REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE OF THE FINANCE COMMITTEE - 17 NOVEMBER 2004

REPORT ON: SOCIALLY RESPONSIBLE INVESTMENT - SIX MONTHLY REPORT

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 781-2004

1 PURPOSE OF REPORT

This report reviews the progress by the Fund Managers regarding the positive engagement strategy approved by the Sub-Committee on 23 February 2000.

2 RECOMMENDATIONS

The Sub-Committee is asked to note the information contained within this report with regard to the activities of the Fund Managers during the six month period ended 30 September 2004.

3 FINANCIAL IMPLICATIONS

There are no financial implications.

4 LOCAL AGENDA 21 IMPLICATIONS

As part of the Fund's policy on Socially Responsible Investment, its investment managers are required to engage with companies on matters of social responsibility including Sustainability and the Environment.

5 EQUAL OPPORTUNITIES IMPLICATIONS

The Fund's Socially Responsible Investment policy requires investment managers to engage with companies regarding their performance in relation to Employee Care and Human Rights.

6 INTRODUCTION

On 23 February 2000 the Sub-Committee approved a report prepared by Hymans Robertson, the Fund's consultants that the Fund should adopt a strategy of positive engagement with the companies in which it invests. The four action areas were identified as Employee Care, Human Rights, Sustainability and the Environment. This report reviews how the individual Fund Managers have implemented this.

7 ALLIANCE BERNSTEIN

A summary of engagement activity over the last six months is shown at Appendix 1.

8 BAILLIE GIFFORD

Baillie Gifford have responded to a recent EC consultation document on shareholder rights. It is hoped this will make it easier for shareholders to exercise their voting rights.

A summary of recent engagement activity is shown at Appendix 2.

9 **FIDELITY**

Fidelity's recent activity is shown in Appendix 3.

10 **OVERALL CONCLUSION**

The submissions by the Fund Managers continue to show that they are devoting significant resources to this area and by allowing each to use its own means of targeting companies the Fund has been able to address a wide range of issues.

11 **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.

DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE) **10 NOVEMBER 2004**

Company Engagement

Subject	Period	Stocks	Topic	Comments
Environment	3Q04	Barratt Development	Corporate Social Responsibility	We discussed our dissatisfaction with the company on its general lack of Corporate Social Responsibility (CSR) reporting earlier this year. As promised, the firm published its first CSR report this quarter, which summarises their corporate, social and environmental activities. The company stated that the process of creating this report has given them a better understanding of the environmental and social impact of their business. In addition, the company feels that a major benefit from this exercise has been the establishment of a team of senior personnel led by a member of their Executive Board to drive this initiative within their business.
Human Rights	3Q04	Unilever	Labour practices in hybrid cottonseed production in India	A report commissioned by the India Committee of the Netherlands (ICN) published in May 2003 made allegations that Hindustan Lever Limited (HLL), were exploiting child labour on cottonseed farms in India. Unilever notified us that "HLL exited the cottonseed business in the first quarter of 2002 and as a result is no longer in the cottonseed business." On further investigation, we found that HLL still has a residual holding in the Indian cottonseed business Paras Cottonseed. HLL has a put option on the holdings at a pre-determined price which becomes exercisable in early 2005. This residual holding was created as a deferred payment structure (rather than a holding for any business interests). We met with the CFO of Unilever this quarter and discussed our dissatisfaction with their inconsistent statements and continue to engage with Unilever on this matter.
Corporate Governance	3Q04	Wm Morrison Supermarkets	Deficiencies in the composition of their board	Earlier this year we expressed our dissatisfaction with the company's corporate governance structure and lack of disclosure on pay by voting against the approval of their remuneration report. During this quarter the company added two independent non-executive directors to its board. While these appointments do not increase the percentage of independent non-executive directors on its board to 50%, they do indicate a step in the right direction at the company. We continue to engage with the company regarding its corporate governance structure.
Heath and Safety	3Q04	Vodafone	Electromagnetic radiation	Research suggests that some link might exist between cancer and the electromagnetic radiation generated by mobile phones. Most recently, a Swedish study published in the journal Epidemiology found that using a mobile phone for more than 10 years might increase the risk of a non-cancerous tumour (with the capacity to affect hearing). This follows on from past studies in Britain and Australia, which have suggested similar conclusions. In response, Vodafone argues that the evidence is weak that cellular networks cause disease (especially at normal usage levels), and that the latest digital phones are in any case less risky because they emit less radiation than their predecessors. Additionally the company highlights research it has conducted in the measurement of electromagnetic radiation across several different parts of the world. We are continuing to engage Vodafone on this matter.

