

# Rachel's Environment & Health News

## #397 - The Corporation -- Part 2: Assessing Business Impacts

July 06, 1994

Many of us know in our minds, or feel in our hearts, that the products and materials we use in our daily lives are helping to destroy the natural world and may be manufactured under working conditions that are dubious at best. Yet we don't have the information we would need to make ethical choices.

And the problem is growing worse. As "free trade" laws allow corporations to move more freely across international borders, information about the impacts of corporate activities is becoming more difficult to get. A large corporation can affect people and the environment in dozens of countries simultaneously. Most of these impacts are hidden, even from the managers of the corporations involved because they buy from suppliers or brokers who, in turn, buy from others. The ultimate impacts remain hidden from the consumer and, too often, from corporate managers themselves.

Take the case of Procter and Gamble, which distributes Citrus Hill orange juice.[1] The oranges come from Florida farms and are picked largely by itinerant workers. However, P&G neither operates the farms nor buys directly from the farmers. Instead the oranges are purchased from a broker who serves as a go-between and who, unlike P&G, operates outside of public view. P&G has no direct knowledge of the environmental or worker conditions at these farms. Yet a CBS-TV investigative report reveals that working conditions at some of the orange groves are little better than indentured servitude. Migrant workers live on the farms in abysmal conditions, without even a bare minimum of comfort, sanitation or dignity. Yet, in return for room and board they must pay their employer an amount in excess of their salaries! In a vicious circle, each worker becomes deeper in debt to the landlords, some of whom refuse to return the workers' "green cards" until the debt is paid off. The arrangement is patently illegal, as are the living and working conditions, yet local authorities appear to wink at the situation.

Overseas, the situation is often worse. NEWSWEEK has revealed that Chinese prisoners, including political prisoners, are forced to manufacture items for export, including a well-known brand of running shoes, flashlights, and the boxes for Seagram's wine coolers. Other journalists have asserted that clothing is manufactured for Wal-Mart in sweat shops in Bangladesh by children as young as nine.

There is absolutely nothing remarkable about these stories; human suffering and environmental damage are an integral part of millions of commercial activities around the globe, activities that make possible much of the material comfort of modern life. For the most part these activities are conveniently ignored. The important issues of business are cost, convenience, and market share; international commerce rarely cares to know more than this, and turns a blind eye to horrendous violations of human rights, worker safety, and environmental protection.

In the case of business activities outside the U.S., our government has no jurisdiction. Even in the case of domestic business, government regulation has only limited effect. Experience in the United States has demonstrated time and again that the best adjunct to government oversight is active involvement of the public. The initial strategy for oversight -- government watches industry -- is greatly strengthened by a more recent strategy: the public keeps an eye on government watching industry, or confronts corporate abuses directly at the local level.

But the public cannot express concerns about problems that are invisible. Only the social and environmental impacts that see the light of day can be assessed by a public that cares about such things. Information is the key to involvement; an informed citizenry is best able to exercise responsibility for the state of the world we live in.

David Sarokin, director of the Public Data Project in Washington, D.C., has proposed a new vehicle for learning about the social and environmental impacts of corporate practices. His idea is based on

two existing practices: the annual report filed by publicly held companies, and the environmental impact statement.

Public corporations in the U.S. already prepare an annual report to tell the public about their financial status. These reports are designed to condense multitudes of data down to a manageable size, to present information of value to both a lay audience and to financial professionals, to provide uniformity of information in a very non-uniform world, and to cover domestic as well as overseas operations.

Some economic activities must prepare environmental impact statements to assess the consequences of proposed actions (a dam, or a highway, for example), explore means of mitigating any serious impacts that are identified, and examine alternative actions.

The corporate annual report, combined with the environmental impact statement, is the ideal model for providing social and environmental information to the public about the impacts of business, Sarokin says.

Sarokin proposes a Social Environmental Impact Statement (or SEIS), which would be a periodic report prepared by the largest corporations operating in the U.S., would be freely accessible to the public, and would provide perspective on the environmental impacts of corporate operations, as well as the social impacts on workers and communities. These impacts would be assessed over the entire life-cycle of the corporation's products, from the moment materials are extracted from the earth to their ultimate disposal by the end consumer.

The key feature of the SEIS is that it casts a broad net well beyond the activities under the corporation's direct control. The impacts considered in the SEIS include those stemming from the multitudes of suppliers that make a company's activities possible, as well as considering the fate of company products after they are sold.

