

The 2018 CBCC Mission to Europe for CSR Dialogue  
Thoughts and Impressions as Mission Head

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1. Mission overview

I visited Geneva and Brussels from November 19 (Mon.) to 23 (Fri.) this year as head of a CBCC mission to Europe for CSR dialogue.

This was the first visit by a CBCC mission to Geneva, a city that serves as home base to many multilateral institutions including the European Headquarters of the United Nations, the World Trade Organization (WTO), and the United Nations High Commissioner for Refugees (UNHCR). In addition to holding meetings with representatives for the International Labour Organization (ILO) and Office of the United Nations High Commissioner for Human Rights (OHCHR), our mission also held individual dialogues with the World Business Council for Sustainable Development (WBCSD), the International Organisation of Employers (IOE), Procter & Gamble (P&G), the International Union for Conservation of Nature (IUCN; a multilateral environmental NGO), and RobecoSAM, an environmental, social, and governance (ESG) rating agency that has gained recognition through its collaboration with the Dow Jones Sustainability Index. In Brussels, which is the de facto capital of the European Union, and the previous mission visited two years ago, we sought to learn more about the latest CSR policymaking trends within the European Commission as well as the relevant views and actions of European companies and business organizations, and, like last year, held the Third EU-Japan CSR Business Dialogue Meeting with delegates from leading European and Japanese companies.

One distinguishing feature of our mission is that in addition to listening to presentations from our European counterparts on CSR-related trends and actions, it sought to foster mutual understanding through dialogue and actively endeavored to explain CSR trends in Japan, actions the CBCC and Keidanren have taken to promote CSR and the UN's sustainable development goals (SDGs), and the progress of specific undertakings by Japanese companies. In particular, we believe this year's mission gained understanding from its European counterparts with meticulous presentations on the views behind the Society 5.0 for SDGs concept advocated by Keidanren as well as examples of specific actions in that area, innovations Japanese companies have made in their drive to help

achieve the SDGs, and the reception Keidanren's revised Charter of Corporate Behavior has received from Japan's corporate community as well as steps Japanese companies have taken to put the revised Charter into effect.

I will reflect on the outcome of each meeting, summarize the activities of this year's mission, and share my thoughts and impressions on its achievements below.

## 2. The formulation and implementation of strategic CSR policies by the European Commission

European policies on CSR are drawn up chiefly by the European Commission and implemented and promoted after an extensive process of dialogue involving the corporate sector, civil society, labor unions, consumers, and other mature stakeholders and the establishment of legal structures in the European Parliament and each member-country. Recent years have brought the implementation and enforcement of the EU directive on the disclosure of nonfinancial information, regulations governing conflict minerals, occupational retirement provision directive, and shareholders' rights directive. These measures have encouraged companies and investors to pursue business activities and investments that show more consideration for human rights, the environment, and other ESG criteria and have fostered heightened levels of transparency. Europe has integrated these policies into its trade agreements with countries in other regions. Additionally, the soon-to-be-enacted Japan-EU Economic Partnership Agreement (EPA) contains a chapter on "trade and sustainable development."

In effect, through their legal structures and inclusion in trade agreements, these active steps by Europe in the arena of CSR policy are designed to generate stimulus within the internal market, boost the competitiveness of European companies, and facilitate their penetration into emerging-market economies. In other words, CSR policies are positioned and promoted as an integral element of Europe's strategy for economic growth. This point became clear to me during my participation in the meetings of the Japan-EU CSR Working Group. Officials from the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW), which is in charge of promoting the growth of the internal market and small and medium enterprises; Directorate-General for Trade (DG-TRADE), which is in charge of trade affairs; and Directorate-General for Financial Stability, Financial Services and Capital Markets Union (DG-FISMA), which handles the affairs of information disclosure and sustainable finance, attended these meetings and informed us that their respective bureaus were engaged in policymaking activities backed by the common interest of fostering European economic growth and ensuring European companies a competitive

advantage.

European corporations and business organizations are also well aware of these CSR policy objectives and demonstrated a readiness to accept CSR policies and seek improved competitiveness as long as the legal structures did not present companies with an undue burden.

