

# Can corporate-NGO partnerships save the environment? Part 1

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The World Summit on Sustainable Development in September 2002 was an anti-climactic conclusion to three decades of global environmental activism. Delegates agreed few new targets for governmental action, save a welcome pledge to halve the number of people without access to sanitation and safe drinking water by the year 2015.

What did emerge from Johannesburg was a new debate. Many governments and some non-governmental organizations (NGOs) argued that voluntary partnerships between business, governments, and NGOs were the best way to make concrete progress on sustainable development

Ten years earlier the 1992 Earth Summit in Rio de Janeiro generated a long list of official commitments and optimism that governments could protect the environment and reduce poverty. Johannesburg symbolized the extent to which Globalization has scrambled the interests and capabilities of governments, corporations, and activists. Now former antagonists are drawn to work together in ways that are uncomfortable, controversial, and yet often highly effective. It is an era of strange bedfellows.

## **The New Global Context for Environmental Action**

Thirty years of effort to restore and protect the environment has left a mixed record. While many local environments are on the mend key global trends are worsening

The Kyoto Protocol, which will likely enter into force after 2002, will not solve the problem of global warming. Leaving aside the intransigence of the U.S. (the largest single source of greenhouse gases) the Protocol does not commit the developing countries (collectively the world's largest source of future greenhouse gasses) to reduce emissions.

There are good reasons for omitting developing countries from the Kyoto mandate. The developed nations are responsible for the current high levels of greenhouse gases in the atmosphere, and they have greater financial and technological capabilities to reduce emissions. Ultimately, however, the solution to climate change and other global environmental problems will depend on the active participation of the developing world.

Globalization has proved a two-edged sword for business and the environment. As the political will and capabilities of governments to address environmental issues has waned, private capital has become the main source of foreign investment in many developing countries. The multinational companies whose investments have helped to create economic gains and environmental stresses in the developing world now face pressure to improve their environmental performance. Similarly in the United States, a trickle of voluntary initiatives has become a flood.

The contrast between Johannesburg and Rio illustrates the extent to which the institutional context for addressing environmental problems has changed. Broadly speaking, governments came to Johannesburg with less interest and fewer resources than they brought to Rio. Business, on the other hand came ready to do business and enter into partnerships with environmental organizations and governments.

Some NGOs want government to reassume a strong hand in regulating the growing influence of global corporations. Others are trying to surf the new waves; aligning with the corporations who seem more motivated than governments to take action on environmental issues.

### **Strange Bedfellows**

In one sense, partnerships between corporations and environmental organizations are not new. Companies have provided charitable grants for the programs of environmental organizations for decades. The controversy in Johannesburg surrounded a new type of partnership in which the common interest of the company and the NGO has grown beyond philanthropy. Now both organizations seek to solve an environmental problem associated with the company's core business without waiting for a government mandate. These partnerships are a significant departure from the ways in which NGOs and businesses have typically behaved.

### **The Pioneers: Environmental Defense and McDonald's**

Two of the first organizations to break this tradition were Environmental Defense (formerly known as the Environmental Defense Fund or EDF) and McDonald's, who launched a landmark partnership in 1990 to reduce waste in McDonald's restaurants and supply chain. This reduced more than 150,000 tons of packaging, recycled more than two million tons of corrugated cardboard, and purchased more than \$4 billion worth of products made from recycled materials. It has been followed by similar initiatives to reduce water and energy consumption and a new partnership with the Center for Environmental Leadership in Business at Conservation International to promote conservation and sustainable agricultural practices among suppliers of commodities, such as fish, beef, potatoes, and oils.

While difficult to prove, it is likely that the McDonald's-Environmental Defense initiative spurred other companies and NGOs to partner on voluntary environmental action. EDF in 1994 launched the Alliance for Environmental Innovation, which has undertaken similar waste-reduction initiatives. The U.S. Environmental Protection Agency has launched more than 30 voluntary programs to encourage the private sector to act above and beyond regulatory requirements (pdf 139Kb). EPA's Project XL grants companies the flexibility to test alternative approaches that achieve better environmental results more efficiently than existing regulatory requirements. Other EPA voluntary programs promote pollution prevention, energy efficiency, water efficiency, waste minimization, mass transit, watershed conservation, sustainable agriculture, and more.

