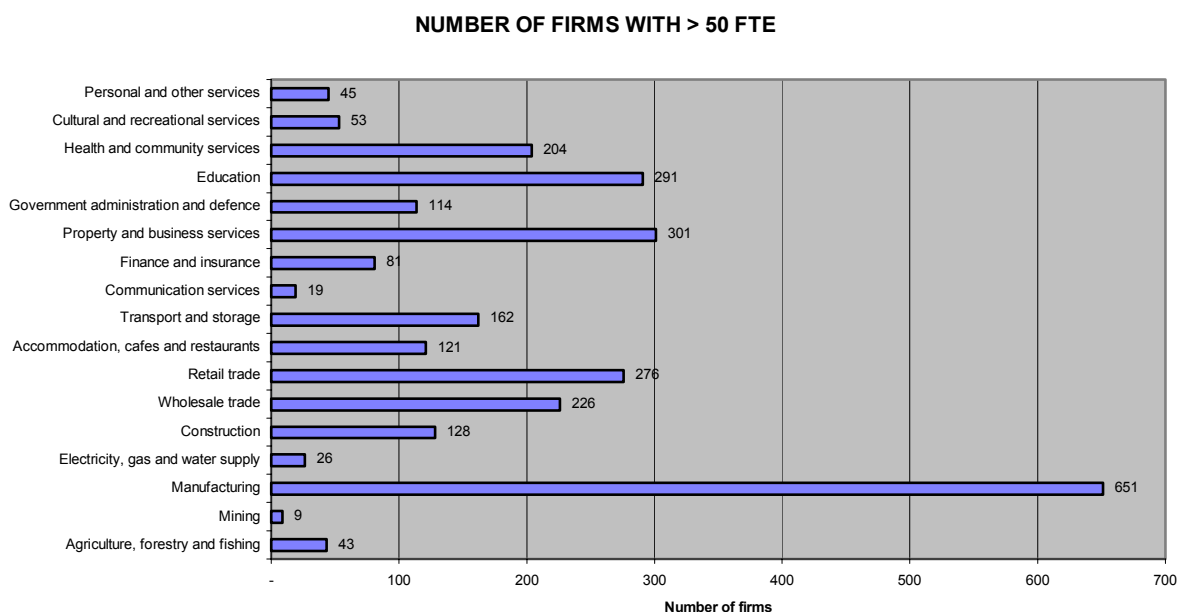
Where the New Zealand situation *is* different, TBLR can be said to be *more* important than in other countries. After all, this country's competitive advantage is to a significant degree dependent on a "clean green" positioning in world markets, and one would rather have expected New Zealand business to embrace TBLR as absolutely essential to prove its point.

Perhaps the respondent quoted above was making the point that New Zealand is a small economy and does not have the large industrial conglomerates found elsewhere. Clearly, small firms do not have the same resources and know-how to produce complicated reports. We must therefore examine the demography and structure of New Zealand businesses and what impact each part has on the environment and society.

4.4. Who Should Report?

As of February 2000, New Zealand counted more than 520,000 GST-registered taxpayers, of which about 235,000 were farming enterprises. Should the government adopt a blanket approach and encourage – or force – *all* businesses and organisations to practise TBLR or should it take a more targeted and differentiated approach?

Figure 3. Demography of New Zealand business, 2000



It is not realistic– nor very useful – to expect more than half a million GST-payers to report, but how should the field be narrowed down? A selection might be guided by applying a combination of the following sieves:

- *Business size*: selection in terms of turnover or number of employees.
- *Ownership*: if it is accepted that government should take the lead in the move to sustainable development, then TBLR could be first introduced in state-owned enterprises (SOEs), local authority trading enterprises (LATEs), central government departments and entities and local government.
- *Potential for greater sustainability*: in what industry sectors can TBLR bring about the greatest improvements in sustainability? Which sectors are the most critical in terms of their environmental and/or social impact?
- *Likely industry uptake*: which sectors are most interested in sustainable development issues? Which sectors will be most interested in being able to demonstrate they are clean and green?

4.4.a. Criteria based on business size

Several approaches for narrowing down the field suggest themselves; for instance:

1. All 231,000 companies¹² listed on the Companies Register under the Companies Act 1993. This would exclude partnerships, cooperatives, small businesses not registered as companies (possibly another 50,000¹³ or so). The act requires New Zealand – but not overseas-based – companies to submit an annual report to shareholders, but this is not a public document as the law is written now.
2. All 4,000 (?) firms required to submit an annual financial statement under the Financial Reporting Act 1993 (broadly, the act requires businesses with assets in excess of \$450,000 and a turnover of more than \$1million to submit such a statement; a compliance system has yet to be put in place, but about 4,000 firms do so currently).

¹² As of 1 December 2000

¹³ Figure obtained from deducting the number of companies (231,000) from the number of non-farming GST-registered businesses (285,000).

3. All 2,750 businesses with more than 50 full-time staff, or a selection from these, e.g., all 650 manufacturing firms with more than 50 FTE (Figure 3).
4. All 218 companies listed with the NZ Stock Exchange.

Table 2. **Six industry sectors in top half of North Island with greatest water take, 1997/98**

| Sector | Water take % of total take |
|--|-------------------------------|
| Electricity, gas and water distribution | 55 |
| Mining and quarrying | 16 |
| Food, beverages and tobacco | 10 |
| Agriculture | 10 |
| Pulp and paper products, printing and publishing | 3 |
| Basic metal products | 2 |

Note: Based on overall water take of 654,037,300 cubic metres
Source: Massey University and McDermott Fairgray EcoLink

Table 3. **Six industry sectors in top half of North Island with greatest discharges to water, 1997/98**

| Sector | Total discharges | TP & BOD5 |
|---|-------------------------|-----------|
| | % of overall discharges | |
| Community, social and personal services | 39 | 25 |
| Mining and quarrying | 30 | 25 |
| Petroleum, chemical, plastics and rubber products | 9 | 6 |
| Food, beverages and tobacco | 6 | 5 |
| Pulp and paper products, printing and publishing | 6 | 5 |
| Electricity, gas and water distribution | 5 | 23 |

Note: Based on overall total discharges of 1,103,636,000 cubic metres of effluent, 1,757,852,582 kg of TP and 3,515,525,882 kg of BOD₅
Source: Massey University and McDermott Fairgray EcoLink

4.4.b. Criteria based on ownership

The notion underlying the phrase “business and other organisations,” frequently used in this report, is that not only businesses and industries have social/environmental impact, but other organisations such as government departments, local bodies, hospitals, universities and research institutes do, too. From a TBLR perspective, there is no good reason in principle to make a distinction between different types of entity on the grounds of ownership.

Nevertheless, pragmatically speaking one could say that in any case separate mechanisms (eg., the Public Finance Act or the Local Government Act) are necessary to get central and local government entities (including trading enterprises) to carry out TBLR. In fact, TBLR can be seen as a potential instrument to report on the results of “Greening of Government” initiatives (section 4.5). In other words, even if all organisations use the same template, public entities will probably require a separate approach.

