

CORPORATE SOCIAL RESPONSIBILITY (CSR): AN FCO STRATEGY, 2007-08

Introduction

1. Business is essential for development: it creates wealth, choice and opportunities. But for development to be sustainable, human rights and the environment must be respected, labour standards adhered to and corruption stamped out. For globalisation to succeed and be of benefit, governments, businesses, civil society and labour organisations need to work together to reduce poverty, tackle climate change and prevent conflict.
2. By working in partnership with business – and especially with exemplary UK firms – the FCO can demonstrate the UK’s currently undisputed leadership in the international CSR field. This benefits the reputation of British business and the UK generally, creating business opportunities and wider national advantages, while contributing to the achievement of the UK’s International Strategic Priorities (see www.fco.gov.uk).

Strategic Context

3. The FCO already works extensively with other *governments* to develop good governance and protect the environment. This helps provide a background conducive to sustainable business.
4. This CSR strategy, however, sets out how the FCO intends to encourage **responsible business practice** that goes beyond compliance with international legal requirements and regulations. The strategy puts a particular emphasis on **firms in high-impact sectors operating overseas**.
5. This objective supports the UK's International Strategic Priorities 3, 5, 6 and 7 (preventing and resolving conflict, supporting the UK economy, achieving climate security and promoting sustainable development). This CSR strategy is also designed to support and help deliver the FCO's Sustainable Development Strategy (itself based on the DEFRA-led UK Sustainable Development Strategy: www.sustainable-development.gov.uk) and the FCO’s Departmental Sustainable Development Action Plan (2006-08), which emphasise the need to work through partnerships with business and civil society.
6. The FCO's work on CSR contributes to the Government's poverty reduction agenda, led by DFID. Chapter 5 (Reducing Poverty through Economic Development) of the 2006 DFID White Paper (www.dfid.gov.uk/wp2006/) highlights the business role business in achieving the Millennium Development Goals, including addressing the global HIV-AIDS pandemic. The FCO also plays a lead role in the international implementation of the DTI's International Strategic Framework for Corporate Social Responsibility of March 2005 (www.csr.gov). By helping businesses to make a positive contribution to society and the

environment the FCO's CSR work compliments the UK Trade & Investment's new five-year strategy (www.ukinvest.gov.uk/2/d/10362/en/GB/1.0.html) of support for UK business success internationally.

7. *Annex A* lists our proposed CSR priority business sectors and countries. *Annex B* summarises the definition of CSR and the basic business case for CSR.

Current FCO resources devoted to CSR

8. Sustainable Development & Business Group, FCO, has just one full-time C4 desk officer dealing with general CSR policy. But because CSR is central to a range of sustainability and business issues, other officers are involved. In aggregate, additional resources by grade amount to:
 - SMS1: 10%
 - D6: 25%
 - C4: 20% (sustainable tourism).
 - B3: 120% (Kimberley Process plus forestry).
 - A1: 55% (Kimberley)
 - Small percentages of Trade & Investment, Economic and Sustainable Development Officers overseas.
9. CSR projects also account for a small slice of Global Opportunity Fund (GOF) – Economic Governance and Sustainable Development Programme funds.

The FCO's Value-Added

10. Despite these limited resources, the FCO is in a unique position to influence the world-wide CSR agenda. We can add value because:
 - We have a universal network of overseas posts, a strong position in relevant international organisations and a cross-cutting responsibility for delivering the whole of the Government's agenda internationally, as well as some GOF and other modest programme funds to support projects abroad.
 - We are seen by business and civil society alike as an impartial arbiter within Government on international policy and work closely with both sets of stakeholders (see FCO stakeholder management plans for business, NGOs and trade unions).
 - Both directly and through UKTI, we provide extensive government support for UK firms and help to create favourable business conditions abroad, and are therefore listened to by business on questions of business conduct.
 - We use our relationships and influence with other governments to promote CSR, - by improving the local business environment, helping them embed the rule of law, encouraging effective regulation (e.g. in intellectual property protection) and urging them to fulfil their human rights obligations, develop good governance and root out corruption.