### **Addressing the New Global Agenda**

In the 1990s NGOs sought to engage leading companies in combating two key issues: global climate change and biodiversity loss. The EU embraced the 1997 Kyoto Protocol, which called for a five per cent cut in industrialized nations' greenhouse gas emissions, but other developed

countries, most notably the US, and some developing countries resisted it, fearing negative impacts on their economies. With governments slow to act, NGOs turned their sights to the private sector, hoping to demonstrate that the costs of reducing emissions and protecting biodiversity were lower than many critics argued.

## **Global Climate Change**

In 1998, as US resistance slowed ratification of the Kyoto Protocol, the Pew Center on Global Climate Change was established to seek innovative policy solutions, creating a Business Environmental Leadership Council to bring the weight of Fortune 500 corporations into the policy debate.

Environmental Defense organized the Partnership for Climate Action in 2000 with Alcan, BP, DuPont, Entergy, Ontario Power Generation, Pechiney, Shell International, and Suncor Energy. If these companies were a country, they would rank 12th in emissions of greenhouse gases. DuPont made the most ambitious pledge: to reduce emissions 65 per cent below 1990 levels by 2010. The company had already achieved a 60 per cent reduction by 2000. BP achieved its goal of reducing emissions 10 per cent below 1990 levels eight years ahead of schedule in 2002.

World Wildlife Fund and the Center for Energy and Climate Solutions established the Climate Savers Program to help corporations develop innovative greenhouse gas reduction strategies and to gain public recognition for their accomplishments.

Chicago's Environmental Financial Products, LLC and the Kellogg Graduate School of Management at Northwestern University are working to establish the Chicago Climate Exchange (CCX), the world's first private trading market for greenhouse gases.

The success of these initial partnerships is spurring other companies to take voluntary action. In the US, the Business Roundtable encourages its members to measure their emissions and to adopt voluntary targets for reducing them.

A national policy of incentives for these types of strategies could result in substantial emissions reductions at minimal economic cost. Such a policy should include incentives for commercialization of low-emission energy technologies, which will be essential for dramatic emissions reductions in the future.

To reduce costs to the economy, the policy should also provide mechanisms for emissions trading and carbon offset investments, both domestically and internationally, structured to ensure biodiversity conservation. For example, conservation and restoration of threatened forests should be encouraged, while conversion of natural habitat to forest plantations or cropland should be discouraged.

## **Biodiversity**

An even greater number of partnerships have formed to promote conservation of biodiversity, which is a more urgent problem.

The world faces an extinction crisis unparalleled since the age of the dinosaurs, brought on by conversion of natural habitats for human use, pollution of air and water, hunting and fishing of threatened species, and the introduction of non-native species into natural habitats. Particularly at risk are the global biodiversity hotspots, 25 regions that harbor nearly half of the world's plant species and over a third of all vertebrate animal species. A number of key industries both contribute to biodiversity loss and offer the potential to deliver conservation solutions. Among these forestry, agriculture, fisheries, energy development, mining, and tourism are especially important.

## **Forestry**

The world's forests are home to most of its terrestrial biodiversity and logging is the most visible threat, although the impact of agriculture is actually more extensive. As a result of campaigns major retailers such as Home Depot, Ikea, Lowes Home Improvement Warehouse, and Staples have pledged to replace wood products from threatened forests with products from forests certified as sustainably managed.

The first forest certification program, SmartWood, was established by the Rainforest Alliance in 1989 and the Forest Stewardship Council (FSC) was launched in 1993 to provide a credible system for certifying "well managed forests". FSC 's global principles and criteria address environmental, social, and economic aspects of forestry. To date, FSC certification has been awarded to 453 forestry operations in 56 countries with a total area of more than 72 million acres. A Global Forest and Trade Network (GFTN) of more than 700 companies has been established to promote FSC certification among producers, traders, and retailers of forest products.

