

Leader's Observations on the CBCC CSR Dialogue Mission to Europe (Provisional Translation)

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Summary of the Mission

From November 6 to 13, 2016, I visited Brussels, Paris and London, three major cities in Europe, as a leader of the CBCC CSR Dialogue Mission. This was the first CSR Dialogue Mission since my appointment as Chairman of the CBCC in January 2016.

Europe leads the world in the creation of concepts, rules, and standards concerning CSR, and it is indispensable for Japanese companies operating globally to follow the development of CSR-related issues in Europe. Furthermore, the formation of CSR policy in Europe involves not only business communities but also NGOs and trade unions through the multi-stakeholder process, and their influence is far greater than similar organizations in Japan. For this reason, and with a view to better comprehending the development of the CSR-related issues in Europe, it is also essential for us to meet them and to listen to their opinions directly.

Our Mission this time held direct dialogues with a variety of stakeholders, including European companies and economic organizations, NGOs, institutional investors, and ESG rating agencies, in addition to officials in charge of establishing CSR policies in Europe, in order to investigate the latest development of CSR. At the same time, we endeavored to communicate to them Japanese companies' policies and initiatives concerning CSR.

In this report, I would like to review each session, summarize the outcomes of the Mission, and express my own opinions as a Mission leader.

1. Business and human rights: A matter of prime concern for CSR in Europe

Through the dialogues we held in the Mission, I realized that the issue of business and human rights has now become one of the most important subjects in the area of CSR for officials in charge of CSR, companies, and NGOs in Europe.

With regard to business and human rights, the Guiding Principles on Business and Human Rights adopted by the United Nations Human Rights Council in 2011 is recognized to be significant as a global standard. These principles provide that all business enterprises bear the "responsibility to respect human rights" and require a "human rights due diligence process" to prevent the occurrence of human rights violations within their organizations or supply chains. Other international standards, such as the OECD Guidelines for Multinational Enterprises and ISO26000, are also stipulated based on these principles.

Our Mission met with the European Commission's DG Growth, which oversees CSR policy, and DG Trade, an organization responsible for CSR policy related to trade between

the EU and other countries. In our meetings, it was explained that they formulate CSR-related policies, ensuring that responsible supply chains are established and human rights due diligence is conducted based on the Guiding Principles on Business and Human Rights. We also learned that European companies, especially multinational corporations, are working as well on the establishment of responsible supply chains and conducting human rights due diligence.

On the other hand, triggered by the Rana Plaza collapse near Dhaka, the capital of Bangladesh, in 2013, European citizens began raising their voices in support of human rights, particularly in the field of supply chains. The declaration of the 2015 G7 Summit (in Schloss Elmau, Germany) urged the private sector to implement human rights due diligence, and the ECCJ (European Coalition for Corporate Justice), an NGO that we met with in Brussels, has called for the legislation of human rights due diligence with a view to imposing the obligation to respect human rights beyond the guidelines stipulated by the United Nations. While strongly requesting European firms to implement human rights due diligence, they are also appealing to the European Commission and the government of each EU country to legislate human rights due diligence through the multi-stakeholder process.

2. Smart mix: Argument on the best balance of voluntary and regulatory policy measures

Currently, the European Commission is working on various legal regulations, such as conflict minerals regulation and a directive on disclosure of non-financial information, based on its CSR policy package, the 2011-2014 CSR strategy announced in 2011, for the purpose of promoting responsible business practices. Officials of DG Growth and DG Trade stated that they place emphasis on a “smart mix” when establishing legal regulations and stipulating CSR-related policies. “Smart mix” refers to any measure that combines and balances company mandatory initiatives through legislation and voluntary efforts.

Through the Mission, we felt the balance of this “smart mix” was leaning toward legislation, a trend particularly notable in the field of business and human rights. As I mentioned earlier, European NGOs are now requesting the legislation of human rights due diligence. They argue that while they support the idea of a “smart mix” if all companies respect human rights, it does not function properly in reality because there will always be companies that are unwilling to respect human rights, and therefore it is only through legislation that all companies will fulfill their obligation to respect human rights in a transparent manner. In accordance with their arguments, we learned that sooner or later France will enact a law obligating French companies to respond to the issue of human rights in their supply chains, including conducting human rights due diligence, and impose a heavy criminal penalty on those who violate this law.

The strengthening of the movement toward legislation is of great concern for business communities, and in fact European companies and such organizations as MEDEF (Movement of the Enterprises of France, the largest employer federation in France) have expressed their strong misgivings on this topic. Companies must prove with both action and their track record that voluntary initiatives are the proper means to heighten the effectiveness of corporate responsibility. To that end, I would like to suggest the revision of Keidanren’s Charter of Corporate Behavior and its Implementation Guidance, which

represents Japan's code of conduct for voluntary company actions, to take into account new global guidelines, such as the Guiding Principles on Business and Human Rights and the 2030 Agenda for Sustainable Development, and to lead Japanese companies to follow responsible business conduct by further disseminating Keidanren's charter.

