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COMMISSION ON INTERNATIONAL INVESTMENT  
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Intergovernmental Working Group of  
Experts on International Standards  
of Accounting and Reporting  
Thirteenth session  
Geneva, 13-17 March 1995  
Agenda item 13

**DRAFT REPORT OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON  
INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING  
ON ITS THIRTEENTH SESSION**

Held at the Palais des Nations, Geneva,  
from 13 to 17 March 1995

Rapporteur: Mr. Juan Armando Andrada (Spain)

Addendum

**CONTENTS**

Chapter

Paragraphs

- I. Consideration of substantive agenda items  
(continued) . . . . . 1 - 10

## Chapter I

### CONSIDERATION OF SUBSTANTIVE AGENDA ITEMS

(Agenda items 3-10)

#### **B. Informal discussions**

(continued)

#### Accounting for Sustainable Forestry Management: A case study

1. A representative of the UNCTAD secretariat introduced the publication (UNCTAD/DTCI/4) to the Group. The principal researcher for the project, Mr. D. Rubenstein, a Principal in the Office of the Auditor-General of Canada, was an invited guest at the session and responded to comments and questions from the participants. Mr. Rubenstein highlighted the fact that, although the case study described a fictitious enterprise, the research was based upon an actual corporation as the starting point and, to the extent possible, the figures presented in the study were based upon best possible estimates. The publication was an innovative attempt to demonstrate how sustainability could move from a concept to a working reality. The case study also illustrated the cost to a corporation of adopting such a change in management policies.

2. A number of participants pointed out that the current practices of society as known in many countries were incompatible with the concept of sustainability. The alarming shortfall was essentially a political problem and was not one that could be solved by accountants. However, it was recognized that accountants had a duty to raise public awareness and to assist society in making better informed decisions by using the traditional skills of accountancy to highlight the costs and financial implications of a change in commercial activities and policies.

#### A practical approach to integrated environmental accounting for enterprises and its relationship to national accounts: The Agip Petroli case study

3. The secretariat invited Mr. Matteo Bartolomeo from the Fondazione Eni Enrico Mattei (FEEM), Milan, Italy, to make a presentation to the Group on a model of a corporate environmental balance sheet. This model built a bridge between private and public interests, because the addition of such environmental reporting on an industry-wide basis would give an impression at the national level of the pressure placed upon the environment by a given industrial sector. The large Italian petroleum refining enterprise, Agip Petroli S.p.A., had been used by FEEM for a case study in the development of this innovative model of a

special balance sheet. The case study clearly demonstrated the first step in the application of principles which sceptics regarded as impractical.

4. The representative of France asked if the information produced by the model was released to the public and if Italian enterprises integrated these balance sheets into their annual financial reports. Mr. Bartolomeo replied that the information was released on an ad hoc basis within the annual report or as supplementary information; however, this was done on a selective basis.

5. The representative of Switzerland asked to what extent the environmental balance sheet was of use to the company's management. It was indicated that the company was able to use the model to provide specific details on the environmental impact of its activities, and in particular to provide an analysis of emissions such as sulphur dioxide, a harmful pollutant which was produced in considerable quantities by the petroleum refining industry. The company's management believed that the model was a very effective environmental management tool, but they admitted that other essential but non-environmental data such as financial or social information were not incorporated into the model.

6. The representative of Tunisia pointed out that the model was applicable to a corporation as an isolated unit. For example, the environmental impact of the extraction of raw materials for production or the transportation of finished goods, if not within the commercial activities of a given corporation, would not be accounted for by the model. Mr. Bartolomeo replied that, in the situation of Agip Petroli S.p.A., the conglomerate encompassed the various links in the chain from raw materials through to the consumer, and consolidation of the balance sheet of each activity would determine the overall impact. Alternatively, if the various corporations involved within this chain were to cooperate, again the overall impact could be measured.

#### The European Union's Environmental Management and Audit Scheme

7. Mr. Peter Wilson, a representative of the European Commission, was invited to make a special presentation to the Group on the European Union's Environmental Management and Audit Scheme (EMAS). On 29 June 1993, the European Council had adopted a proposal from the European Commission allowing voluntary participation by industrial sector companies in this programme, which enabled companies to sign up voluntarily to environmental protection goals that they themselves set. Compliance with the self-established goals was subject to validation by external verifiers who were technical experts, not financial auditors. The logic of the programme was to use the market to stimulate continuous environmental performance improvements within companies by committing sites to: (i) establishing and

implementing environmental policies, programmes and management systems; (ii) periodically evaluating in a systematic and objective way the performance of the site elements; and (iii) providing environmental performance information to the public. Companies participating in the scheme had to fully disclose to the public the details of their environmental performance, within agreed norms of commercial confidentiality. A key element in the scheme was that not only favourable information was to be reported.

8. This seemed to represent a fundamentally new approach to environmental regulation. Although the jurisdiction of the regulations was limited to the European Union member States, companies in other countries might find that elements of the programme were useful as a way of managing and improving their performance.

9. Mr. Wilson concluded his presentation with an extract of key stages in the verification process from the EMAS introductory guide. It was suggested that European Union member States might promote company participation in the scheme by establishing technical assistance programmes which would help companies meet the requirements of the regulations, e.g. by setting up environmental policies, management systems, training programmes, and structural and technical support systems.

### **C. Conclusions**

(continued)

10. The Group further concluded that the work programme to be undertaken during 1996 and reported on to the Group's fifteenth session in 1997 should include: (i) research on a conceptual framework for environmental accounting; and (ii) a study on the implications of the work performed by the International Organization of Securities Commissions and the International Accounting Standards Committee.