Impacts that should be considered in an SEIS, Sarokin says, include the impacts of extracting, transporting, and transforming raw materials, and of the production, testing, use, and disposal of consumer products. Consideration would be given to impacts on the environment and the health of ecosystems, as well as animal, worker, and community well being.

Governments have no authority to influence economic activities that take place outside their own borders. Nor do they have the authority to directly collect information from foreign sources. But a government CAN insist that its domestic businesses make it their business to be aware of the consequences of their activities, and of alternatives to those activities, and to make such information public. What the power of government cannot directly mandate, the power of the marketplace can bring into being. Especially at a time when the size and stature of multinational corporations rivals that of individual countries, it is both necessary and fair to require this kind of reporting from these corporations.

Sarokin suggests that SEIS reports initially be required of the 250 to 300 largest U.S. corporations with total annual sales of about \$4 trillion [a trillion is a million million]. As the SEIS program matures, somewhat smaller companies could be brought into the program.

A government agency would run the program, called the SEIS Review Board. The Board would have two responsibilities: (1) to identify companies that have failed to submit a required SEIS; and (2) to review SEIS reports that have been submitted. The review board would classify SEISs into 2 categories: satisfactory and not satisfactory. A company that earned a "satisfactory" rating would have 5 years before it had to submit an updated SEIS. A company earning an "unsatisfactory" rating would have one year to re-submit its report. Sarokin proposes no penalties for a company that fails to submit a report. If public pressure (negative publicity, shareholder

dissatisfaction, consumer response) doesn't build up to sufficient levels to bring a renegade company into line, the program won't be worth anything anyway, Sarokin believes. Without public involvement and concern, the SEIS would have little point.

The driving force behind the SEIS is the casting of light on impacts that were previously invisible. A senior official of the company would sign the SEIS, saying, in effect, "I have reviewed the operations of my company from top to bottom, and have identified the key social and environmental impacts of our business, steps we are taking to mitigate these impacts, and alternatives we have considered." This is a positive statement of corporate awareness, which is very different from the conventional stance, which might be summarized as, "We weren't aware that our shoes are made by Chinese prisoners, that our toys are made by eleven-year-old girls who dropped out of school, that our suppliers are apartheid/unsafe/polluters/clear-cutters/dolphin-killers/baby seal-clubbers/union busters" or whatever the state of affairs might be. The SEIS greatly reduces the viability of the corporate explanation, "We didn't know."

The CEO has great incentive to produce a thorough and credible SEIS. The report will be scrutinized by company employees, stockholders, organized labor, groups representing particular social causes, domestic and foreign governments, and the media. Should a company employee, or a journalist, uncover a serious impact that was omitted, it raises the specter of the CEO being, at best, incompetent, or, at worst, participating in a cover-up. Furthermore, the CEO has a great incentive to go beyond merely reporting impacts to actively mitigating them. Few companies will be willing to reveal that they contribute to the clear-cutting of tropical rain forests, pollution of coral reefs, or the poisoning of farm workers without taking dramatic steps to better their practices and the practices of their suppliers and customers.

Sarokin sums up, "Business decisions have long been guided by the invisible hand of economics, responding to prices, supplies and consumer preferences. But the guiding hand was soulless, unaware of and uncaring about the consequences of business activity. The SEIS creates a new conscience in the marketplace, an invisible heart, if you will, to insure that the hand of economics is unclenched, so that it can go about its business with a gentle touch."

GET: David Sarokin, A PROPOSAL TO CREATE A CORPORATE SOCIAL ENVIRONMENTAL IMPACT STATEMENT (Washington, D.C.: The Public Data Project [3734 Appleton St., N.W., Washington, DC 20016; phone (202) 363-5856], 1994). Without direct attribution, we have quoted or paraphrased long sections of Sarokin's report in our text. If you would like a full copy of Sarokin's report sent electronically, e-mail your request to: erf@igc.apc.org.

--Peter Montague

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[1] After going to press with the paper edition of RHWN #397, we learned that P&G stopped distributing Citrus Hill juice in 1992.

Descriptor terms: free trade; corporations; environmental impact statements; occupational safety and health; citrus hill; procter & gamble; fl; china; wal-mart; bangladesh; social environmental impact statement; consumers; consumer products; alternatives analysis; public data project; david sarokin;