3. RBC: The concept of “Responsible Business Conduct”

The OECD (Organization for Economic Co-operation and Development) is now proposing that CSR (Corporate Social Responsibility) be replaced with RBC (Responsible Business Conduct) and is trying to gain acceptance for this change. In fact, the European Commission uses both RBC and CSR, and MEDEF has recently changed the name of the CSR Committee to the RBC Committee.

The term CSR originated in Europe and has spread throughout the world. So why have they started using “RBC”? We asked in our meeting with the OECD what RBC means and how it differs from CSR, and the answer was that RBC has the same meaning as CSR in Europe. However, since the majority of people especially in Asia tend to consider CSR in a narrow way, as philanthropy such as donations and social contributions, it was decided to use the term RBC to clarify the concept of responsible business such as corporate governance, human rights, anti-corruption and anti-bribery, and the promotion of fair competition and taxation practices. This discussion enabled us to reconfirm the very essence of CSR as the responsibility of companies for their impact on the environment and society, in other words, for companies to take into account how they affect the environment and society when offering products and services and designing business processes.

The OECD is also working to promote RBC by disseminating the OECD Guidelines for Multinational Enterprises and by assisting the governments of some countries to adopt appropriate policies, particularly in the Asian region. In addition, related to this subject, the OECD also explained the Responsible Supply Chains in Asia program proposed by the European Commission and scheduled to be launched in 2017, with the OECD and the ILO (International Labor Organization) as the execution bodies. This initiative is aimed at ensuring the responsible management of supply chains in Asia, targeting such countries as China, the Philippines, Thailand, Vietnam, Myanmar and Japan. Action plans include providing policy support and training to government officials and assisting capacity building in the public and private sectors, among other initiatives, but concrete details have yet to be worked out. As for Japan, the OECD also stated that it expects the Japanese government and business community to work with the OECD and lead in the execution of these programs in other target countries.

4. SDGs: Response to “Sustainable Development Goals” in Japan and Europe

One of the objectives of our Mission this time was to learn how the SDGs (Sustainable Development Goals), which were adopted in the United Nations in 2015, are perceived in Europe, and how each of the players, including the European Commission, governments of each country and companies, are working to achieve them.

In Brussels, CBCC co-hosted the EU-Japan Business to Business Dialogue¹ with the

¹ <http://www.jbce.org/csr/jbce-co-hosted-eu-japan-business-dialogue/>

Japan Business Council in Europe (JBCE)² and CSR Europe³ to exchange frank opinions on the theme of "SDGs and business contribution" among companies of both Japan and Europe. Although it was a meeting between private sectors, officials from the European Commission and Japan's Ministry of Economy, Trade and Industry also attended, and we were able to provide valuable input to the 3rd EU-Japan CSR Working Group Meeting, which was held on the following day by the Government of Japan and the European Commission. Also in Paris, we met with Sanofi, a leading global pharmaceutical company in France, and deepened our understanding of the company's policies and initiatives on the SDGs.

From these meetings, we were able to confirm that leading companies in Japan and Europe are already advancing their action plans on the SDGs by incorporating the 17 goals into their own business strategies. Also, Japanese and European companies share the common view that innovation is the most crucial factor in achieving the SDGs.

In contrast, I recognized that the SDG initiatives by the Japanese government and the European Commission were still at the early stage of full-fledged implementation. In Japan, the SDGs Promotion Headquarters was established in May 2016 headed by Prime Minister Shinzo Abe for the entire nation to strive to achieve the SDGs. The Japanese government also stipulated the SDGs Implementation Guiding Principles based on discussions of the SDGs Promotion Round Table comprising such multi-stakeholders as business and labor communities, civil society and academic experts, and the Guiding Principles was publicized on December 22, 2016⁴. Meanwhile, we learned that the European Commission under the First Vice-President Timmermans was studying how to respond to the SDGs, and was planning to release a policy document (communication) on the SDGs shortly. The European Commission later revealed a strategic approach to achieve sustainable development in November 22, 2016⁵. However, we have found that the work of incorporating this strategy into actual policy has not started yet. Officials of the European Commission's DG Growth, which is responsible for CSR-related policies, said that although they recognize the significance of the SDGs, they are prioritizing the development of legislation for CSR currently being formulated, such as conflict mineral regulations and a directive on disclosure of non-financial information.