Summary of Major Engagement Activity for Tayside
Quarter To 30/9/04
Baillie Gifford

Company	Area of Engagement	Main Topic	Outcome
Adecco	Corporate Governance	Board Structure, anti-takeover device, US accounting irregularities	Following our letter to the company in March 2004, encouraging the company to improve its corporate governance standards, the Chairman wrote to Baillie Gifford outlining the proposed changes. We are very pleased that the Board has addressed our concerns.
Adidas Saloman	SRI	Employee care, human rights, and sustainability (Supply chain management in developing countries)	Meeting with company. The company appears to have the procedures in place to monitor its suppliers. Nevertheless, we have written to the company asking for further clarification of its approach.
Aegis Group	Corporate Governance	Executives' service contracts	Meeting with Chairman. BG welcome the proposed changes to the change of control provisions. We are hoping to meet the Chairman again and the Remuneration Committee Chairman in Q4 2004.
BG Group	Corporate Governance	Executive remuneration	Letter from Remuneration Committee Chairman. Company has removed retesting from its Share Option Scheme. This follows our letter to the Remuneration Committee Chairman in May 2004. We welcome the changes.
BHP Billiton	Corporate Governance	Revised remuneration strategy	We met the Remuneration Committee to discuss its proposals to change the company's remuneration strategy. The company intends to remove its Deferred Bonus Scheme and introduce a 5 year Long Term Incentive Plan. We believe that the proposals address many of the problems within its existing remuneration policy. We intend to vote in favour of the proposals at the AGM.
British American Tobacco	SRI	Employee care and sustainability (Supply Chain Management in developing countries and the impact of HIV/AIDS)	Following a meeting with the company we wrote to the Head of Investor Relations to seek clarification of BAT's supply chain policies and the management of the risks to its business from HIV/AIDS in India. We are currently awaiting a response from the company.
Next	Corporate Governance	Options to executive directors	Following extensive consultation with the company BG has said that it will support Next's plans to allow executives to participate in call options. This is in light of the increased competition from private companies to recruit the company's key executives. In addition, the cost to Next shareholders from the options will be capped.
Vodafone	SRI	Sustainability and environment (Adult content and the impact of 3G phones)	Meeting with CSR Director was a useful update on the company's CSR progress. Going forward, we intend to monitor developments in its Stakeholder Perception Survey.

Socially Responsible Investment (SRI) Report – Q2 2004

Fidelity's Policy on Socially Responsible Investment

- ◆ Fidelity's primary objective is to produce the best financial returns for our clients.
- ◆ Fidelity recognises and supports the view that social, environmental and ethical best practice should be encouraged as long as the potential for financial return is not reduced. Fidelity believes that, over the long term, sound social, environmental and ethical policies make good business sense.
- ◆ Fidelity's investment process takes social, environmental and ethical issues into account when, in our view, these have a material impact on either investment risks or returns.
- ◆ Fidelity does not screen out companies from our investment universe purely on the grounds of poor social, environmental or ethical records. Instead, we adopt a positive engagement approach, whereby, on behalf of our clients, we discuss these issues with the management of companies in which we invest, with the aim of improving procedures and attitudes.
- ◆ Fidelity has an active corporate governance policy that seeks to protect the financial interests of our clients and, for UK investments, takes into account the recommendations of the Combined Code on Corporate Governance.

Fidelity's four-stage process for socially responsible engagement

1. SRI Specialist identifies engagement priorities, typically focused on companies where we perceive that environmental, social and ethical issues could have a material impact on shareholder value. These engagement priorities are discussed with the relevant research analysts.
2. Background research is undertaken on specific issues through dialogue with brokers and other interested parties (such as non-governmental organisations).
3. SRI Specialist holds dedicated SRI meetings with companies.
4. The findings from the meeting are reviewed by the SRI Specialist and research analyst and future engagement objectives agreed.

Recent company engagement

Note: We have been in contact with the companies listed below to discuss environmental, social and ethical issues, either through face-to-face meetings, by teleconference or in writing.