The major forest and paper companies in the United States did not join the FSC or the GFTN. Instead, the American Forest and Paper Association (AF&PA) in 1994 established the Sustainable Forestry Initiative (SFI). More than 113 million acres are enrolled in the SFI program. In June 2000, the AF&PA organized an independent Sustainable Forestry Board (SFB) to oversee the SFI's standards and certification procedures. The chief executives of Conservation International, The Nature Conservancy, and Resources for the Future sit on the SFB.

Forest certification programs have improved the environmental management of hundreds of millions of acres of forest worldwide.

## **Agriculture**

While logging may be the most visible threat to forests, expansion and destructive farming practices have had an even greater impact on biodiversity. Each year since 1980, some 35 million acres of the world's tropical forests have been converted for crop production and livestock grazing. The doubling of the world's food requirements over the next several decades will place increasing stress on many of the Earth's ecosystems.

In 1991, based on the success of its SmartWood program, the Rainforest Alliance established a Sustainable Agriculture Network with other conservation NGOs in Latin America to develop guidelines for responsible management of key export crops. It has certified over 130,000 acres of farms in Central and South America.

Coffee, the largest legally traded agricultural commodity, has been the conservation community's strongest focus. The world's key coffee-growing regions - Brazil, Central America, the Andes, East Africa, and Southeast Asia - are also some of the world's most threatened hotspots of biodiversity. Millions of acres of rainforest have been converted to coffee plantations. Conservation organizations are encouraging coffee producers to maintain traditional shade coffee farms and to end conversion of natural forests for new coffee plantations.

In the 1990s, a number of specialty coffee roasters such as Thanksgiving and Equal Exchange embraced conservation principles. In 1998, Starbucks signed an agreement with Conservation International to support small farmer coops in Mexico's El Triunfo Biosphere Reserve. Starbucks has since worked with CI's Center for Environmental Leadership in Business to create environmental and social guidelines (pdf, 143 Kb) for its suppliers.

The Starbucks guidelines were among the first applications of a set of Conservation Principles for Coffee Production (pdf, 38Kb) developed by a coalition of environmental organizations, including the Consumers Choice Council, Conservation International, the Rainforest Alliance, and the Smithsonian Migratory Bird Center. These organizations are now seeking to engage other major coffee roasters in similar efforts.

## **Can corporate-NGO partnerships save the environment? Part 2**

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### **Fisheries**

As the harvest of agricultural commodities on land threatens biodiversity, so does the harvest of fish and other marine life from the world's oceans. Overfishing has pushed three-fourths of marine fish stocks to their biological limits. Coral reefs and other marine and coastal ecosystems around the world are suffering from destructive fishing and aquaculture practices, as well as pollution from agricultural runoff and other land-based sources.

Unilever, the world's largest buyer of seafood, partnered with WWF to establish the Marine Stewardship Council in 1997. The MSC developed a standard for "sustainable and well managed" fisheries and a label for products from fisheries complying with the standard. McDonald's is working with the Center for Environmental Leadership in Business to assess fishing practices and identify actions that the company and its suppliers can take to protect marine biodiversity in key fisheries.

### **Energy and Mining**

As global demand for energy and minerals grows, oil, gas, and mining companies expand into biodiversity-rich ecosystems around the world, risking biodiversity loss by land clearing, habitat conversion, pollution, and agricultural colonization along access roads and pipeline corridors.

Global energy and mining companies have become prime targets of environmental advocacy groups. ExxonMobil, Shell and Freeport McMoRan have been the targets of international criticism for the environmental impacts, conservation and human rights abuses.

Some companies have begun to form partnerships with conservation organizations to reduce the ecological footprint of their operations and to contribute to conservation. Mobil has worked with Conservation International, Shell with the Smithsonian Institution, Chevron partnered with the WWF and Rio Tinto has worked with a number of research institutes and NGOs.