CBCC is working this year to promote various activities, such as hosting meetings with a variety of stakeholders, in order to deepen Japanese companies' understanding of the SDGs and to expedite action plans to achieve this goal. As the responses by European companies can serve as good reference points for Japanese companies, in the future we

² A non-profit organization established in 1999 representing the interests of Japanese companies operating in Europe. The organization is involved in policy-making in Europe through policy recommendations, and its membership encompasses a wide variety of industries centered on manufacturers and includes 76 companies as of February 2016.

³ A CSR promotion organization representing Europe. Its membership consists of 53 multinational companies, including Japanese firms operating in Europe, and 45 partner institutions located in each European country. The organization's activities include lobbying the European Commission and providing consultation and training to member companies.

⁴ <https://a.msip.securewg.jp/docview/viewer/docN4BD7864F060A84e8eee9-c207-4ab6-bcd1-07377cca2dc1>

⁵ http://europa.eu/rapid/press-release_IP-16-3883_en.htm

intend to conduct active information exchanges with Europe that involve proactive dissemination of information from Japan.

5. SRI (Socially Responsible Investment) and ESG (Environment, Social, and Government): Promotion of CSR through investment

As was seen in last year's signing by the GPIF (Government Pension Investment Fund) of the UNPRI (United Nations Principles for Responsible Investment), more institutional investors are asking their investee companies to practice or promote CSR through SRI (Socially Responsible Investment) and ESG investment in Japan. A number of parties, including the European Commission, are also watching the development of long-term investments based on policy methods such as stewardship codes and corporate governance codes and the trend to promote dialogue between companies and investors.

The French public service additional pension scheme known as ERAFP (Établissement de Retraite Additionnelle de la Fonction Publique), with which we held a meeting, is relatively small as an institutional investor, but it displays high awareness as a responsible long-term shareholder, and determines its investment policy based on the SRI Charter it has established, implying that such a tendency is common among European investors. It should be noted that ERAFP tries to affect the actions of companies not only through investment but also by exercising its voting rights as a shareholder.

Also, FTSE Russell presented many case examples and related data to illustrate how bond investment is now drawing attention. It also explained that the recent hike in green bonds targeting environmental issues, as well as the conventional method of sustainable investment through stock acquisition, are observed as a means to solve various global issues. Along with changes that encompass the diversification of issuers and the increase in company bond issuance, the SDGs are no longer concerned with just the environment but have expanded in theme to include water and agriculture. We learned that innovation is also taking place in the world of SRI and ESG investment, and we need to watch its development going forward.

6. The 2020 Tokyo Olympic and Paralympic Games: The need for sustainability

We have less than four years left before opening of the 2020 Tokyo Olympic and Paralympic Games, and preparations by Japanese companies, including building and developing athletic facilities, procuring materials, and constructing and organizing various social infrastructure and systems to support the games, are now gaining speed toward the realization of a successful event and legacy. As our visit this time included London, which hosted the 2012 Olympics and Paralympics, many of our Mission members requested to have a meeting with people involved in the preparation and operation of London 2012 to learn and make use of their experience for the upcoming Tokyo 2020. In light of this, we visited Mr. Shaun McCarthy, Ex-chair of the Commission for a Sustainable London 2012, to benefit from his various experiences in the London Games from the perspective of sustainability. Through the dialogue with Mr. McCarthy, we recognized that the world is watching the development of Tokyo as a sustainable city backed by Japan's cutting-edge technology and innovation, and whether Japan sufficiently takes into account human rights and the environment in materials procurement and facility construction. In addition, we also reconfirmed that we must not forget the importance of the legacy we wish to leave behind to future generations.

Conclusion

The Mission this time was a hurried trip visiting three cities in just one week, but all the Mission members have returned home safely. Since this was my first time to participate in the CBCC Mission as a leader, I was a little anxious about the progress of the meetings. But my anxieties proved unfounded as each member actively attended and positively contributed to the meetings. Our counterparties also seemed well prepared before the meetings, ensuring that each meeting had clear and concrete discussion points from which lively discussions ensued. Some of the meeting discussions were heated, and we often posed too many questions that were impossible to answer within the given time, leading to e-mails later on as a continuation of our talks. I would like to express my sincere gratitude once again to the Mission members and the counterparties for their kind contributions.

The CBCC will continue dispatching the CSR Dialogue Mission each year to gather and provide the latest information and CSR trends overseas as a reference for our member companies. Furthermore, through the network we have developed with various groups and organizations overseas, we intend to actively provide information on the CSR initiatives of Japanese companies and promote understanding of these activities. I would like to conclude my report by asking our member companies for their further understanding and proactive participation in CBCC's activities in the future.