Company	Country	Corporate Responsibility Strategy	Environmental Management & Climate Change	Responsible Product Stewardship	Workplace	Human Rights
Allied Domecq	UK	♦	♦	♦		♦
Amec	UK	♦	♦	♦	♦	♦
AstraZeneca	UK	♦	♦	♦	♦	
Anglo American	UK	♦	♦	♦	♦	♦
BAE Systems	UK	♦		♦	♦	
Barclays	UK	♦		♦	♦	
BG	UK	♦	♦	♦	♦	♦
BP	UK	♦	♦	♦	♦	♦
BT	UK	♦	♦	♦	♦	
Deutsche Telekom	Ger	♦	♦	♦		♦
EMI	UK			♦		
Enterprise Inns	UK	♦		♦	♦	
GlaxoSmithKline	UK	♦		♦	♦	
GWR	UK	♦		♦		

Company	Country	Corporate Responsibility Strategy	Environmental Management & Climate Change	Responsible Product Stewardship	Workplace	Human Rights
Hilton	UK	♦	♦	♦	♦	
ITV	UK			♦		
Luminar	UK	♦		♦		
Nestle	Switz			♦		♦
mm02	UK	♦		♦		
Phillips	Neth	♦	♦	♦	♦	♦
Reuters	UK	♦		♦		
Standard Chartered	UK	♦		♦	♦	♦
Stanley Leisure	UK	♦	♦	♦	♦	
Telefonica	Spain	♦	♦	♦		♦
Vodafone	UK	♦		♦		♦
Wetherspoon (JD)	UK	♦	♦	♦	♦	
William Hill	UK	♦		♦	♦	
Wincanton	UK	♦	♦	♦		

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Socially Responsible Investment (SRI) Report – Q2 2004

Issue: **Responsible gambling**

Background: Responsible business practice is important for all companies, but particularly so for companies operating gambling facilities, where it is a core part of their license to operate. The UK government is currently considering proposals for the deregulation of the gambling industry. Deregulation is being introduced with the condition that levels of gambling addiction must not increase. This makes it all the more important that operators of betting offices, online gambling sites and casinos demonstrate that they are taking proactive steps to manage problem-gambling. As well as a risk to companies with poor performance, we also see an opportunity for companies with best practice policies to build better relationships with regulators.
Our engagement objectives were to understand how companies train their staff to promote responsible gambling, whether advice and support is offered to customers and what systems are in place to audit and report publicly on performance in addressing this issue.
As part of our background research, we met GamCare, the leading UK gambling charity, to learn about its views on best practice.

Engagement: We held discussions with **Hilton** (owner of Ladbrokes), **William Hill** and **Stanley Leisure.** All companies demonstrated a good understanding of the negative impacts of gambling and are active supporters of GamCare, funding the charity's work to support people with gambling addictions. We did, however, identify varying standards of staff training and auditing, with Ladbrokes emerging as a sector leader. Ladbrokes has trained staff at all levels on its responsible gambling policies and has a programme of six-monthly internal audits and annual external audits (carried out by GamCare) to ensure that policies are being effectively implemented.
Promoting responsible practices in online gambling (an important growth area for the industry) is presenting challenges for all operators, especially related to age verification. We encouraged Hilton and William Hill to continue their efforts to improve age verification systems and provide facilities for customers suffering from gambling addictions to voluntarily exclude themselves from websites (a facility already available in betting offices).
One area where all companies can improve is in the development and disclosure of Key Performance Indicators and we encouraged company management to look at this area.

Future objectives: We will continue to encourage all companies to improve the disclosure of their performance in managing the negative impacts of gambling. We view this as an important aspect of reputational risk management and a way of easing concerns about a proliferation of problem-gambling following de-regulation.

Issue: **Ensuring employee welfare in high risk areas**

Background: The recent upsurge in global terrorism has increased the risks faced by companies operating in areas such as the Middle East, particularly those employing westerners. The increased risks are affecting different industry sectors, ranging from oil and gas to banks and hotels. It is, of course, every company's priority to protect its employees and ensure that appropriate security systems are in place. There is also the wider business context to be considered, where the company needs to ensure that it has the systems in place to operate effectively even in a high risk environment.
We raised this issue with a number of different companies, looking to understand more about the risk assessment systems they have in place, existing security systems and any steps taken to increase security measures in light of recent events.

