

# Environmental Policy and the Global Corporation<sup>1)</sup>

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## ENVIRONMENTAL POLICY

It is evident to any thinking person today that environment is an important area of public policy. Environment has wide support throughout the world as demonstrated by the large attendance and interest in the United Nations Conference on Environment and Development held in Rio de Janeiro in June, 1992.

Attendance at this conference and parallel non-governmental events totalled 35,000 people, with 106 heads of state participating in the Earth Summit. The 9,000 journalists in Rio for the meeting exceeded the total attendance at the previous conference in Stockholm some 20 years before (Brown, 1993).

The term "environment" is quite inclusive and encompasses land, water and air resources, flora and fauna, and ecosystems formed by biological organisms and their habitats. Environmental policy also has an important geographic component. There are global issues such as the greenhouse effect, ozone depletion, acid rain, deforestation, and depletion of ocean fisheries. There are transboundary, national and local issues, e.g., air and water pollution, solid and hazardous waste management, fish and wildlife management, and protection of scenic and recreation areas.

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Environmental policy now focuses not just on correcting the mistakes of the past by abatement of air and water pollution, but striving to design and build an economic system that is environmentally sustainable. Briefly, in the words of the World Commission on Environment and Development (Brown, 1993), a policy of sustainable development calls for social, economic and political progress to meet "...the needs of the present without compromising the ability of future generations to meet their own needs ." So the emphasis in environmental policy is shifting toward a planning perspective, and perhaps appropriately, it is through strategic planning that the global corporation can best come to terms with environmental policy. Since multinational corporations are better able to control their futures than many member states of the U.N., their cooperation is needed in achieving sustainable development.

Environmental policy is developed by governmental bodies from the U.N. down through the smallest village. In a democratic society, policy comes about because citizens, often through public interest groups, press for governmental action. These groups influence many voters, and have a powerful influence on elected officials, as a countervailing force to the extensive lobbying by business. Scientists and engineers influence environmental policy, but the public often distrusts the experts. This may mean that environmental policy may not be technically supportable. This was illustrated a few years ago when the professionals in the U. S. Environmental Protection Agency were surveyed about national environmental priorities. There was wide variance between the nation's environmental spending priorities and what EPA professionals believed were the critically important issues.

#### ENVIRONMENT AND BUSINESS

Where does business fit into environmental policy? If environmental sustainability is to be reached, it must be in large part through the established capacities of international business. Beyond lobbying, corporations need to play a more active role in environmental policy. But, according to Frances Cairncross (1991), companies will only be as green as governments compel them to be. They will do what is required and what they perceive is in their best interest.

Business has a difficult job complying with complex environmental regulations. Compliance is expensive, and failure to comply can result in extremely large fines.

and even prison terms. In the public's mind, "Big Business" is often seen, not just as the villain. Although many companies have excellent environmental records, and indeed may have always held themselves to high environmental standards, there have been too many newsworthy and even notorious incidents in recent years where a major corporation has served being targeted as the villain:

\* The Bhopal tragedy in India involving poison gas escaping from a Union Carbide fertilizer plant into a sleeping town, killing thousands of people

\* The breakup of an Exxon oil tanker in Alaska, polluting a large area of virtually pristine shoreline.

\* The international dumping of hazardous wastes in Nigeria.

\* The escape into bankruptcy of the Manville Corporation to limit its liability to thousands of asbestosis victims, after it had ignored the warnings of medical researchers for years about the detrimental effects of asbestos fibers in the lungs.

\* The infamous Love Canal in my native state, New York, where houses and a school were built on top of an abandoned canal, filled in with hazardous waste.

#### ENVIRONMENTAL REGULATORY REFORM

The United States has adopted substantial environmental legislation in the past 25 years. The results have definitely been a cleaner environment, although some programs like the massive Superfund to carry out remediation of hazardous waste sites have not lived up to expectations despite expenditure of billions of dollars.

Do high environmental standards impair industry's competitiveness? Porter (1991) maintains that:

Strict environmental regulations do not inevitably hinder competitive advantage against foreign rivals, indeed they often enhance it. Tough standards trigger innovation and upgrading...Regulators must stress pollution prevention rather than...cleanup. They must not constrain the technology used to achieve them or else innovation will be stifled. And standards must be sensitive to the cost involved and use market incentives to contain them.

Have higher environmental costs driven industry out of the United States? According to Jeffrey Leonard (1988), only a small number of American industries have been driven abroad by environment regulations, principally basic mineral

processors, chemical manufacturers, and manufacturers of toxic products such as asbestos and pesticides.

