

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE FINANCE COMMITTEE – 22 AUGUST 2002**

REPORT ON: SOCIALLY RESPONSIBLE INVESTMENT UPDATE

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 632-2002

1 PURPOSE OF REPORT

This report updates the Sub-Committee on the issue of Export Processing Zones which was identified as a concern at the last meeting on 22 May.

2 RECOMMENDATION

The Sub-Committee is asked to note the information contained herein and to continue to raise this issue with Fund Managers as appropriate.

3 FINANCIAL IMPLICATIONS

None.

4 LOCAL AGENDA 21 IMPLICATIONS

None.

5 EQUAL OPPORTUNITIES IMPLICATIONS

None.

6 INTRODUCTION

On 22 May 2002 the Sub-Committee approved Report No 304-2002 which was a six monthly report on the Socially Responsible Investment activities of the Funds' managers. It was noted that the issue of Export Processing Zones was not addressed and it was agreed to write to the three managers and the Local Authority Pension Fund Forum (LAPFF) to raise this issue. The individual responses are detailed below.

7 SCHRODER INVESTMENT MANAGEMENT LIMITED

Schroders note that these zones offer reduced taxes and reduced employment legislation for factories producing goods for export. However, this may lead to concern over health and safety conditions and labour rights eg union representation often not allowed.

Social Accountability has produced a quality standard SA8000 against which factories can be assessed and verified. Many companies now use this to ensure good standards throughout their supply chain.

Schroders regularly raise labour standards in the supply chain with companies and look for commitment to standards such as the International Labour Organisation's Conventions.

Supply chain management is one of their three main areas of focus for engagement in second half of 2002.

8 BAILLIE GIFFORD

Baillie Gifford will engage in dialogue with companies to monitor and address these issues. They are unaware of any holding by the Fund in companies who face material reputational risk from Export Processing Zones.

However, it is acknowledged that the zones are expanding and are now estimated to cover 27 million workers in 70 countries.

9 FIDELITY

Fidelity view China as the main user of these zones. They consider that child labour is not an issue with the range of workers' ages being between 18 and 23.

Fidelity's investments for the Fund in Asia/Pacific are held in pooled funds which concentrate on Hong Kong, Singapore, Korea, Australia and Taiwan with limited exposure to China, Malaysia and Indonesia and none to India and Pakistan.

Social, environmental and ethical issues are taken into account in investment process where there is a material impact on investment risk.

10 LAPFF

This issue has not been specifically addressed. However, a long term process of engagement with companies regarding overseas labour standards is continuing. As a first step this aims to make companies state their policy on labour standard issues.

11 CONCLUSION

Export Processing Zones are being addressed indirectly by all the Fund Managers as part of their engagement process on labour standards. It is an area which will continue to be monitored and raised with companies.

**DAVID K DORWARD
DIRECTOR OF FINANCE**

BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

SF/AK
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