Our Top Ten Aims

- i) Strong international voluntary principles and codes of conduct (social and environmental) going beyond minimal legal compliance;

- ii) A greater level of global consensus behind the business case for CSR (not just the ethical or public interest case – see *Annex B*) and awareness of the risks of irresponsible business;
- iii) Reduced business complicity in human rights abuses and more widespread best practice to help both OECD and non-OECD companies avoid this;
- iv) The eradication of international bribery, corruption and extortion;
- v) Reduced emissions through a rapid shift to a low-carbon global economy;
- vi) Sustainable production and consumption throughout international supply chains;
- vii) Implementation of the ILO's fundamental core labour standards, including upholding the freedom of association and the right to bargain collectively as well as the elimination of child labour, forced labour and discrimination in the workplace;
- viii) Sustainably managed forests and reduced illegal logging overseas;
- ix) Revenues that do not fuel conflict from the global trade in natural resources such as diamonds;
- x) Sustainable international tourism.

A Proposed CSR Agenda

- The Business Case for CSR: We will work with our business contacts to promote and advocate the business case for CSR, encouraging company leaders to take a strong lead.
- Multi-stakeholder dialogues: We will prioritise initiatives, such as the Voluntary Principles on Security and Human Rights and the Extractives Industry Transparency Initiative (EITI), which commit governments, businesses, civil society groups and in some cases trade unions to serious collaboration on CSR issues. We will use our network of overseas posts to lobby for broader participation in, and deeper commitment to, these schemes, obviating the need for greater national and international regulation.
- Championing responsible business and what it is achieving, helping to spread good practice.
- Persuading non-business interlocutors to work constructively with companies.
- Semi-regulatory initiatives and certification schemes: Together with DTI and DFID we will make the implementation of the OECD Guidelines for Multinational Enterprises and the Kimberley Process (on “conflict diamonds”) more effective in the UK and promote them via overseas posts.
- GOF funding: We will only fund projects that:
 - i. target corporate behaviour *in* or *by* the major emerging economies (China, India, S. Africa, Brazil, Mexico and Russia); or
 - ii. prioritise socially or environmentally sensitive business sectors; or
 - iii. demonstrate how tangible progress can be made on a key issue such as human rights (e.g. health & safety in Chinese mines); or
 - iv. help extend the most effective international CSR initiatives, such as the UN Global Compact, OECD Guidelines and Voluntary Principles, to new countries and participants, helping to implement these initiatives for example through the FCO's participation in the revamped UK National Contact Point for the OECD Guidelines; or
 - v. demonstrate the effectiveness individual CSR initiatives, including multi-stakeholder dialogues, in spreading best practice.

- Chevening Fellowships: We will use fellowships to increase understanding of CSR issues amongst key groups (business, trade unions and associations, civil society, media, government officials) in our priority countries. We will also use alumni networks to promote our CSR policy and initiatives.
- Political Messages: We will use ministerial speeches to spread our CSR message, including (in early 2007) one major speech by the Foreign Secretary on sustainable development and business. We will also use meetings which business leaders have with British Ministers and senior officials. We will plug into UKTI's new mechanism for co-ordinating high-level business-related visits¹ to make sure that those involved are briefed on CSR issues. We will try wherever possible to integrate CSR into our bilateral Sustainable Development Dialogues with the G8+5 emerging countries and multilateral discussions on climate change. We will also work with the German government so that the German Presidency of the G8 furthers CSR.
- Engaging emerging-economy governments and companies: We will target emerging countries, which are rapidly becoming high-impact investors abroad, including national flagship firms (e.g. CNOOC, Petrobras, Pertamina, Pemex, Codelco) and members of consortia with UK companies (e.g. Chinese oil companies in Brunei) to encourage them to adopt responsible business practices in their external operations.
- Diversifying our business and union contacts: As resources allow, we will build up contact with companies in sensitive business sectors with which we have so far had little contact, e.g. finance, construction, pharmaceuticals and global retail. We will also develop our contacts with the trade unions in key sectors, such as the ICEM, BWI, UNI and IUF.
- Working with other government departments, especially DTI, DEFRA and DFID. In view of our respective leads on Voluntary Principles and EITI, which both apply to extractives firms and mineral-rich countries, we will encourage FCO/DFID "cross-selling" of these initiatives. We will also encourage DFID interest in the Kimberley Process. We will seek to influence funding allocations from other government departments for high-priority CSR work by our posts. We will also make a strong contribution to the revived Interdepartmental Working Group on CSR and try to step up Government co-ordination.
- Working with business organisations and trade unions to further better business standards: We will work with the CBI in arguing for the business case that underpins CSR. We will also explore what more we can do in partnership with other multiplier organisations such as the unions, the International Business Leaders Forum, the International Chamber of Commerce, Business In The Community, the World Business Council on Sustainable Development and City of London bodies.
- Leading by example: We shall work with Estates and Human Resources colleagues to develop a CSR content to efforts to mainstream sustainable