In 2001, a group of leading energy companies and conservation organizations launched the Energy & Biodiversity Initiative. The EBI is convened by the Center for Environmental Leadership in Business and its partners include BP, Chevron Texaco, Conservation International, Fauna & Flora International, The Nature Conservancy, Shell International, the Smithsonian Institution, Statoil, and the World Conservation Union (IUCN). In 2002, the newly formed International Council for Mining and Metals announced that it would work with IUCN to develop biodiversity best practices for the global mining industry.

## **Tourism**

Tourism can be a cause of environmental damage as well as a positive force for conservation. One of the world's largest industries, it is projected to expand four-fold from its 1996 levels by 2010. Nature-based tourism in areas with significant biodiversity is increasing more rapidly than the industry as a whole.

Tourism involves major infrastructure development, increased demands for water, energy and waste disposal, and an influx of new people, ideas and cultures. The tourism industry has perhaps the strongest incentive to conserve biodiversity as the future of its business depends on protecting the natural beauty and cultural richness its customers pay to visit.

Despite the strong business case for conservation, the industry has been slow to develop partnerships with conservation organizations, due in part to the structure of the industry, which is highly decentralized.

Seventy per cent of cruise ship destinations are within the global biodiversity hotspots. The industry has made significant investments in waste disposal and pollution prevention but other impacts have been largely ignored, especially those outside U.S. waters. These impacts include damage to coral reefs from ships' anchors and tourist diving expeditions, and pollution and habitat degradation associated with port development

Conservation organizations should partner with developers to reduce the impact of new hotels and resorts in sensitive coastal regions. The International Hotels Environment Initiative (IHEI), a program of the Prince of Wales International Business Leaders Forum, was established in 1992 to improve the environmental performance of the global hotel industry. IHEI recently launched a program with the Center for Environmental Leadership in Business to develop guidelines for the siting, design and construction of hotels and resorts, with special emphasis on the biodiversity hotspots.

Global tour operators control a significant flow of tourist traffic through bulk purchases and are important sources of leverage to influence the environmental practices of local hotels. The United Nations Environment Program launched the Tour Operators' Initiative for Sustainable Tourism Development (TOI) in 2000. It now includes 26 of the world's leading tour operators.

### **Are Partnerships Working?**

Partnerships became a prominent feature as NGOs and corporations adapted to new features of the global economy, including the expanded global reach of many large corporations, enhanced public and media scrutiny of these companies' behavior, and reluctance of governments to enact new environmental regulations.

An impressive number of partnerships have been launched, yet the companies involved control only a fraction of the economic activities that threaten the world's critical ecosystems. In the absence of new regulatory policies voluntary partnerships need to focus on strategies that leverage behavioral change far beyond the operations of the companies directly involved. Partnerships should focus on global leaders whose actions influence the behavior of competitors and their global supply chains. They should promote conservation approaches that help protect threatened species and habitats, such as the creation of new parks and protected areas.

All of the major environmental organizations have experimented with partnerships to some degree. Similarly, most multinational companies that have a significant environmental impact have formed partnerships with one or more NGOs.

With all of this investment in partnerships, it is reasonable to ask whether they are working. The partnerships reviewed here have all yielded concrete, if limited, results that have helped to protect the environment and to make companies more profitable and competitive.

This is significant, given that these benefits would not have materialized but for the voluntary initiative of the companies and NGOs involved. In each case, no public policy compelled the partners to act. In all cases, the partners took considerable risks to make the results happen. They risked their time and money on an uncertain venture. More importantly, they risked their reputations. NGOs faced criticism they were "greenwashing" the image of undeserving companies. Companies likewise faced that they were wasting money and "selling out" to environmentalists.

But have the partnerships worked to spur others in industry to act, to influence public policy, or to deliver environmental benefits beyond what the partners themselves could accomplish? Have they been catalysts? Unfortunately, the answer to this important question is, not yet.