But is the present regulatory system costly? Yes, not only in money, but in lost opportunities for innovation. As a result of 25 years of environmental legislation in the U.S., we have constructed a labyrinth of environmental regulations which not only add to the cost of doing business, but significantly discourage the use of innovative technology. This cumbersome mechanism must now be shifted to a "positive action" approach to provide an accelerated and simplified permit system. The U.S. Environmental Protection Agency in 1991 recommended 6 principal changes:

1. Modify environmental permitting and compliance systems to aid in the development, testing and demonstration of innovative technologies for environmental purposes.
2. Implement permitting processes that aid the commercial introduction of innovative technologies for environmental purposes.
3. Use compliance programs to encourage the use of innovative technologies to solve environmental problems.
4. Support regulators and other involved communities to maximize the effectiveness of improvements recommend in permitting and compliance systems.
5. Identify and remove regulatory obstacles that create unnecessary inflexibility and uncertainty otherwise inhibit technology innovation for environmental purposes.
6. Make changes need to the environmental regulatory system to create incentives to encourage the environmental technological innovative process.

There are other changes in the wind for environmental regulation. For years, separate programs in air, water and land pollution operated almost independently of each other. Since processes of production, and of waste treatment can transfer the pollutants from one media to another, there has recently been a strong movement toward "integrated pollution control"—a single procedure of assessment which aims to minimize the total impacts on the environment of all releases from a given plant—air, water and land.

### RECENT ENVIRONMENT-BUSINESS CONFERENCES IN ASIA

As an illustration of the wide spectrum of interest the global corporation has in the environment, I would like to call your attention to two international conferences which took place in Asia in the Fall of 1993 which elaborate on the theme of environmental policy and the global corporation.

In December, 1993, the International Herald Tribune, along with several industrial corporations, sponsored a conference in Bangkok entitled "Asia and the Pacific: Merging Business and the Environment." The following topics were covered:

- \* The Corporate Response to the Green Agenda
- \* New Environmental Trends and the Challenge to Industry
- \* Technology Transfer from North America to Asia
- \* Urbanization and Development: At What Cost?
- \* Clean Energy: Efficient Use of Our Resources
- \* Financing the Future

Investing in the Environment:

- \* How Will the United Nations Environmental Programme Fulfil its Mandate?
- \* Reforestation: Innovative Projects and Environmental Cooperation
- \* Educating a new Eco-Smart Consumer
- \* Travel, Tourism and Sustainable Development

In Beijing in October, 1993, "Cleaner Production" was the theme of a 3-day Engineering and Environmental Congress. The concept of Cleaner Production was coined by the UN Environmental Programme in 1990, and means the continuous application of integrated preventive environmental strategy to process and products to reduce risks to humans and the environment.

In the production process, cleaner production includes conserving raw materials and energy, eliminating toxic raw materials and reducing the quantity and toxicity of all emissions before they leave a process. For products, that means reducing impacts along the entire life cycle of the product, from raw material extraction to ultimate product disposal (Kryger 1993)

Green products calls for manufacturers to reduce pollution by redesigning or reformulating end products to be less hazardous. E.g., chemical products may be

produced as pellets instead of powder, decreasing the amount of waste dust lost during packaging. Unbleached paper products can replace bleached products (Kryger, 1993)

The following methods of waste reduction have been identified by the U.S. Office of Technology Assessment (1988):

1. In-plant Recycling
2. Changes in Process Technology
3. Changes in Plant Operation  
(for example, suppression of fugitive emissions)
4. Substitution of input materials
5. Modification of end products to permit use of less polluting processes

#### ENVIRONMENT AND WORLD TRADE

World and regional trade issues have dominated news broadcasts in 1993—the approval of North American Free Trade Agreement in the United States, the continuing round of discussions on the General Agreement on Tariffs and Trade, and the recent meeting of Asian Rim national leaders in Seattle. While GATT doesn't even mention the word "environment." NAFTA, by contrast, includes numerous environmental protections; a side agreement makes them even stronger.

According to Berlin and Lang (1993), Environmental issues have burst upon trade and environmental communities ill prepared to address the interrelationship between their divergent concerns. Most people with expertise in one area have little knowledge in the other because of very different academic backgrounds and experience. Berlin and Lang point to a telling example is the connotation of the word protection. It is a pejorative word in the trade community, an exemplary one in the environmental community. While environmentalists expect responsive regulatory laws, and sanctions to enforce compliance, trade policy specialists are advocates of open trade, and are generally skeptical about government regulation of economic activity.