4.4.c. Criteria based on potential for improving sustainability

New Zealand-wide data on the pressures exerted on the environment by the various branches of industry have yet to be assembled, but partial data for the northern half of the North Island (the Northland, Auckland and Waikato regions), representing about 45 per cent of national GDP, can be gleaned from the environmental accounts drawn up by Massey University and McDermott Fairgray.

Table 4. Six industry sectors in top half of North Island with greatest energy use, 1997/98

| Sector | Energy use % of total |
|--|--------------------------|
| Household consumption | 29 |
| Transport and storage | 18 |
| Wholesale and retail trade | 10 |
| Basic metal products | 8 |
| Food, beverages and tobacco | 6 |
| Pulp and paper products, printing and publishing | 6 |

Note: Based on overall energy use of 179,282 TJ total oil equivalent
Source: Massey University and McDermott Fairgray EcoLink

Table 5. Six industry sectors in top half of North Island with greatest emissions to air, 1997/98

| Sector | CO ₂ , methane, NO _x % of total |
|--|--|
| Basic metal products | 24 |
| Household consumption | 19 |
| Transport and storage | 13 |
| Food, beverages and tobacco | 11 |
| Wholesale and retail trade | 7 |
| Pulp and paper products, printing and publishing | 5 |

Note: Based on overall emissions of 5,542.8632 tonnes of CO₂, 11,085.7264 tonnes of methane and 22,171.4528 tonnes of NO_x
Source: Massey University and McDermott Fairgray EcoLink

The accounts provide sectoral information about, inter alia, the consumption of energy and take of water, effluent discharge volumes, discharges to water of total phosphorus and BOD₅, emissions to air of CO₂, methane and nitrous oxides (Annex 2).

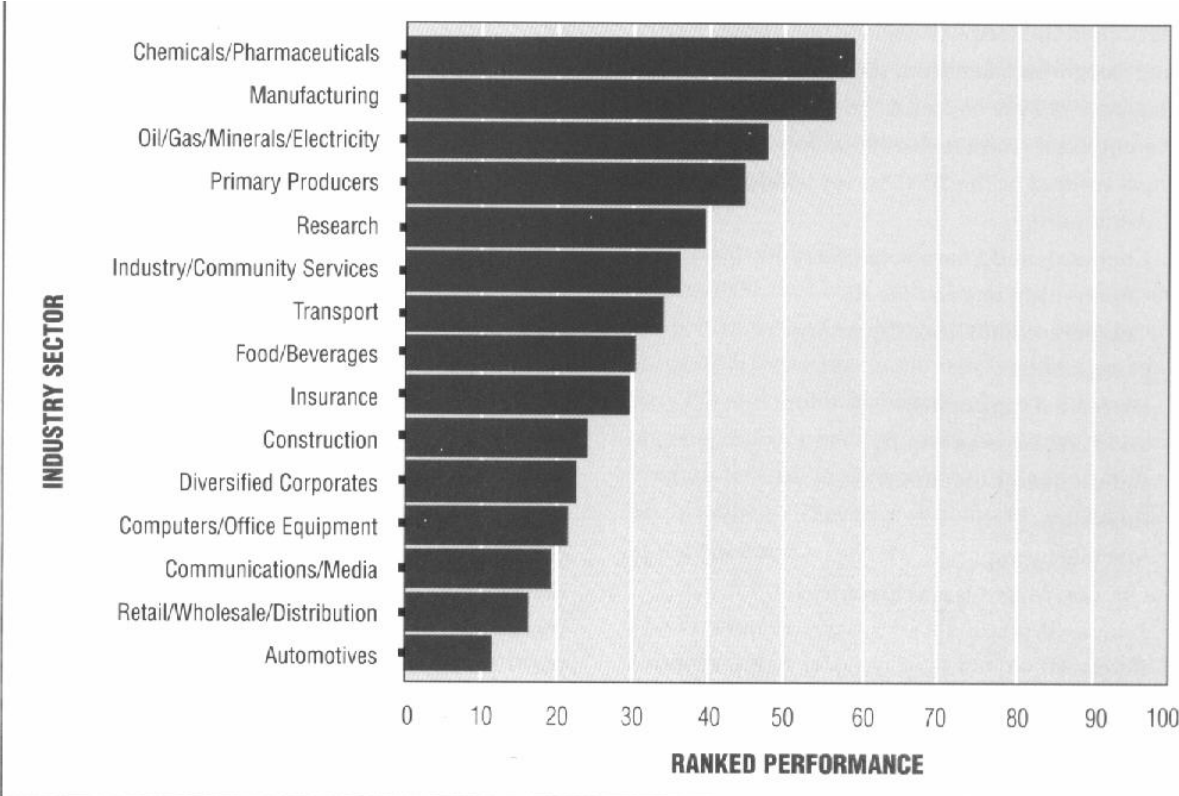
Tables 2 to 5 show the six top-ranked sectors in terms of each of these variables and provide a first impression of which industries may have the most significant environmental footprint in the northern half of the North Island. Chances are these are the sectors with the greatest potential for sustainability gains.

Although tables 2-5 need to be interpreted with caution¹⁴, they provide a starting point for looking at the suitability of various sectors as “TBLR candidates.” As a first impression, it

¹⁴ eg., the three regions to which they apply are not necessarily representative of the whole country; or, some very large industries may distort the overall picture and may need to be considered on its own; also, readers are referred to the source for information about the limitations of the underlying data.

can be observed that some of the industries featuring most prominently in the tables, also rank among the highest scorers in terms of “environmental responsiveness” (section 4.4.d); these industries already appear to be assuming their environmental responsibility. However, this is not true across the board; for instance, the food and beverage industry features in all four tables, but ranks middlingly in Figure 4.

Figure 4. Environmental responsiveness of NZ industry sectors



Source: Corporate Environmental Responsiveness in New Zealand, 2000

4.4.d. Criteria based on likely industry uptake

The 2000 New Zealand Survey of Corporate Environmental Responsiveness ranks the survey responses by industrial sector (Figure 3). Although the results need to be interpreted with caution due to the low number of responses, the three top-ranking sectors are, respectively, the chemicals/pharmaceutical, manufacturing and energy sectors. Primary producers are in fourth place. The three bottom-ranking sectors are, in descending order, the communications/media, retail/wholesale/distribution, and automotive sectors.

One strategy might be to focus efforts promoting TBLR at the top-ranking industries, at least initially. These companies also have a high environmental impact.

Other groups of enterprises well placed to adopt TBLR are those industries that run an industry-specific EMS and, in some cases, an associated certification scheme. Examples are winegrowers, the mussel industry, the leather and shoe industry, forest-harvesting contractors, which all have EMSs whose development was part-financed by the Sustainable Management Fund. The first two of these industries are explicitly positioning themselves as clean and green (cf. the winegrowers’ slogan “The riches of a clean green land” and that of the mussel industry “A truly sustainable green natural resource”) and might therefore be particularly interested in substantiating these claims.

