Expanding Public-Private Partnerships
Economic Competitiveness and Environmental Concerns in the Asia-Pacific Region
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Avoiding Environmental "Disasters" in Joint Ventures

Premises for discussion:

• Joint ventures between domestic and foreign companies are uniquely vulnerable to environmental pressures and provide a uniquely strong base for improving local environmental programs.
• Uncertainty over anticipated regulatory and political responses to environmental incidents contributes to the difficulties facing joint venture efforts to reduce these risks and capture these opportunities.

Challenge for participants:

Establish incentives for environmental management systems, as well as standard mechanisms for communication to address problems and improve overall environmental performance.

Joint ventures between domestic and foreign companies are uniquely vulnerable to environmental pressures and provide a uniquely strong base for improving local environmental programs.

Many foreign direct investors enter new markets through joint ventures because of the benefits they offer to both the local and international partners. The international partner brings new investment, technologies, management techniques and market access. The local partner provides an entry point for local operations based on its existing business, along with its knowledge of local markets, customers, competitors and business practices.

Joint ventures also face many difficulties—whether they occur between companies in industrialized or developing countries. Existing companies have their own business cultures and management systems. Integrating those two different regimes into one, effective business organization is never easy.[1]

Environmental issues can be a particular problem for joint ventures between multinational and developing country companies. They create special commercial pressures in three areas:

• *Addressing contamination or compliance issues* created in the past by the local partner or its predecessors (see Example 1 at the end of this paper);
• *Establishing forward-looking environmental management systems* (see Example 2);
• *Responding to environmental incidents* (see Example 3).

At the same time that joint ventures face such difficulties, they also offer real opportunities for improving local environmental performance in each of these same areas:

• *Addressing historical contamination or compliance problems*. While local partners may resist and difficult negotiations are often necessary, such problems are often identified and fixed as part of the new investment in the joint venture's operations (see Example 4).
• *Establishing forward-looking environmental management systems*. New systems for improving the commercial and environmental performance of joint ventures are increasingly being developed and implemented (see description of the Mexican steel privatization, Example 1 in the Regulatory Dialogue Issues Paper).
• *Responding to environmental incidents*. Involvement of international partners can increase the joint venture's ability and incentives to prevent, as well as respond quickly and effectively to environmental incidents (see Example 5 and Appendix 1 on one initiative in Chinese Taipei).

These opportunities for performance improvement draw from the particular strengths of joint venture rela-

tionships. Responsibility for the business is shared between local and international partners. Some local investors find that they obtain a personal benefit from being the best, cleanest or safest. That benefit leads to the development of a personal commitment that they pass along through their business and political networks.

Uncertainty over anticipated regulatory and political responses to environmental incidents contributes to the difficulties facing joint venture efforts to reduce these risks and capture these opportunities.

In order to survive, joint ventures need to overcome the difficulties environmental pressures create for their operations. Uncertainty over the reactions of local governments and neighbors to environmental incidents makes it even harder for them to do so. Examples include the following:

• *Addressing historical contamination or compliance problems*. While many multinational investors will press to have these problems addressed, they will also want assurances from local regulatory officials that the joint venture will not be prosecuted if the agreed steps are taken. Frequently, this creates conflicts with the local partner, as they are unwilling to risk bringing the matter to the government's attention.

• *Establishing forward-looking environmental management systems*. Local partners are often reluctant to commit joint venture resources (money, personnel) to environmental programs in the historical absence of any enforcement or other pressure from governments to address environmental matters.

• *Responding to environmental incidents*. Government reaction to environmental incidents involving joint ventures can range between two extremes. In some cases, it may be to their political benefit to focus attention on the foreign investor's involvement in the problem. In others, they may take drastic action against local protesters in an effort to protect foreign investors.

These difficulties arise from two major sources, each of which has its roots in local approaches to environmental issues:

• The different experience of the joint venture partners with environmental matters in their home countries, particularly their commercial significance—substantial versus insignificant commercial consequences accompanying inattention to environmental concerns, and

• The perception among multinational investors that they are singled out for more intense political and media attention than local firms when an environmental incident occurs.