Recently in Europe, the terms SDGs and sustainability have gained more currency than CSR (corporate social responsibility). Furthermore, "responsible business conduct" (RBC) has come into vogue particularly among members of the OECD. According to the OECD, RBC has gained popularity because of misconceptions that associate CSR with philanthropy and goodwill activities. That said, the business group Business Europe states that although it does not use CSR very much, RBC conveys a certain legislative nuance that it finds undesirable. "Sustainable business conduct" is a new phrase that has recently begun to gain traction.

Although several buzzwords and phrases are now in use, the point is that companies should, through their business activities, contribute to social progress and the solution of social issues and endeavor to minimize the negative impact of their business operations on society and the environment. My experiences with our mission reaffirmed the importance above all else that we have a clear understanding of this essence of CSR and translate that understanding into action.

Europe has been promoting CSR with policy-driven initiatives. By contrast, in Japan private companies and the business community in general have assumed the initiative in promoting CSR with Keidanren's Charter of Corporate Behavior and Implementation Guidance as their platform for action instead of relying on the government or its policies. In recent years the Japanese government has finally worked out its legal code for corporate governance and stewardship as elements of growth strategy and accordingly encouraged growth in ESG investments, but it lags far behind Europe in terms of harnessing CSR policy for strategic ends or helping Japanese companies build their competitive advantage at the global level through rule-making measures. Japan is gearing up to hold the G20 and TICAD7 meetings in 2019, the Tokyo Olympics and Paralympics in 2020, and the Osaka-Kansai World Expo in 2025. Given that these are all big events that will focus the world's attention on Japan, I came away with the impression the Japanese government should begin exploring long-term, strategic CSR policies that are aimed at boosting our country's competitiveness on the global stage.

### 3. Efforts concerned with sustainable finance

Trends in European policy on sustainable finance have recently drawn the attention of CSR policymakers throughout Europe and worldwide. Echoing trends following the final report of the Task Force on Climate-related Financial Disclosures (TCFD) in June 2017, European policy on sustainable finance is now being oriented toward creating a greener, cleaner economy with measures that encourage responsible business conduct leading to sustainability among financial institutions and investors that make loans to or invest in corporations. In March 2018, the European Commission unveiled its action plan on sustainable finance for a greener, cleaner economy (EU Sustainable Finance Action Plan) and is currently formulating an array of new policies on that basis.

In separate breakout meetings with officials from DG-FISMA, we exchanged views on the formulation of a taxonomy that should be a starting point for policies on sustainable finance. The formulation of that taxonomy would involve a process of clearly specifying which activities are sustainable and which are not. In the drive to foster sustainability within a financial context, the goal is to exclude greenwashing and promote effective forms of green finance. The European Commission has focused its sights on measures to mitigate climate change first, and to that end has been engaged in preparatory activities with the goal of formulating relevant policies by the end of 2019. In December 2018 it plans to release outreach materials (draft) and solicit opinions and comments from the public.

One of the difficulties associated with the formulation of a new taxonomy will be that of ensuring flexibility while avoiding ambiguities. Based on that taxonomy, certain businesses or business activities may be deemed unsustainable and, as a result, may be subject to credit withdrawal or excluded from access to financing. While noting that no consensus has yet been reached on definitions of activities deemed to be "green," officials from DG-FISMA explained that (1) the new taxonomy is being formulated by a group of experts utilizing a scientific approach; (2) the final stage of formulation will come after deliberations with stakeholders; and (3) the taxonomy itself will be limited to a framework rather than a set of regulations and will be subject to periodic review and revisions.

BusinessEurope has endorsed the formulation of a new taxonomy as something that will provide a common groundwork for sustainable finance and promote competition. However, it also expressed its view that the taxonomy should be consistent with the principles of better regulation and should not be used to shoulder companies with undue burdens or subject them to punitive measures. Furthermore, it stated that discussions of

sustainable finance in general should have the participation of the industrial sector and not be limited to financial circles alone.

Discussions regarding the new taxonomy are currently under way, and the CBCC plans to closely watch coming developments.