¹ "By December 2006 a new committee, chaired by the Minister for Trade & Investment, will have agreed a co-ordination mechanism for the overseas visits of Ministers and other senior UK representatives, and senior inward visits from foreign ministers, to target effectively key contacts to help companies internationalise" (UKTI five-year strategy, July 2006). UKTI also aim to co-ordinated 30 senior visits a year related to financial services – 20 by the Lord Mayor of London and 10 by Ministers – and to have in place by January 2007 "a programme of targeted business briefings around the UK with the Minister of Trade & Investment and UKTI Chief Executive".

development throughout the FCO, e.g. by stepping up the reduction of carbon emissions at home and overseas.

- Promotional activities: We will build on the FCO's recent "Responsible Business Month" of events involving Ministers and promotional initiatives, to seek opportunities to make presentations on international CSR policy to key stakeholder groups such as business associations, trade unions and NGOs. We shall do this both in the UK and overseas, especially in emerging markets, working with UKTI and DFID to increase our reach.
- Export credit guarantees: We will work with ECGD to ensure that credit guarantees are granted only for projects where environmental and human rights (including labour and trade union rights) impacts have been properly assessed and managed.
- Business awards and "badge" schemes: We will work with groups such as Business In The Community and The D Group to help develop business award schemes for CSR overseas based on existing UK models. We will then ask overseas posts and UKTI to provide joint nominations for these awards, and will make use of the Duke of York's role as UK Special Representative for Trade & Investment in presenting them.
- Media: We will explore opportunities to develop media contacts to promote CSR issues and FCO activities, along with improved internal and external website material. We will also work with DTI and DFID on new website material for the UK's National Contact Point for the OECD Guidelines for Multinational Enterprises and actively promote the National Contact Point.
- Prioritisation: Recognising that CSR is a global growth industry, and potentially very resource intensive, we will cut attendance at low-priority international meetings and avoid activities that do not fit this strategy. But we will be more forthcoming in publicly backing appropriate private-sector initiatives that have no resource implications for us, e.g. the Basic Services Human Rights Network led by the utilities industry, the Equator Principles in banking and the FairTrade movement.
- Performance Management: we will develop performance milestones based on this strategy and a rigorous process of evaluation.

**Sustainable Development & Business Group,
FCO
December 2006**

CSR: PROPOSED PRIORITIES

1) PRIORITY BUSINESS SECTORS

All businesses have a social and environmental impact, but some are more sensitive than others. The sectors with the highest impact include those listed below. The graph and table on the following pages analyse what issues (such as the environment or human rights) these business sectors have an impact on and how well placed the FCO is to influence standards.

- The extractives sector (oil, gas, mining): These industries are big, often dominating host nation economies. Their installations are by definition immobile, and therefore need to manage local situations over generations or as long as they remain economic. Firms are obliged to operate in ever-more remote and sensitive regions as natural resources are depleted, e.g. in mega-diverse ecologies, fragile indigenous communities or conflict zones. As a result, the FCO's strongest business link should be with these industries. We play a strong part in both the Voluntary Principles and EITI. In implementing the Kimberley Process, the Government Diamond Office in the FCO certifies diamonds being exported from the UK and checks that diamonds entering the UK are certified as not fuelling conflict.
- Big construction/major project engineering: Giant building materials and engineering firms are similar to the extractives but come under less scrutiny because project times are shorter and corporate roles often opaque owing to local consortium and sub-contractual arrangements. Often (as in the Middle East) there is only one client – the state. Both are industries in which the UK is strong. SDBG has occasional contact with British Expertise (formerly the BCCB) and the Construction Industry Anti-Corruption Forum.
- Defence industries: Again, a single (state) client relationship and frequently opaque procurement procedures contribute to the sensitivity of arms sales. The contract sums involved can be very large too compared with national budgets, with a knock-on social impact. The UK is a major arms supplier. DESO (MoD) have the UK Government policy lead, but the FCO is active in controls through its counter-proliferation work, export licensing and support for an international Arms Trade Treaty.
- Pharmaceuticals/chemicals: Both “big pharma” and inorganic chemicals are highly consolidated industries, dominated by a handful of global players whose products have major impacts on health and the environment. They require a high investment commitment and the product pipeline for a new drug can be 15 years long. Market economics often take second place to navigating government regulation, e.g. to secure a new US or EU drug approval. With firms such as GSK and Astra-Zeneca the UK is a leader of the European pharma sector, but is a

