

An Eye on Disclosure: The EC's Eco-Management and Audit Scheme

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... Whereas the provision of information to the public, by companies, on the environmental aspects of their activities is an essential element of good environmental management and a response to the growing interest of the public in information on this subject...

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With increasing intensity, the public is demanding that companies not only reduce the impact of their operations on the environment but also report publicly about their progress in reducing impact. Consequently, various requirements for public reporting have been developed in Europe and North America over the last decade. In particular, the European Community's just-completed Eco-Management and Audit Regulation, which goes into effect in 1995, is establishing an important precedent by describing both the form and content of the information companies should disclose publicly. Though participation in this scheme is voluntary, its provisions will have broad impact, as the public will begin to expect the same kind of information from all companies and sites. Thus, companies choosing to meet the regulation's standards will be a step ahead of peer companies in understanding how best to satisfy stakeholders' environmental information needs.

Moving Toward Disclosure

The Eco-Management and Audit Regulation is one of a growing number of environmental principles or codes to which companies are making commitments. For example, environmental performance objectives are outlined in the chemical industry's Responsible Care® program, the International Chamber of Commerce's Business Charter for Sustainable Development (which more than 1,000 companies have signed), the CERES Principles, the British Standard on Environmental Management Systems, and other initiatives designed to gain corporate commitment to improved environmental performance. Some companies have developed their own sets of environmental objectives. Each of these sets of principles tends to provide some guidance about disclosure and reporting (Exhibit 1).

For example, the 16th principle of the ICC's Business Charter for Sustainable Development requires its signatories:

To measure environmental performance; to conduct regular environmental audits and assessments of compliance with company requirements, legal requirements and these principles; and periodically to provide appropriate information to the Board of Directors, shareholders, employees, the authorities, and the public.

The Eco-Management and Audit Regulation goes much further than the Business Charter for Sustainable Development in providing recommendations for format and content. Moreover, recent environmental protection legislation differs from earlier legislation in that it requires companies to report not only information about the impact of their operations on the environment, including specific discharges or hazardous waste generated, but information on the *potential* for impact – for example, the nature and volume of hazardous materials on site and the amount discharged into the air, water, and land.

In addition, public pressure is pushing companies and governments to find ways to report more broadly about progress against environmental performance goals. As those companies registered with the Eco-Management and Audit Regulation begin to comply with its disclosure requirements, companies not registered may also choose to emulate this approach – or may be pushed to do so by pressure from customers and the general public. Meanwhile, other initiatives under way focus specifically on environmental reporting and how to improve it. One example is the recently formed Public Environmental Reporting Initiative (PERI), a voluntary private-sector effort in North America aimed at „improving and expanding corporate environmental reporting to the public.“

Goals and Provisions of the Regulation

The intent of the EC's Eco-Management and Audit Regulation, first published in proposed form in the *Official Journal of the European Communities* in 1992 and published in final form on June 29, 1993, is to establish a voluntary scheme for company management of environmental matters within the European Community. The regulation is designed to encourage industry's evaluation and improvement of environmental performance and its communication of relevant information to the public. Those companies that register must commit themselves to observing all applicable rules and procedures. Importantly, registration is by individual sites, not by companies as a whole.

Exhibit 1

Areas of Coverage in Selected Sets of Environmental Principles

(Provisions highlighted in blue specify principles related to disclosure)