A number of environmental issues defy solution at the national level. With respect to trading, the most important is the rapid depletion of natural resources. For example, in the last 2 years, the world has lost nearly 500 million acres of trees, mostly in tropical forests. This is responsible for an accelerating rate of

species extinction—a million or more in the next 30 to 60 years—unless the trend is not reversed. Destruction of these interrelated chains of life would deprive humankind of food, medical and scientific resources.

An important concern in the debate over NAFTA in the U.S., was the growing number of “maquilladoras” in Mexico, just south of the U.S. border—more than 2,000 manufacturing plants—which undermine air and water quality standards by allowing polluting industries to escape enforcement. Opponents of NAFTA characterize this as exporting pollution. Similarly, The Japanese have been accused of siting extremely hazardous processes in Southeast Asia, because they can no longer meet environmental regulations in Japan.

#### INCORPORATING ENVIRONMENT INTO BUSINESS MANAGEMENT

There is now a growing international consensus that business must take full responsibility for its outputs. Increasing environmental requirements will force business firms to fully internalize environmental management systems. Corporations will then assimilate environmental requirements into their corporate management systems.

In May, 1990 Bjorn Stigson, head of ABB Flakt a Swedish engineering firm said:

We treat nature like we treated workers a hundred years ago. We included then no cost for health and social security, and today, we include no cost for the health and security of nature.” Environmental protection may be in next 50 years what government financed public services have been in last 50 years, a drag on growth, and a large burn on corporate costs, but also an enormous and hard to quantify source of increased human well being (Cairncross, 1992).

This increased importance of environment to the global corporation is reflected in staffing. Not many years ago, environmental staffs in corporations were small and at low-to-middle levels of corporations. Now it is not unusual to find a Senior Vice President responsible for environmental compliance. In 1989, I spoke to a manager involved in IBM’s worldwide operations, and he told me that IBM had 1,000 environmental engineers at that time compared to only a handful 10 years before.

### CORPORATE STRATEGIC PLANNING

One of the principal tools for the global corporation to internalize environmental policy is through strategic planning which the majority of Fortune 500 firms now employ. Corporations find that rapid change is continually occurring, that few markets are immune from global competition, and that overall competition is forcing firms to constantly "reinvent" themselves. Some companies like IBM are threatened with survival. Others like GE, have used strategic planning boldly and effectively. How then do we make the connection between environmental policy and corporate strategic planning?

A firm's mission statement should answer the questions: "What business are we in?" "Why are we in business?" In answering the second question, many mission statements address not only generating returns for stockholders, and providing quality products or services to customers, but recognize a responsibility to society at large. pending on the nature of the business, a statement of the firm's recognition of, and commitment to environmental responsibility should be considered here.

If the firm's mission statement incorporates service to the community at large, and certainly if it includes commitment to environmental responsibility, specific environmental goals and objectives should be adopted. The 3M Company, by reexamining its manufacturing technologies, not only cut its hazardous waste by 50%, and also substantially cut its manufacturing costs.

AT&T, after successful trial programs in designing manufacturing operations to reduce waste generation, established corporate environmental goals for its worldwide operations, including:

- \* Phase out of all chlorofluorocarbons (CFC's) by 1994
- \* 95% reduction in air emissions by 1995
- \* 25% reduction in manufacturing process waste by 1994
- \* 15% reduction in paper use by 1994
- \* 35% paper recycling rate by 1995

Government policy toward recycling has caused many automobile companies to plan for a product sign incorporating simpler disassembly. Under pressure from the German government, BMW, Daimler-Benz and Volkswagen are now pursuing this

goal.

#### CONCLUDING THOUGHTS

"No man is an island," wrote John Donne, and neither is a corporation. Corporate executives, managers and employees, are first of all human beings, responsible for their interactions with the rest of humanity, and for the environment of the planet we share together.

Environmental policy is not just a transitory interest, it is becoming deeply embedded in the political, social and economic fabric of our society. A corporation can no longer ignore environmental policy: the penalties are too great. And a progressive corporation will do more than pay "lip service." to the environment. It will incorporate it into its strategic planning, and into the corporate culture. And rather than just comply with environmental statutes, the progressive corporation will move proactively in adopting environmental goals and objectives, in conspiring the environmental impacts of its strategies, in seeking mediation in environmental disputes, and in recognizing the environment as an important component of corporate citizenship in the world community.

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