The results of these difficulties are increased risks that joint ventures will fail and investment be reduced, as well as missed opportunities to build on the potential benefits of joint ventures to improve local environmental performance.

Challenge for participants: Establish incentives for environmental management systems, as well as standard mechanisms for communication to address problems and improve overall environmental performance.

Neither failed joint ventures nor missed environmental improvements serve the interests of PBEC members or Southeast Asian governments.

While much of the responsibility for addressing these issues lies with the joint venture partners themselves, there are areas where governments can help them address the risks and capture the opportunities. These include:

• *Addressing historical contamination or compliance problems*. Willingness of regulatory officials to review and work with investors on their plans to improve existing environmental conditions, and not unfairly to penalize local partners for following prevailing local practices;

• *Establishing future programs*. Creating incentives for the adoption of voluntary environmental management systems, such as in export promotion or enforcement programs; and

• *Responding to incidents*. Willingness of regulatory officials to collaborate with joint ventures on preparing and implementing their emergency response programs and to act as true mediators (fairly reflecting both the government's interests, as well as those of the affected communities and the joint venture) in responding to any incidents that may occur.

Whether and how the participants in this meeting decide to carry the dialogue on these issues forward is up to them. As an aid to focusing the discussion, however, one approach to follow-up is for the participants to:

• Convene local dialogues on emergency planning and preparedness to increase the level of cooperation among

public and private actors in the event of an environmental incident.

• Jointly host pilot, local workshops involving international and local companies, as well as government authorities and environmental organizations, on addressing the environmental issues facing joint ventures.

• Identify and share leadership examples for joint ventures where the local partner assumes and sustains a commitment to environmental leadership.

Note

1. See generally, Harrigan, Kathryn R. (1986), *Managing for Joint Venture Success*, Washington, DC: Heath and Company.

Appendix 1: Responsible Care in Chinese Taipei—A Bridge between Local and International Chemical Firms

The Responsible Care (RC) system was developed in Canada in the mid 1980s. It grew out of the local chemical industry's conclusion that its safety, health and environmental performance was poor. Similar pressures are now driving RC's expansion around the world, including in Chinese Taipei.

Over the years, poor chemical industry performance on safety, health, and environmental issues, combined with spectacular pollution and safety incidents, resulted in an equally poor public image. Corporate executives became rightfully concerned. Many recognized that the prospects for sustained growth by each individual firm was dependent on continuous improvements in safety by all chemical companies. Incidents anywhere in the world, such as Bhopal, caused pain for the entire industry.

Industry leaders responded by demanding that standardized corporate safety and environmental management systems be implemented on a global, rather than national, basis. At the same time, improvements in corporate safety and environmental performance were increasingly recognized by industry financial analysts as indicators of continued profitability and quality.

RC provides the structure for these efforts. It has eight key program elements, each able to be flexibly adapted to the particular regulatory and chemical industry situation on a national basis. Features common to all national RC programs are listed in the following table.

Table 1. Essential elements of national Responsible Care programs

Feature	*Description*
Guiding Principles / Statement of Commitment	Set of chemical industry association policies which all participating members voluntarily commit to support and report progress on.
Association Name and Logo	Adoption of a title and logo which clearly identify national programs as being consistent with and part of the concept of Responsible Care.
Codes and Guides	A series of Codes, Guidance notes or Checklists to assist member companies in meeting their commitment under Responsible Care to achieve continuous health, safety and environmental improvements.
Indicators	The progressive development of indicators against which improvements and performance can be measured.
Communications	An on-going association and member company process of communication on health, safety and environmental matters with interested parties inside and outside the membership.
Sharing	Provision of forums in which company CEO and Responsible Care coordinators can share views and exchange experiences on implementa tion of the commitment.
Encouragement	Consideration of how best to encourage all association member companies to commit to and participate in Responsible Care.
Verification	Systematic procedures to verify the implementation of the measurable (or practical) elements of Responsible Care by the member companies.

RC is an increasingly important part of the Chinese Taipei chemical industry's efforts on safety, health, and environmental matters. Chinese Taipei has one of the largest and most highly integrated chemical/petrochemical industries in Asia. Income from chemical production exceeds US$60 billion per year. Integration with downstream markets in the electronics and other manufacturing industries creates substantial value for the total domestic economy.