smaller manufacturer of chemicals, now controlled through the EU's REACH regulations.

- Finance supports all business, both upstream (as investors) and downstream (as consumer creditors). From mainstream NGOs to animal rights extremists, social actors are increasingly trying to influence business behaviour by "following the money". Financial services are sensitive in CSR terms partly because they are often several removes away from the lives of people they affect in other countries, increasingly concentrated as they are in a few global financial centres and relatively immune from individual local jurisdictions. Offshore tax havens apart, nowhere is potentially more under scrutiny than the UK, the world's leading international financial centre.

UKTI's new strategy for marketing UK financial services and the City of London may provide opportunities for promoting sustainable finance in areas such as Islamic banking and microfinance and the transfer of remittances in the developing world. Socially Responsible Investment (SRI), promoted by the recent UN Principles for Responsible Investment, now account for about 5-10% of funds under management in the US and Europe, set to grow (according to Morgan Stanley) to 15% of the pension fund market by 2009. The FSTE4Good index has become an important international SRI benchmark. London institutions play a leading part in the Equator Principles, adopted by 41 banks representing 85% of global project financing, which are based on World Bank/IFC ethical standards. The FCO has frequent but ad-hoc contacts with City institutions.

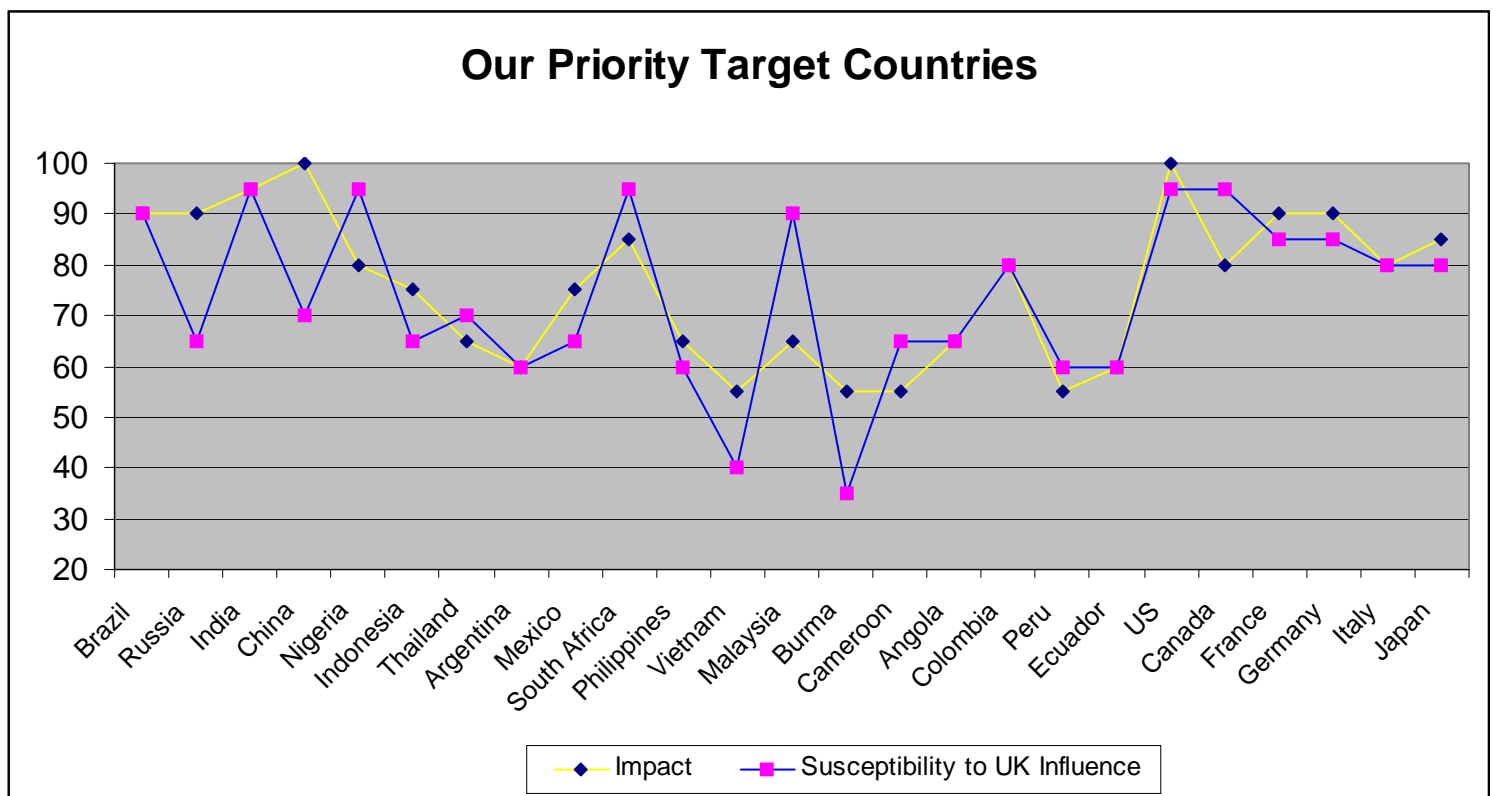