The structure of these sectors often shows a large number of smaller enterprises. Instead of encouraging individual enterprises to practise TBLR, it may be preferable for industry associations to report on the aggregated performance of their members (assuming the association comprises most businesses in the sector). After all, any industry branch declaring to adhere certain standards of conduct, should expect to produce the evidence of its actual compliance. This would also stimulate industry-level responses to any problems revealed by the reports.

4.5. Central and Local Government Organisations

The government's wish for the private sector to practise TBLR would gain greater acceptance and credibility if its own entities, as well as those of local government, would do the same. In fact, in 1996, the New Zealand government did subscribe to an OECD Council Recommendation (C(96)39/FINAL) on *Improving the Environmental Performance of Government*. The recommendation spurs member country governments to reduce the environmental impact of their own operations and decision-making processes. Although addressed at central/federal governments, it also contains a clause recommending that central governments sponsor similar action at other levels of government as well.

Given the nature of the activities of most central and local government organisations, we are mostly concerned here with so-called green housekeeping, ie., water and energy consumption, waste management, fleet and transport schemes.

The OECD Council recommendation recognises that governments should be able to demonstrate their ability to achieve levels of environmental performance that at least equals performance in the private sector and households¹⁵. The recommendation also incorporates a reporting requirement.

In New Zealand, greening of government activities have so far been limited to individual actions in government institutions and the Government Energy Efficiency Leadership Programme (GEELP), which seeks to reduce energy costs within the public sector and provide a role model for the industrial and commercial sectors to follow. The GEELP secures top management commitment to energy efficiency and helps public sector agencies achieve efficiency improvements through a range of consulting and referral services, seminars and finance. The programme is currently generating a return on investment of 34.6%.

MfE supported through the Sustainable Management Fund the writing of a "Guide to Environmental Management Systems and ISO14001 for Local Government" (1999), which recommends the integration of EMS with other management systems. For example: it proposes that environmental performance reporting can be integrated into annual reporting systems.

Such a practice could perhaps be anchored in the Local Government Act in the same way as is currently the case in respect of equal employment opportunities (section 223E of the LGA 1974). Central government agencies, i.e., government departments and crown entities, are subject to the reporting requirements of the Public Finance Act 1977/1989. The explicit role given to the auditor-general in Canada in terms of the sustainability performance of government bodies (section 3.5.b) may be worth consideration in New Zealand, too.

¹⁵ <http://www.oecd.org/env/efficiency/gog/online.htm>

4.6. Other Organisations

The potential benefit of TBLR for organisations that are neither businesses nor public bodies may also be considered. Community organisations of various types in most cases may not have a large environmental impact, but their social impact may be considerable. This aspect of TBLR is only flagged here and needs to be developed further.

5. OTHER INSTRUMENTS

5.1. Environmental Management Systems

Successful implementation of TBLR relies on the availability of good quality information. Firms operating environmental management systems generate such information. EMS should be attractive to companies in its own right, to improve a firm's environmental procedures and competitiveness (the dairy industry recently "coined" the term EMS). Also, it is likely that market pressures will increasingly cause firms to seek accreditation with ISO 14000 and/or some industry-specific scheme.

We have already seen that a limited number of larger companies are operating EMSs. MfE, through the Sustainable Management Fund has co-financed the design of a number of industry-specific EMS and continues to do so. However, once developed, it has proven difficult in most cases (with some notable exceptions such as in the wine industry) to get firms to take the next step and obtain industry wide implementation of such schemes. Government can encourage a speedier uptake in several ways.

One way of stimulating greater commitment from a particular industry branch could be through voluntary environmental performance agreement involving branch-wide target setting, EMS accreditation, monitoring and TBLR. In order to make such voluntary agreements attractive to the industry, it would be possible to link them to some type of co-regulation discussed below.

Current efforts to develop EMSs in the farming sector deserve a brief mention here. The NZ Dairy Research Institute in association with the Livestock Improvement Authority, NZ Dairy group, Kiwi Cooperative Dairies and a farmer group called EQUAL are developing an on-farm EMS that will eventually be compatible with an industry-level system (including audit). The combined system will thus cover the whole supply chain.

5.2. Pollutant Release and Transfer Registers

Some clear international mandates exist for governments to set up public pollution release inventories. For New Zealand, the relevant texts are Agenda 21 and OECD Council Recommendation C(96) 41/FINAL.

Chapter 19 of Agenda 21 states, among other things, that governments with the cooperation of industry should improve databases and information systems on toxic chemicals, such as emission inventory programmes and that the broadest possible awareness of chemical risks is a prerequisite for chemical safety. In 1996, the OECD Council recommended member countries establish, implement and make publicly available a pollutant release and transfer register (PRTR) system.

Although New Zealand does not have many of the heavy industries whose toxic emissions first prompted the pressure to set up PRTRs elsewhere in the world, this is no reason in principle why regional councils here should not store emission and discharge data collected for the monitoring of resource consents (either by the regulator or the consent holder) in a publicly accessible register. It is now common for such information to be placed on the internet. For example, Environment Australia has established a National Pollutant Inventory (currently 36 substances need to be reported, this is to be increased to 90) that can be consulted on the world wide web¹⁶.

As time series data are built up, councils could use such information to publish summary statistics about the best and worst performers, most improved industries, compliance records, etc. in their region. MfE or the Parliamentary Commissioner for the Environment could publish a national overview of the same material, as does the UK Environment Agency (Box 5).

Box 5. Spotlight on business environmental performance - 1999

The UK Environment Agency publishes information on the environmental performance of industry. The agency identifies the companies that have substantially reduced their impact upon the environment, as well as those that it has prosecuted and fined because they have failed to meet environmental standards. The Agency considers that reporting on the performance of those industries that it regulates is a powerful means of encouraging industry to take greater responsibility towards its environmental performance. The Environment Agency is providing this information as it wants industry and those who finance its activities to ensure that environmental improvements are delivered.

Source: <http://www.environment-agency.gov.uk/envinfo/spotlight/index.htm>

5.3. Other Types of Disclosure

5.3.a. Voluntary disclosure by industry sectors in terms of industry code of conduct

It is possible for industry sectors, after having established an industry code of conduct, environmental policy, EMS and perhaps accreditation scheme, wanting to close the loop and publish of their own accord the record, duly audited, of the industry's adherence to its own standards. The German Chemical Industry Association (VCI) does this under the Responsible Care heading. The proposal for some type of sustainability reporting of the NZ Business Council for Sustainable Development also falls in this category.

5.3.b. Voluntary ISO 14001 Internet registry by certificated companies

ISO 14001 accredited-companies have an interest in making known their ISO 14000 status to potential clients and customers. There now exists an international website called the ISO 14000 Registry¹⁷ that enables firms to post their environmental policies and make contact with like-minded firms (Box 6).

¹⁶ <http://www.environment.gov.au/epg/npi/index.html>

¹⁷ <http://www.14000registry.com/>

5.3.c. Changing the Companies and/or the Financial Reporting Acts

The 1996 Coalition Agreement proposal for corporate environmental reporting called for a change to the Companies Act to make such reporting mandatory. The responses to the KPMG paper pointed out several reasons why this is not a good idea. No doubt, the same arguments will apply in respect of TBLR.

