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Ms Judith Kuszewski
CERES
11 Arlington Street
Boston MA 02116
USA

Monday, January 4, 2000

Re: Sustainability Reporting Guidelines -- Exposure Draft

Dear Ms Kuszewski,

The Canadian Centre for Ethics & Corporate Policy's mission is to promote the consideration of the ethical dimension in decision making by corporations. We therefore support the objectives of GRI in attempting to establish consistent, worldwide reporting standards for sustainability. In particular, we note that you have identified the need to arrive at a "harmonized approach to help shape the future of sustainability reporting", notwithstanding the many individual efforts currently underway. We urge you to consult with these other bodies to aim for harmonious, rather than competing, standards. We recognize this will be an extremely difficult task, given each organization's investment in their own efforts. Indeed, the accounting profession has taken many years to get as far as it has (which falls short of universality) in its international accounting and auditing standards.

We also believe this draft is an important contribution to the literature and establishes a meaningful and practical framework for reporting on environmental, social and economic performance in accordance with a sound structure of criteria, noting that more work needs to be done to develop the social and the economic components.

We have the following overall comments on the draft, and a number of more specific comments on the social and economic aspects.

Overall comments

1. Readers not familiar with the subject may have a hard time understanding what sustainability is, or means, under these proposals. The components are emphasized, but the concept is not. What, for example, does sustainability mean in the context of a mining company that establishes a mine in the Canadian arctic, which mine will have a life of fifteen years, and will require the building of a community for the life of the mine that will have no viability when the mine closes? Clearly, this mine is not "sustainable" in the dictionary sense of the word, but it is an economic activity that can convey many social and economic benefits and, if managed properly, may have minimal impact on the physical environment.
2. Perhaps we are being too sensitive, but we detect a subtle bias against business, or against economic activity. If business detects this, it will be less likely to support GRI. Perhaps this bias is unintended. For example, the draft is full of information concerning, and measures of, emissions and pollutants -- all examples of what in economics are called externalities. It is important to note, however, that business activity can have favourable externalities as well as unfavorable ones -- in the example above, the mine may leave behind a workforce of aboriginal people better able to cope with modern technology, and to take advantage of it. Another example is an economic activity that uses water, but its return water emissions are purer than the water originally extracted.
3. We note various international efforts to produce auditing standards that can be applied to sustainability and similar reporting. We believe it is important to link to these efforts, and cross-reference to, or incorporate them into, GRI standards.
4. There are several references to social and economic indicators being "generally more specific to location and culture than their environmental counterparts". While this is true, care needs to be taken not to overemphasize this. The basic concepts of fairness, honesty, transparency and ethical standards generally are largely cross-cultural. The differences tend to be very particular, such as different "Sabbaths" and differences arising from the Moslem view of the role of women.
5. We are particularly pleased that GRI outlines certain key principles concerning reporting, such as those in appendix A.
6. Should there be a reference to the Kyoto agreements?

Specific comments

<u>Description</u>	<u>Comment</u>
Page 3, bullet 3	It is unrealistic, and probably undesirable, for formats to be "uniform". "Comparable", may be a better term.
Page 7, second last bullet	Minimization and avoidance of risk presumably refer to sustainability risk. In other respects, companies may choose to take risks as a means of gaining market share. In technology, some of the highest risk takers are the most successful, provided they manage the risk appropriately. Some companies, by the very nature of their operations, pose a high risk to the physical, social and economic environment. Yet these same companies also represent great potential to provide social and economic benefits. Again, this draft, we believe, places insufficient focus on the benefits that can be derived from business acting in an ethical way, given its circumstances.
Page 8, item 7	Consistency, or disclosure of significant changes in the application of the Guidelines, is another important disclosure.
Page 9, Use of Graphics	The Canadian Institute of Chartered Accountants has an excellent publication on the misuse of graphics, <i>Using Ratios and Graphics in Financial Reporting</i> (Toronto, 1993).
Page 10, Independent review	If the parallel to financial reporting is to be followed, there are some anomalies in this section: <ul style="list-style-type: none"> • The stakeholder input will likely be to the content of the company's report, not that of the independent reviewer. • The independent reviewer's report should be a conclusion on the appropriateness or fairness of the company's report, rather than a direct report on the company's compliance. This best preserves the independence of the reviewer. If the reviewer finds errors or omissions in the company's report, he or she should urge the report to be corrected. If it isn't, the reviewer would report that the company's report was not fairly presented, and in what respect.
Page 10, section 9, first paragraph	The first and last sentences will be very difficult to reconcile. Unless some existing reporting standards and practices are modified, there will be no generally accepted framework.
CEO Statement	This should be linked to the organization's mission.
Key indicators	<ul style="list-style-type: none"> • Why is this section necessary, particularly in light of the inclusion of the sustainability overview? • Most of the information in this section focuses on the negative (e.g., emissions and discharges by volume, not quality). • Is it intended that these 13 indicators always be "key", or does the reporting entity decide what is key? The latter would be preferable. Additional explanatory comment is needed.
Profile	<ul style="list-style-type: none"> • Total taxes is a highly problematical number, and would need to be specified in detail. For example, would it include withholding taxes? Would it include government mandated social or health insurance premiums that are not called taxes? • In many countries, private companies are not now required to disclose this kind of financial information publicly. Is this important to what you wish to achieve?
Page 14, Part 4	<ul style="list-style-type: none"> • Linkages between management performance and compensation are not always a good idea. This phrase needs to be made more specific. For example, sustainability can be incorporated into job evaluations.

Item 7.21	<ul style="list-style-type: none"> • Some communities (e.g., Canada) are more diverse than others (e.g., Japan). Isn't the objective here to reflect the community?
Appendix A	<ul style="list-style-type: none"> • This is very sound material • A key concept under both reliability and verifiability is that qualified professionals would reach the same conclusions on the same inputs -- otherwise the information is highly judgmental, reliability suffers and verifiability is severely compromised. Where judgment is necessary, disclosure becomes very important, including disclosure of alternatives.
Appendix B, Guidance on Social and Economic Categories and Aspects.	<p>As indicated, these aspects need considerable work, and indicators devised. For example:</p> <ul style="list-style-type: none"> • Indicators of workplace diversity are meaningless except in comparison to diversity in the community. • "Employees" needs to include agents and consultants, who in some cases will be former employees "outsourced". • Child labour may be "yes" or "no". However, this answer is a poor indicator. Depending on circumstances, a company that provides a good employment environment for children may be doing more positive good than a company that does not hire them at all.
Guidance for Operational Performance	<ul style="list-style-type: none"> • Indicators for occupational health and safety should include agents and outsourced consultants. Otherwise a company can improve its statistics simply by outsourcing its most dangerous activities.
Page 31, Styles of Reporting	<ul style="list-style-type: none"> • The two paragraphs under this heading are not easy to understand. This may relate to the above-mentioned lack of a definition of "sustainability". • If these two paragraphs are referring to "externalities", that might be better terminology to use.

Sincerely

Larry Hebb
Chair