- Utilities, commodities and natural resources: Energy trading, transmission and distribution companies overlap with the extractives. Non-energy utility and commodity firms, e.g. in the water or timber sector, similarly often deal in finite resources, sometimes in near-monopoly or highly regulated markets. Their products and services touch people's everyday lives closely, while raising important sustainability questions.
- Retail supply chains: Globalisation has produced supply chains in basic goods (such as clothing and footwear, and food and drink) which can be seen as relatively separate, vertically integrated economies within the overall global economy. Some of the biggest recent CSR controversies have been in this area (e.g. Nike and child labour, or McDonalds and obesity) although this is mostly driven by consumer conscience in the developed countries, for which the big US multinationals are easy targets. In the UK, the organic and FairTrade movements are beginning to affect the mass market, with a recent upsurge of competition among the major supermarkets to demonstrate their green/ethical values. This is happening largely without Government action, although there are government-led initiatives such as the Ethical Trading initiative which is supported by DFID that give momentum to this trend.
- Travel, tourism and transport: Tourism is the world's biggest industry (certainly when transport is added in), perhaps accounting for as big a slice of the UK's invisible trade – imports as well as exports – as financial services. Its impact exceeds that of many other industries, especially in some socially and environmentally fragile parts of the world. The FCO has been successful in convening, through the Travel Foundation, discussions on these issues and leads

on efforts to breathe life into the Sustainable Tourism Initiative launched by the Prime Minister at the 2002 Johannesburg Sustainability Summit. But progress is so far constrained by lack of active support from other Government Departments.