Engagement: Security risk assessments and disaster recovery systems have always been a part of standard operating procedures for the companies we spoke to, especially for extractives companies such as **BG** and **BP**. BP in particular has long-standing experience in operating in high risk areas, such as Columbia, so is well-prepared to deal with the current terrorist threat and has an extensive programme of staff training and support.
BG has signed up to international Voluntary Principles on Security & Human Rights. We were encouraged to learn that **Amec** is also considering its position on this standard, especially given the increased security focus required for its operations in Iraq.
Standard Chartered has experience in working in high risk locations (for example, it was the first international bank to go back to Afghanistan after the fall of the Taliban regime) and this experience can give the bank access to a wider range of markets. Involvement in initiatives such as the Iraq Trade Bank has increased the bank's global risk profile and security procedures are now subject to close monitoring by the Board.
One difficult market in which Standard Chartered and also **Barclays** operate in is Zimbabwe. Both banks are committed to supporting their local staff and customers and not pulling out of the country. Longer-term, both banks hope to be well-positioned in the market when the regime does change.
Security was also raised in our meeting with **Hilton**. Like the banks, Hilton sees advantages from being able to deal with high risk issues, in this case, being able to host high profile political events which could be terrorist targets.

Future objectives: We will continue to discuss this issue with those companies operating in high risk areas to confirm that comprehensive systems are in place to protect employees and the business itself.

Socially Responsible Investment (SRI) Report – Q2 2004

Issue: **Telecommunications & customer safety**

Background: Customer safety is a particular focus for the telecommunications sector at present. For mobile operators, there continues to be public concern over possible adverse health impacts from exposure to mobile telephone masts and handsets. While scientific research has yet to find conclusive proof that handsets and masts do have adverse health impacts, this research is ongoing and it is important that companies take a pre-cautionary approach. Another area of concern is the distribution of unsolicited adult material, especially to children, through the internet and through internet-enabled mobiles. Companies who manage this issue well may be able to turn what is currently a reputational risk into a business opportunity to provide market-leading services to existing and potential customers.

Engagement: Customer safety was a focus for engagement with **Vodafone, mm02, BT, Telefonica** and **Deutsche Telekom.**
We were encouraged that all of the mobile operators are funding independent scientific research to look into the potential health risks from Electro Magnetic Frequency (EMF) radiation. We also see it as important that companies with global operations, such as **Telefonica** and **Vodafone**, are committed to operating to a set of global standards, even in countries where there is currently little public concern about this issue. Public perception of the risk seems to be the greatest challenge for the industry and we discussed the importance of programmes to engage with and reassure consumers and help them to better understand the issue and the risks.
Whereas EMF radiation is primarily a risk, responsible management of material content is being seen as an opportunity. **mm02**, for example, is developing new products and services to protect children from receiving pornography or being targeted by paedophiles. This includes filtering and moderating chatrooms and developing a 'walled garden' product offering high quality sites suitable for children. Others, such as **BT** and **Deutsche Telekom**, are offering products which block unsuitable material. This also provides companies with an additional revenue stream. There is much work underway to develop robust age verification systems. Once companies have adequate systems to protect minors, there will be scope for them to take advantage of the potentially lucrative market for gambling and adult content.

Future objectives: We will continue to monitor performance, looking specifically for evidence of ongoing support for scientific research, proactive communication with concerned stakeholders and the development of new products to protect customers from receiving unwanted, offensive material.

Issue: **Responsible drinking**

Background: There are increasing concerns over the negative social impacts of alcohol, notably crime, anti-social behaviour and alcohol-related illness. Binge drinking is becoming a particular problem and is linked to 70% of all admissions to Accident and Emergency departments in peak times. The spotlight is falling on the alcohol industry and its role in promoting responsible drinking.
Companies demonstrating responsible business conduct should benefit from improved relationships with regulators. However, if problems persist, there is a risk that government will impose additional controls, for example, forcing the industry to meet the cost of additional policing and street cleaning. Licenses could even be withheld for poor performers in particular trouble spots. During our meetings with a number of industry players, we sought to determine whether leading practices are in place as part of voluntary self regulation.

