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**GOVERNANCE PRINCIPLES FOR FOREIGN DIRECT  
INVESTMENT IN HAZARDOUS ACTIVITIES**

submitted by

The Regional Environmental Center for Central and Eastern Europe  
through the Ad Hoc Working Group of Senior Officials

BACKGROUND DOCUMENT



UNITED NATIONS  
ECONOMIC COMMISSION FOR EUROPE

## **Draft Governance Principles for Foreign Direct Investment in Hazardous Activities**

The following environmental governance principles are intended to apply primarily to foreign direct investment (FDI) in industrial, mining and other activities hazardous to health and the environment in Central and Eastern Europe, the Caucasus and Central Asia. Nevertheless, these principles may be applicable to any region of the world where such transboundary investment occurs. These principles have been designed to complement other voluntary international codes of conduct, compacts and other instruments.

### **Corporate Good Citizenship**

#### **Principle 1**

Investors should assiduously apply accepted international standards for corporate "good citizenship" to their investment projects, especially in countries in transition and developing countries. Good corporate citizenship requires an approach to doing business that integrates recognised ethical standards in the areas of environment, human rights, labour, and community relations.

### **Responsibilities to and Relations with Recipient Countries**

#### **Principle 2**

- (a) Investors must ensure that their operations meet international standards, even when governments do not or cannot enforce compliance with international norms. Except in accordance with paragraph (b), investors should not invest in a country unless they establish that the country can provide an adequate legal framework for regulating hazardous activities, together with properly resourced authorities with powers of approval, inspection and enforcement.
- (b) An investor may invest in a country not meeting the requirements of paragraph (a) if it can provide continuous independent and external verification that its activities meet the relevant international standards and norms.

#### **Principle 3**

Investors should take all legal and regulatory steps required under the laws, regulations, and administrative practices of the countries in which they invest to protect the environment, conserve natural resources, and avoid accidents that would result in environmental harm or harm to human health.

#### **Principle 4**

Investors should take a pro-active stance toward regulatory agencies to ensure the proper environmental oversight of their activities, recognising that the transitional status of recipient countries may create administrative and regulatory conditions that differ significantly from the conditions prevalent in the home country, to which end:

- Investors should gain a thorough knowledge of the legal and regulatory framework and requirements for environmental protection of recipient countries.

- Investors should conduct independent assessments to ensure that their operations meet all legal and regulatory requirements.
- Investors should, when necessary, prompt environmental authorities in recipient countries to enforce all legal and regulatory requirements.

#### **Principle 5**

Investors should support and promote the transfer of environmentally friendly technology to the recipient country. Investors should not transfer environmentally inferior or obsolete technology to the recipient country.

#### **Principle 6**

Investors should abstain from creating competition between countries or regions within a country to attract a proposed investment on the basis of the level of environmental standards, and the following should be adhered to:

- The costs of complying with environmental regulations should not be a factor in choosing one investment location over another.
- Candidate recipient countries should not be given the impression that low environmental standards or enforcement relative to each other would enhance the likelihood of receiving investment.

#### **Principle 7**

Investors should give due consideration to the role that their projects would play in the environmental aims and objectives of the recipient country. To this end, investors should provide national and local authorities with analyses of how proposed investments will fit into the environmental and development plans of the target countries as follows:

- Many recipient countries have national environmental action plans that set long-term environmental goals. Investors should provide analyses of how their operations will not complicate meeting, or will help meet, those goals.
- Many recipient countries have national development or sustainable development plans. Investors should provide analyses showing how their proposed operations will meet the environmental standards and goals established in such plans.
- In the absence of national environmental and development plans, investors should provide analyses to national and local authorities in regard to how proposed operations will further the pursuit of sustainable development according to internationally accepted criteria and principles, such as those expressed in relevant declarations such as the Rio Declaration and the Johannesburg Declaration.

#### **Principle 8**

Investors should work with the governmental agencies and interested stakeholders of recipient countries to develop and promote the environmental policies of the recipient country.

#### **Principle 9**

Investors should abstain from financially involving local officials or community leaders in development projects in order to avoid conflict of interest situations. Relations with localities should be marked by transparency.

#### **Principle 10**

Investors should abstain from exerting pressure on the authorities in the countries in which they are investing to lower social and/or environmental standards.

## Company Environmental Policy

### **Principle 11**

Investors should abide by the Organisation for Economic Co-operation and Development Guidelines for Multinational Enterprises. Investors should join or adhere to voluntary international codes, compacts, and other instruments relevant to their fields of operation. Such instruments may include but not be limited to the Global Compact, the Global Reporting Initiative, the Global Sullivan Principles, and industry specific instruments.

### **Principle 12**

Investors should establish environmental and social performance objectives and strategies in order to regularly measure their environmental and social performance. Investors should strive to continually improve their environmental and social performance:

- Where environmental standards for their industry are higher in the home country than in the recipient country, investors should base their minimum environmental performance standards on the standards of the home country.
- Investors are encouraged, consistent with the objective of continual improvement, to exceed the minimum standards set in recipient and/or home countries in establishing performance objectives.
- Investors should establish monitoring and assessment procedures to evaluate their environmental and social performance.
- Investors should share the results of their environmental and social performance evaluations with authorities, non-governmental organizations, and the public in recipient countries.