#### 4. Business and human rights

Endorsed by the United Nations Human Rights Council in 2011, the Guiding Principles on Business and Human Rights (UNGP) comprise a set of standards for efforts by corporations to respect human rights. Reflecting consideration for the UNGP, Article 4 of the revised Charter of Corporate Behavior that Keidanren released in 2017 stipulates the principle of “conduct(ing) business that respects the human rights of all persons;” this article is explained in detail in the Charter's Implementation Guidance.

An annual Forum on Business and Human Rights has been held in Geneva every autumn since adoption of the UNGP. One week prior to the seventh annual forum (held November 26-28), we visited the OHCHR, which serves as the forum's secretariat. On that occasion, They stressed that corporate policies of respect for human rights are not enough, due diligence on human rights is a must, and it is important to develop a grievance mechanism that supports the effectiveness of measures in relief -- one of the three pillars of the UNGP. They also noted that government policies on human rights are inadequate, the forum should be a place not for NGOs to criticize corporations but rather to work together toward finding solutions, and the number of forum participants from Asia has been climbing in recent years.

By contrast, as an international business organization and an ILO member that represents the interests of employers, the IOE has assumed position as an advocate for multinational corporations and the business community in general and stands squarely opposed to efforts aimed at elevating the UNGP to a convention with legally binding power, or legislatively mandating human rights due diligence as some European countries have already done. As potential problems stemming from ratification of the UNGP as a convention, IOE officials cited the risk that a company could be held accountable for human rights violations even if they occur somewhere on a value chain where that company has no direct control, or face litigation in countries that have ratified the UNGP even if their own, home country is not a party to ratification. The CBCC itself intends to continue following this issue, given that the second draft of a UNGP treaty is scheduled for submission in January 2019. IOE officials also cited and expressed their concerns regarding efforts by the OHCHR to compile and release a

database of companies that do business in the occupied Palestinian territories.

As also stipulated in Keidanren's Charter of Corporate Behavior, engaging in business activities that show respect for human rights is a must for any modern-day corporation, and performing human rights due diligence is an important part of that commitment. However, mandating due diligence could lead to behavior that treats due diligence itself as the goal and encourage its spread as a purely formalized process among companies that do not yet have a fundamental understanding of the issues surrounding human rights. This scenario poses substantial concern as it suggests such a mandate might fail to generate any realistic benefit in terms of fostering respect for human rights. The issues involving human rights are complex and not amenable to generalization. Their solution demands the strengthened coordination and concerted, unrelenting efforts of multiple stakeholders. As part of that process, due diligence on human rights is something that only begins to work when all involved companies explore ways to boost their effectiveness and pursue action on a deeper level. I believe we should not set a blanket mandate for this purpose.

In this light, it will also be important to reframe within the larger context of the SDGs those issues for business and human rights that have frequently been considered independently of the SDGs. The new society sought with the Society 5.0 for SDGs concept is a society that strives for an optimal, society-wide balance and respect for each and every individual; it is a society that guarantees human rights in a manner consistent with the sustainable development goal of "leaving no one behind." In striving to integrate the SDGs into their respective business strategies, companies should also treat the issue surrounding business and human rights as an important factor for consideration. Our meetings left me with the impression that top management executives will also need to broaden their perspectives on the issues for business and human rights and demonstrate strong leadership through action.

##### 5. Digital innovations, sustainability, and the commitment to the SDGs

Efforts in CSR and sustainability by European companies are at a more-advanced stage than in other parts of the world and offer Japanese companies many helpful insights. The CBCC mission this year also paid a visit to Procter & Gamble, which has its Global Sustainability headquarters in Geneva despite its status as a US-based firm. During our visit to that office, an employee responsible for sustainability provided us with details on a range of the activities in which P&G is engaged. Plastic waste is one problem that has recently drawn more attention. We learned that P&G sends employees as volunteers to collect plastic waste that washes up onto French seashores and recycles that waste as

a material for its product containers. This is one example of an effort by P&G to create new value with roots in Europe's own values and culture.