While it may well be right that the Companies Act is not the appropriate vehicle to regulate a fully-fledged TBLR system, it appears entirely feasible to use the Act to force companies to make a more limited acknowledgement of environmental and social issues in their annual reports, as is done in Australia and some other countries. It may also be that the Financial Reporting Act would be a better “home” for such a requirement. Just requiring entities to disclose their environmental/social policy (or the absence of such a policy) would be a start already. Such a measure might well be helpful as part of a mix of measures applying pressure at different levels of decision-making.

Box 6. The ISO 14000 Registry

Are you ready to connect to a growing green global marketplace?

Business today is no longer just about selling your product and service around the corner. It is about being part of a supply chain that is global in nature, whether you participate directly or indirectly.

As the interest in buying green increases, businesses are re-evaluating their supply chains to source enterprises that meet their criteria for sustainability. An international standard, ISO 14001, is a better business tool that is gaining ground as one greening criterion in purchasing, investment and trade.

Review their Environmental Policy as potential suppliers, future trading or business partners, loan or insurance applicants, or when conducting due diligence for investment opportunities in responsibly managed companies.

Enterprises that post their corporate profiles on the Registry have adopted a better business tool, ISO 14001. They may also have other management systems like ISO 9001, Responsible Care, EMAS and/or environmental/green labelling standards.

Clients of the Registry come to find these companies, recognizing environmental management as an important core business process. The Registry provides reciprocal links to client groups and supporters of these responsible businesses evolving to become sustainable and ready to compete in a one-world market.

The Registry serves any size organization, from any sector, anywhere in the world whether they opt to self-declare, self-declare with the Report on Specified Auditing Procedures, or self-declare and certify/register to ISO 14001.

The Registry offers other products and services to support those organizations intent on improving their business process and performance as part of the transition to a competitive, sustainable global economy.

Source: The ISO 14000 Registry

5.4. Product-related Policies

Policies to promote Life Cycle Analysis and ecolabelling also encourage integrated decision-making. They are important, but in the context of this report they belong to a different, “transverse,” line of enquiry. To avoid capturing the entire universe under the TBLR heading and to remain focused, this category of instruments will not be further discussed here.

5.5. Updating Accounting Rules

The accounting profession can play a role in making the relationship between a firm’s financial bottom line and the environment more visible so that companies are motivated to reduce their exposure to environmental risks. A resource consent due to expire, the prospect of a carbon tax or a contaminated site may all have a material effect on a firm’s profitability and, already under a strict interpretation of present accounting rules, would need to be reported on. This is not yet happening much at present, owing to a general lack of environmental awareness among accountants and the absence of specific guidance in the accounting rules.

Gilkison discusses these matters at length in *Accounting for a Clean Green Environment* (Chapters 7 and 8). It is clear that, in addition to the information yielded by EMSs, good quality TBLR must also be based on adequate accounting systems producing the financial information that will allow firms to identify their environmental costs and any opportunities for savings.

The use of “green accounting,” both for external reporting and for internal use by directors and management, are an important key to integrate decision making. It would be a good idea, as has already been suggested in the past, for MfE to cooperate with the Institute of Chartered Accountants and the Institute of Directors to improve awareness of, and compliance with accounting rules and procedures, and update these where required.

5.6. Regulatory Relief and Co-regulation

Traditional environmental regulation (pollution permits, resource consents), based as it is on an end-of-pipe paradigm, is rapidly diminishing in effectiveness and efficiency in a world where cleaner production and waste minimisation are becoming the new frontiers of environmental progress. Quality management and environmental management systems as well as the concept of eco-efficiency are the drivers of a new approach of continuous improvement. Regulators are therefore looking for more dynamic ways of making sure that the environmental effects of industrial activities are minimised.

One way regulators can encourage companies to “change their culture” is by giving some sort of “regulatory relief” to facilities able to demonstrate compliance with documented EMSs. This will reduce the compliance costs of well-performing companies and allow regulators to focus attention on improving the performance of stragglers. In New Zealand, Environment Waikato (Allen, 1998) and the Tasman District Council (TDC & Weyerhaeuser NZ, 1999) have both begun to explore this concept.

Operating an EMS constitutes a considerable and, what is more, continuous effort on the part of a company. Official ISO 14000 accreditation no doubt provides temporary satisfaction, but more enduring pressures and benefits will be necessary to keep on track. One type of continuing pressure is the requirements of clients and customers. Another one would be the prospect of reduced compliance costs. Given the slow uptake so far of EMSs in New Zealand, this is an avenue well worth exploring.

One aspect of pursuing “coregulation” or “self-management” is encouraging firms to report non-compliance to regulators by giving limited immunity from prosecution. This already happens in the U.S. and Queensland (Box 6).

Box 6. Auditing to avoid prosecution — the Queensland approach

The Queensland *Environmental Protection Act 1994* requires people and organisations to notify the regulator immediately they become aware environmental damage is threatened or caused by their activities. The Act states that such information cannot be used to incriminate the informer. Indeed, to encourage auditing, the Act specifically protects voluntary environmental audits from being used against the firm. Under certain circumstances, the firm can be protected from prosecution for an environmental breach found by an assessment, if the firm produces an Environment Management Program (EMP) showing how and when the damage will be remedied.

5.7. Stakeholder Management Systems

Business managers with an eye to the long-term future of their company are increasingly recognising the importance of a wider group of stakeholders beyond customers and shareholders, as was already mentioned in section 2.2 of this report. Indeed, an extensive international business literature exists on the principles and practices of formalised stakeholder management procedures that are progressively being adopted by business.

The notion of stakeholder dialogue is linked to that of social and ethical accounting and reporting. For example, a conference was held in Denmark in November 1999 with the title *Building Stakeholder Relations - the third international conference on social and ethical accounting, auditing and reporting*. The conference discussed *The Copenhagen Charter*¹⁸, a management guide to stakeholder reporting drawn up by a group of large international accountancy and management consultants (Ernst & Young *et al*, 1999).

Even if born primarily from a concern about the sustainability of business, stakeholder management systems nevertheless fully belong in this chapter about “other instruments to promote integrated decision making.” This is illustrated by the list of “best triple bottom line business practices” proposed by Spiller (Table 6); Spiller’s list includes stakeholder management activities along with a comprehensive inventory of financial, social and environmental aspects of sustainable development.

6. THE ROAD AHEAD

6.1. Orientation

Our reconnaissance of TBLR and the wider business and environment landscape has taken us to a vantage point from where we can ascertain the position we have reached:

1. TBLR will be worthwhile as long as managers see it as good business practice as well as contributing to sustainable development. TBLR will fail as an instrument for integrated

¹⁸ <http://www.stakeholder.dk/>

decision making if it is perceived mainly as an obligation to satisfy outsiders with no stake in the business.