NGOs like Environmental Defense, WWF, and the Pew Center launched their partnerships with the intention of showing skeptical policy makers and industry leaders that emissions can be reduced substantially at low or no cost. Despite the success of these partnerships U.S. policy has not changed. More industry leaders have been persuaded that climate action is feasible, but many admit privately that public policy is essential to spur action commensurate with the scope of the problem. A common rationale for voluntary action is to gain experience with reducing emissions so as to be competitive when a carbon policy takes effect. Without a policy, most companies are unlikely to move beyond modest pilot efforts.

Similarly, in the biodiversity arena, where eco-labeling has been the dominant strategy of voluntary partnerships, consumer demand has been less than hoped and companies have incorporated conservation principles in their operations primarily to enhance their reputations, in response to pressure from NGOs and because of corporate values among owners and chief executives.

With a stagnant economy and the public's attention focused on international terrorism, U.S. public policy and consumer attitudes are unlikely to change in the near future. Voluntary action is unlikely to spread far beyond "the usual corporate suspects".

## **The Way Forward**

But the usual suspects could exert much greater leverage. Three strategies are key.

First, conservation partnerships need to focus on supply chains, through incentives for suppliers to adopt better conservation practices. Forest and paper companies are forging partnerships with conservationists not because of mass consumer interest, but because of the demands of key retailers who themselves are responding to pressure from environmentalists. There is tremendous opportunity to improve conservation practices in agriculture if more leading companies can be encouraged to demand better conservation practices of the millions of farms worldwide that supply their raw materials.

To engage global corporations in supply-chain partnerships, conservationists need to work collaboratively with them to establish conservation standards and verification systems that are clear, achievable, inexpensive and simple. Environmental standards need to be balanced against price, quality and other imperatives. Only through compromise will a voluntary supply-chain system work at a scale large enough to match the impact that public policy imperatives would have.

A second key strategy is to expand the focus of voluntary initiatives. To create partnerships that look 'beyond the fence-line', NGOs need to emphasize the business case for doing good, not just for doing less harm. Most to date have focused on reducing firms' own environmental impacts. The focus needs to be more on creating innovative solutions for the problem at the landscape or global level. Reducing greenhouse gas emissions among a handful of leading energy companies makes a tiny dent in atmospheric concentrations but the successful commercialization of low-carbon energy technologies by those firms could have a tremendous impact. Environmental partnerships need to use corporate pride as motivator, not only corporate responsibility for correcting bad behavior.

The lack of major business-NGO partnerships on water conservation is interesting as water availability has been identified as one of the key environmental challenges of the new century. The problem of water scarcity in most regions results not from the behavior of large industrial firms, but from inefficient water use in agriculture and from the degradation of watersheds. Shifting the focus of partnerships to creating landscape-level water conservation solutions could attract valuable corporate allies.

The third key strategy is to create partnerships that involve joint business-NGO advocacy for effective public policies. The proposition that public policy will not change could be refuted if

corporations and NGOs change the terms of the environmental policy debate. If progressive business leaders and environmentalists agree a common environmental policy agenda the political winds could shift rapidly. The Pew Center for Global Climate Change, with its Business Environmental Leadership Council, is an excellent example of this approach.

For any of these strategies to work NGOs need to learn to compromise, to build trust and to collaborate on innovative solutions while keeping up the pressure, without which large corporations have little incentive to take voluntary action. It is probably most effective for some NGOs to specialize in pressure, and others in collaborative solutions - and for each to recognize the value in the other's role.

NGOs also need to learn to work more collaboratively with each other. Too often ego and competition for donors and media attention prevent NGOs forging alliances that could yield larger-scale results. Competition among NGOs leaves corporate partners confused. The Center for Environmental Leadership in Business has found that it is often harder to get NGOs to collaborate than companies in highly competitive industries.

With ingenuity and a spirit of compromise, business leaders and conservationists can together accomplish a world of good for the environment and for the economy in this era of strange bedfellows.