2) PRIORITY COUNTRIES

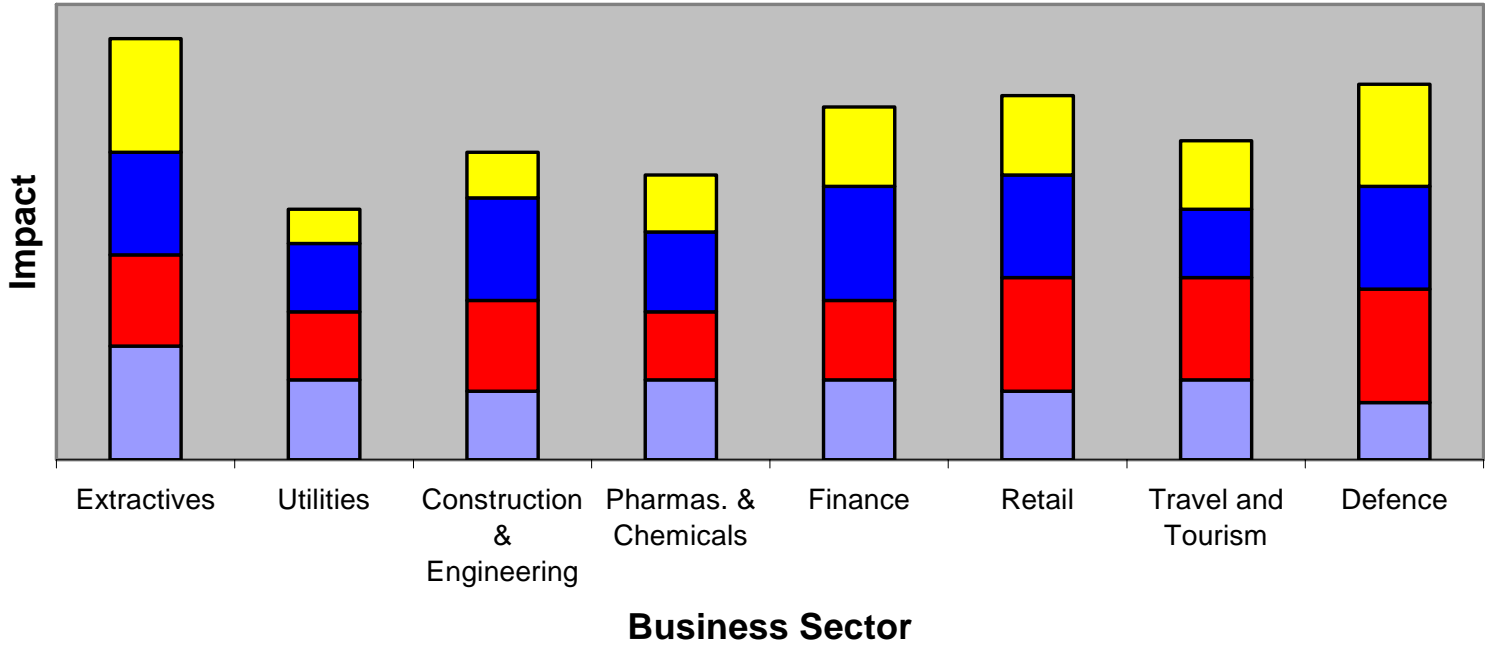
Business is global, and UK and foreign business conduct is influenced as much in countries where firms are based as where they operate. This suggests distinct groups of target countries:

- A. The largest emerging economies - Brazil, Russia, India, China.
- B. Other large emerging economies - Nigeria, Indonesia, the Gulf, Thailand, Argentina, Mexico, South Africa, Philippines, Turkey and MENA countries (Egypt, Jordan, Morocco and Libya in particular as well as U.A.E. for labour standards).
- C. Countries where sustainable development issues are critical - Thailand, Vietnam, Philippines, Malaysia, Burma, Cameroon, Angola, Colombia, Peru, Ecuador.
- D. Countries where large multinationals have their headquarters - G8.



Impacts of Business Sectors

(vertical axis based on attached table)



Environment Human Rights & Labour Corruption FCO's Influence

Business Sector	Environmental Impact	Impact on Human Rights	Impact on Corruption	Impact FCO can have on the sector
Extractives Sector	High: oil spills; gas flaring; open mining	High: land rights, pollution of indigenous peoples' land; clashes with security; employs large numbers of people; operate in conflict zones	High: large sums of money involved; royalties, taxes, concession rights paid to host governments; operating in highly corrupt areas of the World; macroeconomic "resource curse"	High: FCO has excellent contacts with extractive sector; FCO leads on Voluntary Principles and very involved in EITI
Utilities/ commodities/ natural resources Sector	High: trade in often scarce natural resources e.g. water, forestry	Medium: water industry can have an effect on land rights and destroy indigenous peoples' habitats (e.g. creation of reservoirs) but do not employ large numbers of people	Medium: monopoly markets; large individual contracts; political and security issues.	Medium: undeveloped contacts with the utilities sector, which are not currently involved in any of the major multi-stakeholder initiatives. But there is scope for influencing some governments on issues such as deforestation.
Construction and Engineering	Medium: building materials used; soil erosion and surface run-off water; energy efficiency; air pollution (eg cement)	Medium: Large numbers of local labourers employed; labour, health and safety issues important	High: opaque sector, many sub-contractors used; often contracts for government projects; projects related to power and prestige	Currently low, potentially medium: not very strong contacts between FCO and construction sector domestically; UK's construction sector heavily focused on domestic PFI projects; but there are large UK companies in this sector and Posts do have some good contacts with firms involved in major projects overseas.
Business Sector	Environmental	Impact on Human	Impact on Corruption	Impact FCO can have on the