### **Principle 13**

In the spirit of continual improvement, investors should regularly review and update environmental policies, priorities, and procedures.

### **Principle 14**

Investors should establish environmental management systems that meet or exceed the International Standardization Organization's 14000 series of standards. Investors are encouraged to join ISO 14000 and/or EMAS.

### **Principle 15**

Investors should require all suppliers and subcontractors to meet international standards of environmental performance (supply chain management). Investors should support suppliers and subcontractors in their efforts to meet these standards and to achieve certification.

### **Principle 16**

Investors should designate company officers as focal points for environmental matters and for public relations.

### **Principle 17**

Investors should assume cradle-to-grave responsibility for all hazardous substances produced in and through their operations, even where such responsibility is not imposed on producers as a matter of law. Investors should, in addition, take the necessary measures to insure proper handling, storage and disposal of all hazardous substances obtained from others and used in their operations. Investors should employ product life cycle assessment where appropriate.

### **Principle 18**

Investors should apply the polluter pays principle in their own operations and promote its application in the business community to which they belong.

### **Principle 19**

Investors should adopt a precautionary approach to environmental challenges and environment related decisions. In accordance with Principle 15 of the Rio Declaration, lack of full scientific certainty should not be used as a reason for postponing or not implementing measures to protect the environment. The precautionary principle can be applied by:

- performing risk analyses for new products, processes, technologies, and actions that might have an environmental impact;
- demonstrating that new products, processes, technologies, and actions that might have an environmental impact are safe for the environment rather than waiting for evidence that they might be unsafe (applying a conservative burden of proof standard);
- building in safety margins when setting safety and environmental standards; and
- using the best available technology.

### **Principle 20**

Investors engaged in hazardous activities should ensure the full life cycle operation of facilities, up to and including closure and remediation to the original state.

### **Principle 21**

Investors should recognize that all investments should aid in the process of transition to sustainability. Proposed operations therefore should work within the sustainability limits of the ecosystems within which they will be built, thus:

- Investors should develop or adopt sustainability indicators that meet international standards.
- Investors are encouraged to join the Global Reporting Initiative and regularly submit sustainability reports.
- Investors should ensure that environmental impact assessments conducted on their proposed operations take into account impacts on ecosystem structure, function, and composition.
- The utilisation of natural resources by investors should fall within limits of sustainable use for those resources.
- Sustainability limits for natural resource use should be set using a precautionary approach.

### **Principle 22**

Investors should establish environmental monitoring programs. These should include monitoring of the effects of their operations on the surrounding ecosystem and environment, including fish and wildlife, and surface and groundwater, where applicable.

## **Public Participation and Stakeholder Relations**

### **Principle 23**

Where potential impacts of an investor's operations may be transboundary in scope, the investor should involve the public, authorities, and other stakeholders of the potentially affected country to the same extent as it would involve those of the country of location.

#### **Principle 24**

Company environmental focal points should hold regular open meetings with the public and stakeholders to discuss issues of concern to any party, and be accessible to the public at reasonable times and places. Investors should build partnerships with the public, take advantage of local knowledge, and ensure that the public has a voice in environmental decision-making.

Open meetings should be well advertised in local communities and among stakeholders, and be held in a spirit of collaboration. Senior company officers are encouraged to attend these meetings.

### **Environmentally Responsible Corporate Values**

#### **Principle 25**

Home offices should promote environmental awareness and responsibility in all company locations. Such support may be rendered operational by making environmental specialists available from the home office, providing home office oversight of environmental performance, and rewarding positive environmental performance.

#### **Principle 26**

The incentive structure of each company and facility should be reviewed to ensure that environmentally responsible behaviour is rewarded while environmentally irresponsible behaviour is punished, i.e.:

- Employees should be supported and rewarded for taking environmental initiatives.
- Investors should establish procedures and safe forums for employee grievances and “whistleblower” cases.
- “Whistleblowers” must be protected against retaliation.

#### **Principle 27**

Workers should be trained and educated in all relevant areas of environmental responsibility.

### **Accident Prevention and Management**

#### **Principle 28**

Investors should take every reasonable and prudent step necessary to prevent industrial accidents, including:

- Operations should apply safety management systems that include detailed risk assessments; strategies for reducing risks; emergency plans, and monitoring, auditing, and review of safety systems.
- Operations should employ the best available technology relevant to safety and accident prevention.
- Investors should dedicate substantial resources to training of personnel in accident prevention and response.
- The above-mentioned measures should include automated shutdown procedures for discreet units and entire operations.
- Local communities and other stakeholders should be involved in the development of emergency response plans and in periodic evaluation and revision of response plans and procedures.

**Principle 29**

Investors should be able to demonstrate sufficient financial assurance for the full and fair costs of compensation and remediation in the event of an accident or other damage, applying the “worst case scenario” approach, and should ensure the material and technical means for applying necessary emergency measures.

**Principle 30**

Investors should develop the following policies and regulations that protect the health and safety of workers:

- Investors should identify scenarios that might endanger workers and take measures to eliminate, reduce, and control them.
- Investors should periodically evaluate the effectiveness of health and safety measures and revise such measures accordingly.
- Investors should develop and implement emergency response plans and procedures in the event of workers sustaining injuries or being exposed to hazardous substances.