Yet, the continued viability of the industry is threatened by a poor public image and recurring safety and environmental incidents. The recent failure to locate a state-of-the art chemical facility in Chinese Taipei as a result of spontaneous public protests, blockades of multifacility industrial parks, regular reports of explosions and chemical pollution—all illustrate the poor image and unpredictable nature of the local chemical business.

While Europe, Japan, and North America all have fairly rigorous regulatory regimes and strong uniform enforcement, these regimes are not predictable or transparent in much of Asia or Latin America. Spontaneous protests are not resolved in a systematic way, laws and standards are not uniformly enforced, and substantial gaps exist between local and international firms in public visibility and image.

Historically, no comprehensive national chemical industry association existed in Chinese Taipei to resolve policy differences between local and multinational firms. While local units of multinationals were generally run by professional managers, local firms were usually run by their major shareholder. Corporate language and culture varied substantially. While most multinationals adhered to global corporate safety and environmental standards, many local companies had limited awareness of international best practices on safety, health, and environmental performance. Even as environment and safety costs rose rapidly, the chemical industry was divided on strategies to reduce the impact of future regulation and develop a more predictable business environment.

In 1994, a number of chemical industry leaders began to push for a local, bilingual RC program for the entire Chinese Taipei chemical industry. Tools and strategies for encouraging local corporate executives to take ownership of the program were developed. Program benefits were "marketed" to government leaders and local chemical industry executives. While the long-term advantages of participation were noted, short-term access to international best practices and materials was also promoted.

Over three years, industry promoters conducted a series of workshops, factory visits and training opportunities to increase the local chemical industry's understanding of RC. Government and multinational support covered the development of credible local language materials and helped introduce RC alongside other management programs such as ISO 14000.

A national association was formed in early 1998 to further local commitment and attention to RC. Named the Taiwan RC Association (TRCA), it provides the only formal national industry forum for multinational and local companies to share detailed information and benchmark performance on safety, health, and environmental performance. While multinational managers drove the development of materials and of member performance standards, local firms staffed the committees and steered the membership drive.

The founding members of the TRCA include the sixty largest local and multinational chemical companies in Chinese Taipei. They span membership in a number of other organizations such as the Petrochemical Industry Association in Taiwan, the Chemical Manufacturers Committee of the American Chamber of Commerce and European Council of Commerce and Trade, the Taiwan High Pressure Gas Industrial Association, and the Taiwan Dyestuff and Pigment Industrial Association.

The TRCA has developed five Codes of Management Practices which represent the priority safety, health, and environmental issues for the industry—transportation safety, emergency response, waste management and minimization, process safety and contractor safety. Another focus is on member company reporting. A major component of the TRCA work plan is to improve industry dialogue with the public. Providing community leaders, government officials and academics an ongoing communication channel with chemical industry representatives is the first step in improving the relationship between the chemical industry and the public.

In addition, to encourage long term commitment by Chinese Taipei chemical producers, the TRCA held a large, regional Responsible Care conference in May of 1998. The event provided an opportunity for the chemical and petrochemical industry to communicate their

commitment to meeting continuous improvement goals in safety, health, and environmental performance. Over 370 people, representing 91 firms and 100 international attendees from 13 economies attended the conference. Particularly in light of the current regional and industry economic difficulties, this level of attendance illustrates a strong industry commitment to improved safety, health, and environmental performance.

Some differences between chemical industry corporate executives in Chinese Taipei remain—on the visibility of a corporation's safety, health, and environmental program, the safety leadership role, and expectations of top management. All industry leaders, however, recognize that continuous improvement in safety, health, and environmental performance is a key issue for all firms if the industry is to retain its economic competitiveness and improve its business predictability.

Example 1: Addressing Historical Contamination and Compliance Issues—Mexican Electronics Facility

A multinational electronics firm starts negotiations with a Mexican manufacturing company about acquiring 50% of its shares. As part of its normal acquisition "due diligence," the multinational firm arranges to have an environmental consultant do a review of the manufacturing facility. Local company management resists, the negotiations are delayed. Eventually, the survey is conducted and finds numerous failures to comply with Mexican environmental laws, as well as untreated waste water discharges into the surrounding environment. The local investors refuse to commit any resources to addressing the issues in the absence of specific government enforcement action. The multinational investor threatens to walk away from the deal.