<i>ICC's Business Charter for Sustainable Development</i>	<i>British Standard on Environmental Management Systems</i>	<i>CERES Principles</i>	<i>Keidanren (Japan) Global Environmental Charter</i>
1. Recognize environment as a top corporate priority 2. Integrate it into business management 3. Continuously improve performance 4. Educate and motivate employees 5. Reduce environmental impacts 6. Improve products and services 7. Advise customers 8. Operate facilities mindfully 9. Research impacts 10. Use precautionary approaches 11. Promote principles with suppliers 12. Develop emergency preparedness 13. Transfer environmental technology 14. Contribute to the common effort 15. Foster openness and dialogue 16. Measure and report compliance	1. Establish environmental management system 2. Define, document, and communicate policy 3. Define responsibility 4. Register regulatory requirements and manage response to communications 5. Specify environmental objectives 6. Set up a program for achieving objectives 7. Maintain a manual and documentation 8. Implement operational controls 9. Maintain environmental management records 10. Conduct environmental management audits 11. Review the management system	1. Protection of the biosphere 2. Sustainable use of natural resources 3. Reduction and disposal of waste 4. Energy conservation 5. Risk reduction 6. Safe products and services 7. Environmental restoration 8. Informing the public 9. Management commitment 10. Audits and reports 11. Environmental ethic	1. Manage business activities to realize an environmentally protective society 2. Establish an environmental management system 3. Manage all activities with concern for the environment 4. Develop innovative technologies 5. Transfer those technologies 6. Manage emergencies 7. Publicize environmental protection information 8. Preserve community environment... promote dialogue 9. Observe „Guidelines for Japanese Enterprises Operating Abroad“ 10. Contribute to public policies 11. Help to solve global problems

The regulation requires that each registered site:

- Adopt a company environmental policy directed not only at compliance but also at „reasonable continuous improvement of environmental performance.“
- Conduct an environmental review of the site, assessing an extensive range of issues, including impact on the environment, energy management, noise, and product planning.
- Introduce an environmental program and management system for the site, which aims at achieving the

specified objectives of the policy.

- Every one to three years, carry out environmental audits of the site, which must be verified by an independent body.
- At the highest appropriate management level, set objectives aimed at continuous improvement of environmental performance in light of the audit findings.
- Prepare an annual environmental statement designed for the public and written in a concise, comprehensible form. The statement must include a description of the company's activities at the site with respect to its impact on the environment, as well as an assessment of all significant environmental issues related to the site activities. Importantly, the statement is intended to focus on a broad range of topics, including pollutant emissions; waste generation; consumption of raw materials, energy, and water; noise; and other significant environmental aspects.
- Have the statement validated by an external environmental verifier.
- Submit a validated environmental statement to the competent authority, which will „disseminate it as appropriate to the public.“

Participating companies observing these requirements are entitled to display a special Eco-Management graphic and a statement of participation for each participating site. EC member states are authorized to consider implementation of additional incentives to encourage company participation in their countries. These may include simplified inspection requirements and special loans for environmental investments.

Challenge and Opportunity

Participation in the Eco-Management and Audit Scheme will present three key challenges to the registered sites.

Companies will need to undertake extensive self-evaluation to prepare for developing the environmental statements. Each participating facility will need to define the status of its environmental performance, i.e., where it stands today; where it wants to be in one, two, five, and ten years; and what it considers to be the right elements of an effective environmental management system. The regulation is very detailed in recommending how an environmental management system will be designed, implemented, and maintained in order to fulfill requirements related to policy, organization and personnel, environmental effects, operational control, documentation and record-keeping, and environmental audits.

Many companies will need to learn quickly how to communicate sensitive information to the public and how to judge the public's perception of the information disclosed. In the process, companies will also learn to develop partnerships through information sharing. Ideally, participating companies will help to shape the reporting of environmental information in a way that builds mutual confidence and trust. If this task is handled badly, of course, there could be further breakdown in public acceptance and respect for industry.

Companies will also have to become experts in measuring performance. They will have to make choices about what measurement systems to implement in order to measure progress toward goals and then report results. For example, what are the proven measurement systems? What companies have had success with them? How do we best implement them? How can we benchmark to find effective ways to improve environmental performance once we know how we are doing?

The far-reaching thrust of the Scheme, together with the continuing public pressures for disclosure, will create major challenges to industry regarding what to disclose, how much to disclose, and when to disclose. On the other hand, this movement toward the standardization of disclosure may lead to a better partnership with the public, reflecting industry's willingness to respond. Better information will enable the public to make more informed decisions, governments to provide better guidance for environmental protection, and the industry to identify areas for improvement or for R&D investment.

It is likely that ultimately the Eco-Management and Audit reporting requirements will serve as an important model for guidelines in other regions and even for regulation. If so, companies choosing to participate will gain a business edge over competitors, not only in Europe but around the world.

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