Engagement: We met with companies involved in different parts of the alcohol industry, ranging from alcohol manufacturer **Allied Domecq** to pub owners **J D Wetherspoons** and **Enterprise Inns** and nightclub operator **Luminar.**
Our discussions with **Allied Domecq** focused on sales and marketing. We were encouraged by the company's sector-leading work to embed its responsible drinking code within the business culture. All marketing campaigns carry a sensible drinking message and are scrutinised by an independent advertising review board. We did however encourage the company to work more with the pub companies selling its products to ensure that their promotional activities also reflect best practice.
Promotional policies are a critical issue for pub operators. **Wetherspoons** has taken a lead with reductions in the prices of soft drinks and single measures. **Luminar** has attracted negative publicity for its discounting policies, however the company expressed support for minimum pricing. This would encourage venues to differentiate themselves on quality of service and entertainment rather than the price of alcohol.
All companies understand the importance of a close working relationship with local authorities and police, with area managers in regular contact with local licensing officers. Indeed, Luminar withholds part of the bonus paid to its venue managers until it receives a favourable report from the local licensing officer.
We encouraged all pub companies to improve disclosure of their policies on responsible pub management as a way of strengthening their reputation in the eyes of national and local government and local community groups. As part of this, the companies should also be more proactive in communicating directly with customers on sensible alcohol intake levels.

Future objectives: As government thinking on this issue continues to develop, we will look for companies to demonstrate best practice and to provide detailed disclosure on their performance.

Corporate Social Responsibility (CSR) report – Q3 2004

Fidelity's policy on Corporate Social Responsibility

- Fidelity believes that high standards of corporate social responsibility (CSR) make good business sense and have the potential to protect and enhance investment returns. Consequently, our investment process takes social, environmental and ethical issues into account when, in our view, these have a material impact on either investment risk or return.
- We recognise and support the view that social, environmental and ethical best practice should be encouraged as long as the potential for financial return is not reduced. We favour companies committed to high standards of CSR and to the principles of sustainable development.
- We do not screen out companies from our investment universe purely on the grounds of poor social, environmental or ethical performance. Instead, we adopt a positive engagement approach whereby we discuss these issues with the management of the companies in which we invest on behalf of our clients. We use the information gathered during these meetings both to inform our investment decisions and also to encourage company management to improve procedures and attitudes. We strongly believe that this is the most effective way to improve the attitude of business towards CSR.

Fidelity's four-stage process for CSR analysis & engagement

1. CSR Analyst identifies engagement priorities, typically focused on companies where we perceive that environmental, social and ethical issues could have a material impact on shareholder value. These engagement priorities are discussed with the relevant research analysts.
2. Background research is undertaken on specific issues through dialogue with brokers and other interested parties (such as non-governmental organisations).
3. CSR Analyst holds dedicated CSR meetings with companies.
4. The findings from the meeting are reviewed by the CSR Analyst and research analyst and future engagement objectives agreed.

Recent company engagement

Note: We have been in contact with the companies listed below to discuss environmental, social and ethical issues, either through face-to-face meetings, by teleconference or in writing.

Company	Country	Engagement issues				
		CSR Strategy	Environmental Management & Climate Change	Responsible Product Stewardship	Workplace	Human Rights
Adidas	Ger	◆		◆		◆
Allianz	Ger	◆	◆	◆		
Amec	UK	◆	◆	◆	◆	
Associated British Foods	UK	◆	◆	◆	◆	◆
Aviva	UK	◆	◆	◆	◆	
Axa	France	◆		◆		
Balfour Beatty	UK	◆		◆	◆	
BHP Billiton	UK	◆	◆	◆	◆	◆
British Land	UK	◆	◆	◆		
BSkyB	UK	◆		◆		
Cadbury Schweppes	UK	◆		◆		◆
ENI	Italy	◆	◆	◆	◆	◆
Holcim	Ger	◆	◆			

Company	Country	Engagement issues				
		CSR Strategy	Environmental Management & Climate Change	Responsible Product Stewardship	Workplace	Human Rights
ITV	UK	◆		◆		
Morrison (William)	UK	◆	◆	◆	◆	◆
Nestle	Switz	◆	◆	◆		◆
Reed Elsevier	Neth/UK	◆	◆	◆		
Reuters	UK	◆		◆	◆	
Rio Tinto	UK	◆	◆	◆	◆	◆
Tesco	UK	◆	◆	◆	◆	
TF 1	France	◆		◆	◆	
Total	France	◆	◆	◆		◆
Vivendi Universal	France	◆		◆		
Xstrata	UK	◆	◆	◆	◆	◆
Zurich Fin Services	Switz	◆	◆	◆		

Corporate Social Responsibility report – Q3 2004

Issue: **Managing social, ethical & environmental risks in the supply chain**

Background
It is now commonplace for a wide range of goods to be sourced from suppliers in the developing world, ranging from agricultural produce to manufactured goods. Attitudes to labour standards and health, safety and environmental management vary greatly, so companies must carefully monitor the performance levels within their own supply chain. Sourcing from suppliers with poor standards can damage a company's reputation. Campaigns against Nike and Gap have demonstrated this all too clearly. Poor labour standards are often also an indicator of poor quality standards which can have wider business impact.
In order to better understand the challenges that companies face and to identify indicators of best practice, we met with the Ethical Trading Initiative (ETI). ETI is a non-profit multi-stakeholder organisation which seeks to identify and promote good practice in labour standards. Members include international NGOs, trade unions and over 30 retailers.