During the various meetings our mission participated in this year, we described the ideas behind the Society 5.0 for SDGs concept and specific actions taken to that end, and our counterparts displayed strong interest and shared words of praise in response. As counterparts to the CBCC and Keidanren, BusinessEurope and CSR Europe have not yet come up with concepts that link digital innovations with the promotion of sustainability; many of our counterparts accordingly voiced their interest in learning more about the efforts Japan has implemented. The CBCC mission to Germany last year received much the same impression during its visits for talks with various counterparts including the German government, which has launched Industrie 4.0. In this respect, it appears Japan currently leads Europe in these areas.

I felt strongly that if Japanese companies and the Japanese business community as a whole can take the initiative, implement actions aimed at putting the Society 5.0 for SDGs vision into effect, and show steady results along the way, they will be well-positioned to gain a significant lead over the rest of the world.

The ILO will celebrate its 100th anniversary in 2019. Under the initiative of Director-General Guy Ryder, it plans to mark that occasion with the announcement of a proposal concerning the Future of Work. That proposal is expected to focus on the creation of, as well as challenges to, new job opportunities with innovations in technology. The Future of Work was often mentioned at the recent G20 Leaders' Buenos Aires Declaration and has gained much attention. As the next G20 summit chair, the messages Japan will issue at future meetings of the G20, B20, and other gatherings are certain to have profound significance and will have the attention of stakeholders around the globe. The Society 5.0 for SDGs concept aims to harness innovations in technology and fuel a social transformation toward a human-centric world. I am strongly hopeful that idea will win the understanding and empathy of stakeholders worldwide through dialogue as on this occasion not only at the B20 but also at the G20 and generate a massive wave of collaborative momentum that translates the Society 5.0 for SDGs concept into action.

However, proudly letting the world know about their efforts to implement the Society 5.0 for SDGs concept will be the biggest hurdle that many Japanese companies face. During our mission this year, many of our counterparts commented that Japanese companies have a penchant for humility. ILO officials had a warm message for us in that context, pointing out that instead of us visiting Europe to learn, they should have

gone to learn from Japan, and added that we had a "responsibility not to be shy" about publicizing the undertakings of Japanese companies. No matter how many productive efforts you make, they will lose value unless they are acknowledged by your counterparts. These comments reaffirmed for me the importance that Japanese companies not merely be engaged in the modest pursuit of efforts aimed at achieving the SDGs, sustainability, or CSR, but that they also actively publicize their efforts with confidence in what they are doing.

In connection with the dissemination of information, nonfinancial information disclosure and reporting are also relevant challenges. As an assembly of world-leading companies engaged in the drive to foster sustainability, the WBCSD has invested energy in its Redefining Value program, which calls on companies to redefine the real value they create and asks how they measure and report it. Specifically, it has implemented projects aimed at formulating protocols to visualize the extent to which companies are dependent on and impact natural, social, and human capital, and searching for new approaches to information disclosure that will integrate these values into the mainstream of the market mechanism. Although this is still a work in progress, WBCSD are enthusiastic that it will contribute to better corporate decision-making, and I look forward to the advances it will likely bring.

### Closing thoughts

The pace of societal change is accelerating and Japanese companies face the necessity of staking their survival on their response to this change, actively contributing to the solution of social and global-scale issues, and achieving growth together with society. Society 5.0 for SDGs is the path to that vision while Keidanren's Charter of Corporate Behavior and Implementation Guidance are the guidelines for action. Three years have elapsed since the UN adopted its SDGs. It is now time to shift gears from education to implementation and from implementation to results. Moving forward, Japanese companies that seek to further integrate CSR into their management and help achieve the SDGs will need to engage in active dialogue and explore new opportunities for cooperation and collaboration with a broad diversity of stakeholders, including the government, multilateral institutions, investors, workers, NGOs, CSR-promoting organizations, the news media, and academia.

The CBCC mission provides a vital opportunity to travel abroad once a year for a week-long period of intensive dialogue with stakeholders of every kind, from multilateral institutions and national governments to private companies, investors, and NGOs. Moreover, it can only be expected to gain in significance in the years to come.



I want to take this opportunity to express my sincere gratitude to all of our mission members for their active questions and comments at each meeting venue and their contributions to the advancement of mutual understanding. In my continuing role as CBCC Chairman, I look forward to harnessing the outcome of our mission this year to help next year's mission generate many new accomplishments of its own.