Table 6. **Best triple bottom line business practices**

| Community | | Environment | |
|------------------|--|---------------------|---|
| 1 | Generous financial donations | 1 | Environmental policies, organisation and management |
| 2 | Innovative giving | 2 | Materials policy of reduction, reuse and recycling |
| 3 | Support for education and job training programmes | 3 | Monitoring, minimising and taking responsibility for releases to the environment |
| 4 | Direct involvement in community projects and affairs | 4 | Waste management |
| 5 | Community volunteer programmes | 5 | Energy conservation |
| 6 | Support for the local community | 6 | Effective emergency response |
| 7 | Campaigning for environmental and social change | 7 | Public dialogue and disclosure |
| 8 | An employee-led approach to philanthropy | 8 | Product stewardship |
| 9 | Efficient and effective community activity | 9 | Environmental requirements for suppliers |
| 10 | Disclosure of environmental and social performance | 10 | Environmental audits |
| Employees | | Customers | |
| 1 | Fair remuneration | 1. | Industry-leading quality programme |
| 2 | Effective communication | 2. | Value for money |
| 3 | Learning and development opportunities | 3. | Truthful promotion |
| 4 | Fulfilling work | 4. | Full product disclosure |
| 5 | A healthy and safe work environment | 5. | Leadership in research and development |
| 6 | Equal employment opportunities | 6. | Minimal packaging |
| 7 | Job security | 7. | Rapid and respectful responses to customer comments, complaints and concerns |
| 8 | Competent leadership | 8. | Customer dialogue |
| 9 | Community spirit | 9. | Safe products |
| 10 | Social mission integration | 10. | Environmentally and socially responsible production and product composition |
| Suppliers | | Shareholders | |
| 1 | Develop and maintain long-term purchasing relationships | 1 | Good rate of long-term return to shareholders |
| 2 | Clear expectations | 2 | Disseminate comprehensive and clear information |
| 3 | Pay fair prices and bills according to terms agreed upon | 3 | Encourage staff ownership of shares |
| 4 | Fair and competent handling of conflicts and disputes | 4 | Develop and build relationships with shareholders |
| 5 | Reliable anticipated purchasing requirements | 5 | Clear dividend policy and payment of appropriate dividends |
| 6 | Encouragement to provide innovative suggestions | 6 | Corporate governance issues are well managed |
| 7 | Assist suppliers to improve their environmental and social performance | 7 | Access to company's directors and senior managers |
| 8 | Utilise local suppliers | 8 | Annual report and accounts provide a comprehensive picture of the company's overall performance |
| 9 | Sourcing from minority-owned suppliers | 9 | Clear long-term business strategy |
| 10 | Inclusion of an environmental and social element in the selection of suppliers | 10 | Open communication with the financial community |

Source: Spiller, 2000

2. TBLR would also be:

2.1. one way of giving effect to the public's right to know about the environmental and social impact of the activities of businesses and other organisations.

- 2.2. essential if New Zealand Inc. wishes to substantiate its clean green positioning in world markets.
 - 2.3. essential if the financial sector is to fulfil its potential leverage role in moving towards greater sustainability.
 - 2.4. a significant potential source of state-of-the-environment information about the pressures exerted by human activities on the environment.
3. The promise of private benefit has so far not swayed large numbers of businesses to adopt TBLR. Some form of government encouragement will probably be needed (and justified in terms of the wider benefit) to promote integrated decision-making. Such encouragement can take the form of carrots and sticks.
 4. TBLR is unlikely to fulfil its promise if it is pursued as a stand-alone project without the use of some of the other instruments discussed in this report, notably environmental management systems.
 5. However, TBLR would be a vital part of an overall strategy aimed at encouraging the business world, government bodies and other organisations to assume responsibility for sustainable development.
 6. Such a strategy might consist of a mix of mutually reinforcing measures acting at different levels and aiming at a diversity of actors.
 7. Government pressure on business to adopt TBLR will only be credible if government bodies are subjected to the same discipline.
 8. Large parts of the target audience will not yet be receptive to the TBLR concept. Government should begin by working with those sectors that are already interested and are generating the necessary information.
 9. Sectors comprising a multitude of SMEs could practise TBLR on an industry-wide basis as part of an industry-specific EMS. Industry sectors with the greatest potential for sustainability gains could be targeted initially.
 10. TBLR could be promoted to the business sector as a means for improving competitiveness. The choice of instruments should as far as possible avoid the impression of adding to the regulatory burden on business.

6.2. Quo Vadis?

MfE's plans for 2000/2001 say that the Ministry will be giving "increasing attention to the concepts and practice of sustainable development" (MfE, 2000). MfE's plans also speak of the need for building partnerships and "thinking about environmental, social and economic issues in a 'joined-up' way." The last section of this report offers some potential building blocks for implementing the Ministry's intentions.

It is now time to organise the welter of policy instruments discussed in this report in some kind of framework for setting priorities for action. We will do this by ordering them in terms of the group of stakeholders at which they are addressed. We can thus distinguish one *generic* and several *specific strands* of work and activities:

1. ***Generic strand:***

- a MfE to convene a “Triple Bottom Line Club” with all stakeholders taking responsibility for a particular line of work. This would be a forum for learning from each other and making sure the various parts of the work are aligned.
- b Website with information and news about TBLR “NZ style.”
- c MfE to persuade others to engage in various types of voluntary disclosure.
- d Government to consider what mix of mutually supporting measures could be introduced to encourage integrated decision-making, eg.
 - Partnerships/voluntary environmental performance agreements with industry groups for the adoption of EMS and TBLR
 - Amending Resources Management Act to *i)* facilitate co-regulation; *ii)* oblige regulators to set up and provide access to pollution release inventories; *iii)* give role to regulators and/or central government to publish yearly lists of good and bad performers.
 - Amending Companies Act, Financial Reporting Act, Local Government Act
 - Extending the role of the Auditor-General

2. *Larger business strand.*

- a Partnership with NZ Business Council for Sustainable Development for member companies to *i)* become the New Zealand pioneers of TBLR/Sustainability Reporting and *ii)* explore the potential role of “supplier programmes” in promoting EMS and TBLR with smaller companies.
- b Partnership with the NZCIC’s PRINCE scheme to incorporate TBLR concepts.

3. *SME strand.*

- a Partnership with NZ Businesses for Social Responsibility to promote appropriate form of TBLR eg., development of simplified TBLR template.
- b TBLR by industry sector operating industry-wide EMSs..

4. *Farming strand*, eg.: *i)* building on various EMSs already developed or still under development

5. *Central government strand*

- a Ministries, departments, etc.
 - MfE to begin forthwith process of obtaining ISO 14001 accreditation.
 - MfE to lead Greening of Government project (including ISO 14001 certification of all departments) TBLR component.
- b SOEs and similar entities to be made subject to the same rules as the private sector.

6. *Local government strand*

- a Councils to be obliged by amended Local Government Act to obtain ISO 14001 accreditation and report on results to ratepayers and the public.
- b Local government trading enterprises and similar entities to be made subject to the same rules as the private sector.