Source: B. Gentry, based on personal communications with multinational investors.

Example 2: Establishing Environmental Management Systems—Indian Machine Parts Plant

Having acquired a 51% interest in a machine parts manufacturing facility in India, the multinational shareholder attempts to implement its global environmental management program in the plant. Under the terms of the shareholder agreement, the local partner has appointed the first CEO for the joint venture—who staunchly opposes spending any of the joint venture's time or money addressing environmental matters. Since they have never worried about such matters before, why should they now? Eventually, the multinational investor convinces him of the need to do so as part of their new business relationship. During a later, in-depth review of the facility's environmental issues, it is discovered that acidic and metal-bearing wastewaters from a plating line are being discharged to an on-site septic system and may be affecting drinking water sources. Explosive, internal debates take-place within the joint venture over how to respond: Does the possibility of some effect on drinking water matter, given all of the other sources of environmental contamination in the region? Should they comply with the requirement under Indian law that the findings be reported to the government, even though no company has ever done so or been prosecuted for not doing so?

Source: B. Gentry, based on personal communications with multinational investors.

Example 3: Responding to Environmental Incidents—World-Wide Attention to the Environmental Performance of Asian Joint Ventures

Over the past few years, a number of environmental incidents involving multinational investors have attracted world-wide attention.

Several have been in the mining, natural resources and energy sectors. In the case of Freeport-McMoRan, environmental issues led the US Overseas Private Insurance Corporation (OPIC) to move toward canceling the political risk insurance it had issued to the company for its investment in Indonesia. The Marcopper operation made front page news after mine tailings from its facility poured into the Boac River, a primary source of livelihood for Marindique fisherman. ABB's involvement in the Bakun hydroelectric project also generated substantial attention. The company was the subject of a

petition drive by more than one hundred NGOs and thirty members of the European Parliament seeking its withdrawal from the project. Materials accompanying the petition asserted that "the continued participation of ABB will seriously undermine the company's reputation and, indeed, the reputation of other companies within the World Business Council for Sustainable Development."

Even the export based, consumer goods manufacturing sector has been affected. For example, Nike was the subject of severe media criticism after an internal inspection report for one of its plants in Vietnam allegedly discovered unsafe worker conditions. The report was quoted as finding that workers in parts of the factory were exposed to carcinogens at levels up to 177 times local requirements and that 77 percent of the employees suffered from respiratory problems.

Sources: Review of multiple articles and stories available on-line.

Example 4: Addressing Historical Contamination and Compliance Issues—Mexican Electronics Facility

Eventually, the parties to the deal described in Example 1 above agreed to an environmental investment plan as part of the joint venture contract. Under the agreement, specific steps were taken by the joint venture, over a specified period of time, to bring air emissions and waste water discharges into compliance with Mexican law. The costs of doing so were borne by the original shareholders (from the purchase price), the joint venture (out of operating revenues) and the multinational shareholder (to bring parts of the facility to a level higher than that required under Mexican law).

Source: B. Gentry, based on personal communications with multinational investors.

Example 5: Responsible Care—A Bridge Between Local and International Chemical Firms

Responsible care ("RC") is a voluntary initiative by the international chemical industry to improve safety, health and environmental performance, including the prevention of environmental incidents. It provides a tool for standardizing safety, health, and environmental management procedures and communication, as well as increasing regulatory compliance for all chemical producers and users—large and small, local and international.

RC is a flexible program—national efforts are tailored to meeting the local chemical industry's needs and capabilities, as well as encouraging the adoption of international best practices. Long-term RC objectives include improving communications with neighbors and other stakeholders, improving the firms' reputations, and reducing the need for prescriptive regulatory oversight.

A more detailed description of RC and how it is being applied in Chinese Taipei is provided in Appendix 1.

Source: B. Berkman, "Responsible Care in Chinese Taipei—A Bridge Between Local and International Chemical Firms," Appendix 1 (1998)