Company engagement
Supply chain management was high on the agenda in our meetings with **William Morrison, Tesco, Adidas, Cadbury Schweppes, Associated British Foods** and **Nestle.**

Food producers and retailers are increasingly being linked with poor labour standards in agriculture, particularly in the developing world. Issues range from allegations of child slavery in cocoa production to the exposure of Kenyan flower-pickers to dangerous levels of pesticides. Recent concerns about gangmasters have also brought European supply chain standards into focus.

We were pleased to learn that all the companies we met with are aware of the risks and committed to working with suppliers to monitor standards and seek improvement where necessary. All carry out supplier audits to assess labour standards and health, safety and environmental performance, however the quality of these audits varies.

Adidas and **Cadbury Schweppes** emerged as leaders using a risk assessment model to ensure audits focus on products and regions where there is the greatest risk of poor performance, and hence greatest risk to brand value. These two companies are also taking a pragmatic approach by working with industry partners to take advantage of combined resources and influence in addressing what are often very complex problems.

We discussed the balance between taking advantage of buying power whilst also dealing with accusations of bullying suppliers and the associated reputational risk. Food retailers **Tesco** and **Morrison** have commitments to work in partnership with suppliers, but have yet to convince campaign groups such as Friends of the Earth. More needs to be done to address the reputational risk.

Future engagement objectives
We will continue to encourage greater disclosure on the breadth and depth of supplier audits, seeking evidence that audits and supplier engagement is delivering improved labour standards and also protecting brand value.

Issue: **Climate change – a very real challenge for the extractives industry**

Background
Climate change is becoming a very real challenge for companies, especially for the extractives industry whose business model is based on fossil fuels. The EU emissions trading scheme, which is due to start next year, will give carbon a value and therefore have a significant impact on operating costs for many companies within the sector, as well as changing customer demand for their products. Developments are not confined to the EU either. Although the USA has yet to ratify the Kyoto Protocol, 28 of the 50 US states have started climate change programmes. This is an issue which will have a major impact on the future development of the industry and has to be included in strategic planning.

Company engagement
We met with **BHP Billiton, ENI, Rio Tinto, Total** and **Xstrata** and were reassured to learn that climate change is being taken extremely seriously at board level within all companies. The associated risks and opportunities are being assessed and incorporated into strategic planning. Specific risk assessments have also been undertaken related to emissions trading.

ENI emphasises that its core business is based on fossil fuels, so reducing carbon intensity is the primary challenge. Gas is seen as one solution, with new gas power stations achieving 60% efficiency compared to a 38% Italian average. This improved efficiency should translate into competitive advantage under the emissions trading scheme.

BHP, Xstrata and **Rio Tinto** recognise that they need to improve the environmental performance of coal if their business is to be sustainable for the long term. Technologies being researched include 'clean coal' power generation and carbon sequestration, which involves storing carbon dioxide emissions in underground geological structures.

There could also be opportunities. **Rio Tinto** highlights products, such as borates for insulation and aluminium for light weight energy saving vehicles, which help to improve energy efficiency and may therefore contribute to competitive advantages under greenhouse gas regulations.

Diversification from fossil fuels is something which we encourage all companies to consider. **Total** has a developed strategy with an established solar power business and a leading position in the biofuels industry. The experience of the renewable energy sector which it has gained to date should ensure the company is well-positioned to develop this area further, should the cost of carbon make fossil fuels less attractive.

Future engagement objectives
Climate change strategy is critical to the long-term sustainability of the extractives sector. We will therefore continue to closely monitor company performance, looking for ongoing reductions in greenhouse gas emissions and to see that appropriate consideration is given to diversification from fossil fuels.