7. *Community groups and Maori organisations strand*

8. ***Accounting profession*** strand: *i*) Updating financial reporting rules (eg., generally accepted accounting principles, financial reporting standards, and building awareness of those that relate to environmental issues). *ii*) Promoting activity-based accounting and other means of providing business and investment information for use by directors and managers.
9. ***Financial sector strand.***

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8. GLOSSARY¹⁹

Balanced Scorecard

Since its introduction in 1992, the balanced scorecard has rapidly gained in importance on a worldwide scale. Harvard Business Review even selected it as one of the most important management tools of the past 75 years. The balanced scorecard is a multidimensional framework integrating financial data with other key performance indicators. It helps companies to translate their mission and strategies into measurable objectives that go beyond a narrow focus on financial figures. Balanced scorecards include measures with regard to financial performance, customers, internal business processes as well as learning and growth. They help enterprises to take a long-term perspective, to secure future competitiveness and to gear individuals, departments and the whole company towards continuous improvement and innovation.

For other management tools to support company management on its path towards corporate sustainability see [Scenario Planning](#).

Corporate Governance

Corporate governance refers to the checks and balances within companies. It encompasses the different roles and powers of the board of directors, shareholders, company management and other stakeholders. It also defines mechanisms for setting and targeting company objectives, monitoring performance and making management accountable. Good corporate governance is a key pillar for sustainability-driven companies. The mechanisms of decision-making and power-sharing are key to moving companies on to a path towards corporate sustainability.

For additional information visit [the World Bank's Corporate Governance division](#) or [the OECD department for Corporate Affairs](#).

Corporate Environmental Reporting

The KPMG information paper (1998) on corporate environmental reporting commissioned by the Ministry for the Environment (MfE) defines corporate environmental reporting as the periodic disclosure of information about a company's environmental issues arising from its activities. The information may be qualitative and quantitative, covering a range of environmental, environmental management and financial areas.

Corporate Social Responsibility

Corporate social responsibility refers to how companies act towards their workforce and their families, local communities as well as society at large. It entails the establishment of sound ethics and core values in a company's relationship with its stakeholders. Issues to be dealt with include human rights, employee rights, supplier relations and community involvement. Corporate social responsibility is increasingly seen as a source of business opportunities. The identification of new markets, improving reputation and maintaining public support are examples for that.

Also see [SA 8000](#)

Eco-Efficiency

Eco-efficiency is the efficiency with which environmental resources are used to satisfy human needs. Reducing material and energy input and cutting back emissions per economic value is widely recognized as an important strategy to meet the environmental challenges ahead. It is also seen as an opportunity to reduce economic costs and thus improve corporate profitability. Consequently, an increasing number of firms is integrating eco-efficiency measures into their innovative activities.

Also see [Eco-Design](#), [Factor 4](#), [Life-Cycle Assessment](#) or visit the pages on eco-efficiency of the [World Business Council for Sustainable Development](#).

European Eco-Management and

Having been open for participation since 1995, the European Eco-Management and Audit Scheme (EMAS) was the first internationally

¹⁹ Taken from <http://www.sam-group.ch/e/center/>, unless otherwise stated.

| | |
|------------------------------------|---|
| Audit Scheme (EMAS) | <p>recognized environmental management system. By June 2000 over 3,400 European companies had been certified in line with EMAS. EMAS is a voluntary initiative that sets standardized guidelines for managing a company site's environmental impact and reporting on environmental achievements. It seeks to support continuous improvement by obliging participating company sites to define environmental policies and objectives, to systematically and regularly measure their environmental performance and to report the results to the public.</p> <p>For information on other environmental and social management systems see ISO 14000 and SA 8000. For additional information on EMAS visit the European Union's EMAS Helpdesk.</p> |
| Factor Four | <p>In 1997, Ernst Ulrich von Weizsäcker et al published a book entitled "Factor Four". Therein, the authors call for a radical increase in resource and energy efficiency. They argue that humanity could live twice as well while at the same time consuming only half the resources consumed today. In their view, an increase in eco-efficiency by a factor of four should be made a global goal, and they give examples of where opportunities to make this happen are already available today.</p> <p>Also see Eco-Design, Eco-Efficiency, and Life-Cycle Assessment.</p> |
| Global Reporting Initiative | <p>The Global Reporting Initiative (GRI) was established in 1997 to draft internationally applicable guidelines for company-wide sustainability reporting. Convened by CERES - the Coalition for Environmentally Responsible Economies - the initiative brought together representatives from business, NGOs, politics, academia and other stakeholders to discuss and agree on a set of standards for sustainability reporting on an organizational level. In June 2000, the GRI published its latest release of sustainability guidelines, which will remain open for ongoing application and feedback until the next edition is published in 2002. The guidelines include a framework for structuring a sustainability report as well as specific content deemed essential for monitoring the economic, environmental and social performance of organizations.</p> |
| ISO 14000 | <p>ISO 14000 is the most widely applied environmental management system. Launched in 1996 by the International Organization for Standardization (ISO), the number of ISO 14000 certificates has grown rapidly. By the end of 1999, more than 14,000 company sites had been certified according to this norm. Similar to the European Eco-Management and Audit Scheme, ISO 14000 sets standards with regard to environmental policy, environmental objectives, implementation, control and continuous improvement.</p> <p>For information on other environmental or social management systems see EMAS and SA 8000.</p> |
| Labelling | <p>Environmental and social labels provide information on the conditions under which a product or service has been produced. They may refer to such diverse issues as fair trade, child labor, organic food, or sustainable forestry. Labels can either be declarations by the company itself or certificates issued by independent third parties. Especially labeling of this second category is gaining in influence on consumers and thus on the distribution of market shares. Well-known examples include "Rugmark" for carpets manufactured without illegal child labor, and the "Forest Stewardship Council" for sustainable forestry.</p> |
| SA 8000 | <p>Social Accountability 8000 - SA 8000 - is a standard developed by Social Accountability International (SAI), formerly the Council on Economic Priorities Accreditation Agency. SA 8000 is the first international ethical standard that offers a framework for independent third party assessment of a company's social conduct. It includes guidelines relating to child labor, forced labor, health and safety, freedom of association and right to collective bargaining, discrimination, disciplinary practices, working hours, and compensation. SA 8000 certification implies that a company has enforced basic standards in these fields in its own factories as well as in those of its suppliers. It also implies that a</p> |

company has implemented the appropriate management systems for ongoing compliance.

For information on other environmental or social management systems see [Eco-Management](#) and Audit Scheme and [ISO 14000](#). For additional information about SA 8000 visit the homepage of [Social Accountability International](#)

Scenario Planning

Scenario Planning has been used as a management tool since the 1970s. It encourages decision-makers to create alternative stories about the future and to assess the impact of these scenarios on business. By identifying key drivers, challenging assumptions and developing new mental models scenario planning supports thinking in different, but plausible directions. It helps to develop contingency plans for different situations and thus to be prepared for actual changes as they evolve.

For other management tools for supporting company management on its path towards corporate sustainability see [Balanced Scorecard](#).