	Impact	Rights		sector
Pharmaceuticals/ Chemicals	Medium: emissions and disposal of bi-products; water pollution	Low-Medium: facilitating access to drugs such as anti-retrovirals	Medium: large sums of money involved; state regulation can make or break business	Medium: large UK companies involved in this sector; FCO secondee working in GSK; but contacts could be better developed. DFID are already working with the pharmaceutical companies on facilitating access to drugs in developing countries.
Finance	Low direct impact (HSBC is carbon-neutral) but Medium indirectly, by financing projects carried out by other companies	Medium - indirectly, by financing projects carried out by other companies	High: large sums of money involved; money laundering; theft by from corrupt officials and politically exposed persons	High: Good contacts between the FCO and finance sector; London a leading financial centre; UK banks global businesses; Financial sector already involved in Equator Principles and FTSE4Good
Retail	Low-medium: depends on business	High: child labour; exploitative wages; poor working conditions; labour-intensive sector	Medium: high number of links in the supply chain; ample opportunities for bribery	Medium: FCO's contacts with the retail sector are developing; major retail chains keen to burnish CSR credentials and get government recognition for responsible practices; the major companies are truly global; retail is in the media spotlight on CSR.
Travel and Tourism	High: transport emissions; water use; energy efficiency (hotels etc.)	High: labour-intensive low-skill sector; low wages	Low-Medium: high number of small businesses involved, invisible product, weak quality controls	Currently low but with potential to grow: some established contacts through the Travel Foundation; new regular dialogue with travel companies established on sustainable tourism.
Defence	Low-medium: munitions pollute	High: use of weapons for repression and	High: large amounts of money involved; often	High: regular contact between FCO and defence companies for

	land	human rights abuse	dealing with corrupt governments; arms purchased with embezzled money or through smuggling	export licences; UK defence companies are international industries.
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CSR: THE BUSINESS CASE

There is no single definition of “CSR”. Many businesses call it “Corporate Responsibility”, “Corporate Citizenship”, “Responsible Business Practice(s)”, “Sustainable Business” or “ESG” (Environment, Society and Governance). There are many other definitions. The CBI use the phrase “social and environmental initiatives undertaken by companies beyond compliance”.

In addition most agree that “Corporate Governance” normally refers to internal company arrangements, while CSR relates to companies’ societal and environmental role. Most also draw a distinction between CSR and individual or corporate philanthropy, even though the latter is now seen on a huge scale, particularly in the US (e.g. the Gates Foundation).

Under any definition, CSR has an ethical and public interest dimension. A strong *business* case, however, can be made under the following headings:

- It builds reputation, brand value and customer loyalty.
- It aids staff recruitment, motivation and retention, especially among younger and more educated employees who value CSR the most.
- It helps companies mitigate risk in their own operations and in assessing partners and suppliers.
- It enables broader stakeholder management (e.g. with staff, suppliers, NGOs and local communities, and not just with shareholders, regulators and customers).
- By raising business conduct standards, it can constrain unscrupulous competition and can confer first-mover advantage, especially where market leaders set a high bar for competitors.
- CSR is invariably good for a company’s public relations.
- It helps cut down on waste (e.g. of energy and raw materials) and drives up efficiency: firms that are good at CSR are generally good at scrutinising their practices generally and therefore tend to be successful at other things.
- CSR produces better price transparency by broadening the definition of cost.
- It avoids the need for potentially burdensome national or international regulation.
- By cultivating communities and the environment instead of damaging them, CSR helps develop markets for products and services.
- It stimulates business innovation (e.g. environmental technologies, management systems).
- It often reduces costs.
- Ultimately, CSR therefore contributes to the central purpose of business, which is to add value.