Corporate Social Responsibility (CSR) report – Q3 2004

Issue: Pricing environmental & social risk into insurance

Background
The insurance industry is often the first to feel the cost of environmental change. Climate change, for example, is already having an impact. With the number of winter storms crossing the UK having doubled in the last 50 years, weather-related claims on property insurance have doubled to over £6billion between 1998 and 2003, compared with the previous five years. The Association of British Insurers predicts that claims could treble if no action is taken, with wider impacts on other areas of insurance, such as health and motor insurance.
Social trends also affect the industry. Obesity is the second-largest cause of premature death in the US after tobacco and is estimated to cost the economy around US$120bn per annum (about £4bn per annum in the UK). In the short term, insurers and reinsurers are potentially the most exposed to the effects of obesity due to slower improvements in mortality, higher disability and medical costs than had been expected or priced for. Food manufacturers and outlets, along with their insurers and reinsurers, are potentially exposed to liability claims.

Company engagement
We met with **Axa, Aviva, Allianz** and **Zurich Financial Services.**

Discussions focused on the way that environmental and social risks are integrated into underwriting and product development. Sector leaders such as **Aviva** and **Axa** are using their advanced understanding of environmental and social risk to develop innovative new products. Aviva uses flood plain mapping for more precise risk assessment in its home insurance business. Axa is working closely with corporate customers to advise them on ways to reduce environmental risk, benefiting both Axa and the customer. These initiatives are encouraging, however we were disappointed that even the sector leaders were unable to provide detailed information on the way that risks such as climate change have affected premiums to date.

Zurich seems to be at an early stage in developing its approach to corporate responsibility. We emphasised the importance of considering environmental and social risks on a systematic basis within its underwriting and product development activities.

All of the companies we spoke to agreed that more training is needed to give underwriters and product development staff the necessary knowledge so that they can take environmental and social risks into account. We were pleased to see commitments to address this issue.

Future engagement objectives
We hope to see more disclosure on the way that environmental and social risks affect insurance premiums and product development decisions. An important step in this process is the provision of training to core business staff and we look forward to seeing progress in this area over the next year.

Issue: Responsible broadcasting & publishing standards

Background
In recent years, it has become clear that corporate responsibility in the media sector is about more than good employment policies, community engagement and environmental management. Environmental and, particularly, social and ethical issues also need to be considered in the content of programmes and publications. Media companies should be monitoring changes in audience diversity and ensuring that this is reflected in broadcast and publication content. Broadcasters typically have a licencing commitment to be inclusive of all audiences from diverse communities. There is also the potential to win market share and attract advertising spend by responding to the needs of these communities. Another key issue for the sector is editorial policy. The publication of inaccurate or biased information can damage the credibility of a publication or broadcaster, making it vital that editorial standards are clearly defined and appropriate training and monitoring carried out.

Company engagement
We recently held meetings with **BSkyB, ITV, Reed Elsevier, Reuters, Vivendi Universal** and **TF-1**. In addition to individual company meetings, Fidelity also took part in a stakeholder consultation arranged by the leading companies within the sector to identify key indicators of corporate responsibility performance.
We were encouraged to learn of various positive initiatives by broadcasters to reflect diversity in programming. **BSkyB** changed its standard channel package to include more channels for the Asian community. Both **ITV** and **TF-1** reflect diversity in the casting of popular dramas. **ITV** considers this issue so important that it has made it a strategic priority to recruit ethnic minorities to the senior management team.
We also discussed the importance of clearly disclosed editorial policies with commitments to accuracy and impartiality. This is particularly important for current affairs programmes, especially if tackling controversial subject matter. While most companies operate according to editorial codes of conduct, with **Reuters** standing out as a leader, few publish performance measures to show how they are complying with these codes. We therefore emphasised the importance of such measures to demonstrate to external stakeholders that operational standards are in line with best practice.
All of the broadcasters we met with are working with programme development teams to ensure that these issues are considered in all aspects of their work. **BSkyB** has provided training for editors on how to reflect disability positively in programming. **Reuters** has an ethics training programme for journalists to re-emphasise the importance of ethics following recent scandals such as the Daily Mirror's publication of fake Iraq torture photos. The aim is to provide the training and then empower staff to make their own decisions. In this kind of a creative industry, only so much can be achieved by defining operating procedures, so cultural and behavioural change is seen as the key objective.

Future engagement objectives
We emphasised the importance of such training in all of our meetings, especially for **ITV** and **Reed Elsevier** where little training has been carried out to date. This is the area where we hope to see improvement across the board to ensure that CSR issues become integral to broadcast and published output.