Sustainability Investments

Sustainability investments benefit from the increasing attention the financial markets give to sustainability issues. By selecting corporate leaders in terms of economic, environmental and social criteria, sustainability-driven investors put their money into innovative and future-oriented companies. They consider opportunities as well as risks that derive from economic, environmental and social developments. They profit from the growth potential of sustainability-driven products and services. And thus they ensure that their investments are in line with the rapidly increasing importance of sustainability issues in business. Referring to the concept of the triple bottom line, sustainability investments are also called triple bottom line investments.

Triple Bottom Line

The triple bottom line is a concept developed by John Elkington, Chairman of SustainAbility, a world leader in sustainability consulting. It refers to the integrative measurement of a company's economic, environmental and social performance. Whereas financial reporting has a long history, companies are now starting to pay more attention to their environmental and social impact. The development of indicators to increase accountability in these fields is progressing. Targets and past performance are increasingly measured against the triple bottom line.

For further information visit the homepage of [SustainAbility](#)

9. ANNEX 1

Environmental Reporting : Getting Started

Q. Should our company measure our environmental performance?

It makes business sense. Make your business more competitive - cutting costs can lead to overall efficiency gains. Many top companies believe that you can't manage what you don't measure.

Q. Why should we report publicly on our performance?

Reporting on environmental performance can help focus attention on cutting waste and energy use so costs are lower. Communicating to your stakeholders is important to:

- Show your lenders, investors and insurers that you have your house in order, and that your business will prosper by acting to reduce risks and minimise future liabilities;
- Demonstrate to regulators and government you are complying with the law - tell us before we ask;
- Keep your customers' loyalty by showing them you are listening and responding to their concerns and needs;
- Build the trust of the local community and neighbours, make it easier for you to expand and operate;
- Boost employees' morale by getting them involved, by giving them responsibility; Inform journalists and pressure groups - manage the flow of information by reporting in your own words, rather than wait for someone to do it in theirs.

Meaningful environmental reporting should be a part of an effective communication strategy and not just a public relations exercise. How to report is up to you - make it clear, honest and informative.

Q. But what if my business doesn't have any environmental impacts?

All companies do have an environmental impact.

...think

How do your employees arrive at work?

Employees travelling to and from work are responsible for 5% of UK carbon dioxide emissions. Carbon dioxide is the major greenhouse gas contributing to global warming.

What about your offices?

Offices consume energy for heating and cooling and to run office equipment, adding to greenhouse gas emissions. The disposal of computers, printers and other equipment is also becoming an important issue.

What about paper use?

The average office worker generates over half a kilo of scrap paper every day.

Q. But my job is to worry about customers, not the environment.

The business climate is changing. Employees, customers and shareholders have a legitimate interest in your company's performance. Businesses are facing increasing pressure to act responsibly as a company. Consumer choices are influenced by environmental concerns - almost half of the UK public have bought products specifically because they were better for the environment.

Q. Aren't you adding to my costs?

An environmental policy can save you money. It may be difficult to cut other costs, such as staff costs, without serious repercussions. Using energy efficiently can reduce costs without directly influencing your output or the service you provide. You can save 20% of your energy and fuel bills by adopting energy efficiency measures which are cost-effective.

Q. But surely my company is not a major polluter?

What about offices and shops?

14% of all UK CO₂ emissions come from energy use in commercial and public buildings.

How do you move your goods?

Business travel and commuting is a major impact which just happens to be less visible. Business road transport is responsible for almost 10% of the total UK carbon dioxide emissions.

Are you expanding, or renovating buildings? commissioning new outlets?

A tenth of the total UK energy consumption is used in the production and transport of construction materials, products and wastes alone.

What about your suppliers?

The environmental impact of your company may be 'hidden' in the supply chain, with environmentally damaging processes being out-sourced to third parties.

Q. So what can I do next?

Find out what is happening in the company. Ask for a company review to the board that:

- Identifies your key environmental impacts. What are your costs - energy and water, waste disposal, packaging and transport fuel? Asks if good practice is being adopted to lower energy use and reduce wastage. Looks at your policies that address these environmental impacts. Are systems in place to implement your policies?
- Discusses targets for future improvements and development of indicators to monitor progress.
- Identifies a board level member responsible for your environmental performance. Make environmental matters a regular agenda item for board meetings.
- Closes the loop by developing a plan to report to your stakeholders. Tell them about your environmental performance and your efforts to improve.

Q. In what form should our company be reporting?

The choice is yours - it doesn't have to be glossy. Companies can choose the format that meets their own business needs and requirements.

- Make it a regular part of the company's annual report, or use separate environmental reports, staff newsletters and your website.
- Report the good and the less good. Build trust by being realistic.
- Provide contact points and invite feedback. Making information available can encourage dialogue with the people that matter most to your business.

The key elements of external reporting on environmental progress

An environmental policy statement

Set guiding principles demonstrating your company's commitment to environmental improvement. State the board member or committee with responsibility for translating your commitment into action.

Your key environmental impacts

You know your business. Assess what the environmental impacts of your business operations are from 'cradle to grave'. Talk to the stakeholders - your customers, shareholders, employees. What are their concerns? Remember who you are reporting to. Set clear and measurable targets for reducing your significant environmental impacts. Help us understand so we are convinced that change is occurring.

Reducing energy use

We want companies to measure and report their emissions of greenhouse gases - mainly CO₂ which comes from energy use. We are preparing step-by-step guidance on how to do this using management information that companies often already have. A first step is to measure your energy use from all sources, including heating and cooling buildings and transport. Set improvement targets and report on progress. In practice: BT has reduced total energy usage by over 13% in the last 6 years and Sears Group by 7% since 1994.

Fleet management

How efficient are your distribution systems? Efficient fleets can achieve 20% better than average fuel performance. Driver training can make a big difference. Driving more slowly really does cut fuel consumption. At 50mph you use up to 30% less fuel than travelling at 70mph. In practice: By reducing empty running of their fleets, TESCO saved £720,000 annually on diesel, cut the number of miles travelled by 3 million, and reduced CO₂ emissions.

Travel to work and business travel

Green Transport Plans encourage staff to travel less, choose alternatives to driving alone such as car-sharing, cycling and travelling by public transport, and to use more fuel-efficient vehicles. Think about the benefits to employees and your bottom line - reduced travel costs, better use of staff time, less

delay and congestion around the site, less car parking needed and less stress for staff. In practice: Boots Breeston site has reduced car commuting by 7% by introducing a car share scheme, discount railway fares, and providing lockers and showers for cyclists. The company is set to achieve their 10% target by 1999.

Less waste - more value

Know what you are buying, using and throwing away. The waste that leaves your office or shop is a raw material you paid for, and you are paying for people to take it away. Identify the potential for reducing waste, reusing materials and effective recycling and set key objectives, backed up by targets. Identify the potential for more efficient water use and reduced leakage. Water supplied to offices meets drinking water standards - yet 40% is flushed down WCs. In practice: British Airways recycling programme generates money. Total revenue for 1996-97 was £98,000. The money is used for investment in recycling projects.

Doing more with less: the product you produce, the service you provide

Think about the product or service you provide. Providing a complete service, instead of selling a good, can build customer loyalty and make better use of materials. In practice: Rank Xerox has shifted from manufacturing and selling photocopiers to making, leasing, maintaining, remanufacturing and recycling them. A competitive advantage is established by meeting consumers' demand for a hassle-free service. Through waste minimisation and remanufacturing programmes, Xerox has reduced its raw materials bill by £50 million per year and created an extra 400 jobs.

Helping your customer be more sustainable

Stand behind your products. Your customers want to know about your products and the associated environmental impacts. Think about redesigning goods and services to encourage recycling, or to reduce harmful environmental impacts of the product when used. In practice: For new products, Lever examines not only how to minimise the environmental impact during production, but also when the product is used and disposed of. Persil Tablets are a new product line which cuts out the consumers' tendency to 'overdose' when doing their laundry.

Add weight to your words - get your information verified independently

Public communications are more credible when independently verified. Verify your systems, data and report.

Remember your competitors - benchmarking environmental performance

How does your performance compare to your competitors? Tell us if you are top in your sector. Take advantage of others' good practice and make it your own. Measuring in 'per unit of production', or another relative measurement makes comparisons between companies easier and takes account of your company growth.

Source: UK Department of the Environment, Transport and the Regions

10. ANNEX 2

Table A. Total energy and water consumption & discharges to water for the top-half of the North island, by sector (1997/98)

| Sector | Total Oil Equivalents (TJ) | Total Water Takes (m3) | Total Discharges (m3) | Total phosphorus TP - kg | Total BOD5 kg |
|--|-------------------------------|---------------------------|--------------------------|-----------------------------|----------------------|
| Agriculture | 6 214 | 66 415 800 | 23 483 700 | | |
| Basic Metal Products | 13 522 | 13 027 000 | 18 444 700 | | |
| Central Government | 1 656 | 255 100 | 499 000 | 755 756 | 1 509 856 |
| Communication | 1 584 | 0 | 0 | 1 584 | 1 584 |
| Community, Social and Personal Services | 5 841 | 12 074 700 | 430 665 100 | 442 745 641 | 885 485 441 |
| Construction | 3 804 | 0 | 0 | 3 804 | 3 804 |
| Electricity, Gas and Water Distribution | 312 | 359 104 200 | 51 294 600 | 410 399 112 | 820 797 912 |
| Fabricated Metal Products, Machinery and Equipment | 2 774 | 181 300 | 3 300 | 187 374 | 371 974 |
| Finance, Insurance, Real Estate and Business Svcs | 4 306 | 0 | 0 | 4 306 | 4 306 |
| Fishing and Hunting | 1 407 | 604 900 | 260 100 | 866 407 | 1 731 407 |
| Food, Beverages and Tobacco | 11 647 | 68 252 100 | 67 434 400 | 135 698 147 | 271 384 647 |
| Forestry | 406 | 154 900 | 56 000 | 211 306 | 422 206 |
| Household Consumption | 52 014 | 688 800 | 564 500 | 1 305 314 | 2 558 614 |
| Local Government | 304 | 11 000 | 100 | 11 404 | 22 504 |
| Mining and Quarrying | 1 767 | 103 253 900 | 336 557 200 | 439 812 867 | 879 623 967 |
| Non-metallic Mineral Products | 3 195 | 2 557 000 | 1 248 300 | 3 808 495 | 7 613 795 |
| Other Manufacturing | 270 | 39 000 | 0 | 39 270 | 78 270 |
| Ownership of Owner Occupied Dwellings | 0 | 0 | 0 | 0 | 0 |
| Petroleum, Chemical, Plastics and Rubber Products | 4 776 | 1 061 800 | 104 640 600 | 105 707 176 | 211 409 576 |
| Pulp and Paper Products, Printing and Publishing | 10 199 | 21 421 300 | 65 131 600 | 86 563 099 | 173 115 999 |
| Textiles, Clothing and Footwear | 1 079 | 1 647 800 | 227 100 | 1 875 979 | 3 750 879 |
| Transport and Storage | 31 950 | 30 500 | 97 400 | 159 850 | 287 750 |
| Wholesale and Retail Trade | 17 973 | 2 102 500 | 1 299 200 | 3 419 673 | 6 821 373 |
| Wood and Wood Products | 2 278 | 1 153 700 | 1 729 300 | 2 885 278 | 5 768 278 |
| Total | 179 282 | 654 037 300 | 1 103 636 000 | 1 757 852 582 | 3 515 525 882 |

Source: Massey University & McDermott Fairgray, EcoLink, regional environmental accounts for Northland, Auckland and Waikato; data for 1997/98.

Table B. Emissions to air for top half of the North Island, by sector (1997/98)

| Sector | Total CO2 emissions | Total methane emissions | Total nitrous oxide emissions |
|--|---------------------|-------------------------|-------------------------------|
| Agriculture | 145,7164 | 291,4328 | 582,8656 |
| Basic Metal Products | 1 305,7136 | 2 611,4272 | 5 222,8544 |
| Central Government | 47,4420 | 94,8840 | 189,7680 |
| Communication | 29,3078 | 58,6156 | 117,2312 |
| Community, Social and Personal Services | 166,9066 | 333,8132 | 667,6264 |
| Construction | 93,7889 | 187,5778 | 375,1556 |
| Electricity, Gas and Water Distribution | 3,8148 | 7,6296 | 15,2592 |
| Fabricated Metal Products, Machinery and Equipment | 58,4994 | 116,9988 | 233,9976 |
| Finance, Insurance, Real Estate and Business Svcs | 67,4326 | 134,8652 | 269,7304 |
| Fishing and Hunting | 53,5940 | 107,1880 | 214,3760 |
| Food, Beverages and Tobacco | 610,2040 | 1 220,4080 | 2 440,8160 |
| Forestry | 10,9950 | 21,9900 | 43,9800 |
| Household Consumption | 1 032,1451 | 2 064,2902 | 4 128,5804 |
| Local Government | 4,3490 | 8,6980 | 17,3960 |
| Mining and Quarrying | 68,2268 | 136,4536 | 272,9072 |
| Non-metallic Mineral Products | 261,5380 | 523,0760 | 1 046,1520 |
| Other Manufacturing | 3,9834 | 7,9668 | 15,9336 |
| Ownership of Owner Occupied Dwellings | 0,0000 | 0,0000 | 0,0000 |
| Petroleum, Chemical, Plastics and Rubber Products | 94,3492 | 188,6984 | 377,3968 |
| Pulp and Paper Products, Printing and Publishing | 281,7034 | 563,4068 | 1 126,8136 |
| Textiles, Clothing and Footwear | 25,2102 | 50,4204 | 100,8408 |
| Transport and Storage | 696,4004 | 1 392,8008 | 2 785,6016 |
| Wholesale and Retail Trade | 403,6890 | 807,3780 | 1 614,7560 |
| Wood and Wood Products | 77,8536 | 155,7072 | 311,4144 |
| Total emissions by all sectors | 5 542,8632 | 11 085,7264 | 22 171,4528 |

Source: Massey University & McDermott Fairgray, Ecol.ink, regional environmental accounts for Northland, Auckland and Waikato; data for 1997/98

