THE CORPORATE ETHICS MONITOR

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Editor's Comments by Vincent di Norcia

Business and Rights

It seems the only stakeholder rights many North American business experts and the media are concerned with are shareholder rights. Likewise the only markets that they watch are securities markets. This shareholders-come-first approach legitimizes any merger or acquisition, however hostile, as long as shareholders benefit first—preferably sooner rather than later. This mindset welcomes the sale of respected leaders like Tembec or Dofasco to foreign takeovers and Precision Drilling losing its global portfolio in order to convert to a unit trust.

So narrow a mindset raises a host of questions. One is blindness to the socio-economic complexities of real world businesses and markets, as illustrated by the wide range of topics covered in these pages. That myopia explains many of the economic and ethical problems facing North American business. It was for instance a central factor in the Enron and Worldcom bankruptcies, among other crises.

No less than Henry Mintzberg, Canada's top business strategist, seems to agree. For he recently questioned the European steel firm Arcelor's bid to acquire Dofasco, Canada's leading steel producer, and a corporate responsibility leader. For, we will not only lose a Canadian champion, but, Mintzberg contends, "we end up with hollow shells." Mintzberg's comments suggest that a business is a socially constructed economic organization with public, and even national responsibilities. Such views are widely accepted outside of North American business circles.

A business has certain obligations. One is to respect the human rights of its employees and customers. It should provide its employees with equitable, healthy working conditions, fair, merit based wages and hiring and promotions, as well as offer its customers safe, competitively-priced, quality products. Socio-economic rights are involved deep in the internal heart of the business enterprise, as well as in its external social and international relationships.

Despite their global reach, neither the air nor marine transport firms reviewed in this issue have signed international human rights or ethical sourcing charters. Perhaps these firms should consider human rights requirements and inspection visits of their foreign suppliers, and proactively managing demands for dubious payments in any corrupt regime where they do business.

Consumers and employees have greater rights claims on a business than any shareholder, no matter how large. Employees have a whole set of claims on management and owners for fair wages, fair treatment, and healthy working conditions. This is obvious to most people, for they are wage-earners themselves.

As the late Peter Drucker used to say, creating and satisfying customers is the main object of an enterprise. Without sales, the whole business game is lost from the first. This is not only an economic, but also a moral obligation; for it rests on the reciprocal obligations implicit in the exchange of money for goods. Products are labelled 'goods' with reason. If you buy something overpriced, unreliable and/or unsafe, then you will not only not deal with that firm again, but also have an ethical complaint, namely an inequitable exchange of good money for bad products.

In sum, without satisfied customers or productive employees, a firm's economic future is threatened. Mistreating customers or employees is not only unethical, it is bad business. It tears apart the delicate social fabric of the socio-economic networks in which the enterprise must function in order to survive. It opens the firm to a variety of threats: declining revenues, unproductive employees, high turnover, more grievances, strikes, and a weaker corporate reputation. Nor should we forget suppliers, on whose support, the enterprise network depends. In contrast, businesses can survive and even prosper, despite share price vagaries and investor whims.

A business is a socio-economic network of interconnecting socio-economic rights and responsibilities. Inside that network business economics can not and should not be disentangled from business ethics.

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Ethical Performance Comparison

Marine Transport Sector

Canada's marine transport industry includes dry cargo ships, tankers, ferry ships and supply boats working in the offshore sector. International shipping serves our eastern, western, and (to a lesser extent) northern waters. Bulk cargo includes grain, ore, coal, phosphates and potash, and sugar. General cargo refers to steel containers, autos, newsprint, plywood, frozen foods, and forest products. Specialized cargo consists of things like fabricated modules and oil drilling rigs. The sector, which generates nine billion dollars in revenues, was last profiled in 1993 and 1999.

Of the five companies profiled here, four are principally goods or cargo carriers. The fifth, BC Ferry Services, which formerly was a Crown corporation, was privatized in 2003. It carries passengers and bulk cargo. It is the country's second largest coastal ferry service. Algoma Central Corporation is the largest ship owner on the Great Lakes-St Lawrence waterway. CP Ships, which is in the process of being acquired by TUI AG of Germany, is one of North America's largest container ship carriers. Headquartered in the U.K., it was formerly a Canadian Pacific Ltd subsidiary (now defunct). CSL Group describes itself as operating the largest fleet of dry bulk, self uploaded vessels in the world. Fednav, which has a fleet of dry cargo vessels, ocean-going tugs, and barges, identifies itself as the largest international dry bulk carrier in Canada.

Shipping wears the mantle of being the world's first international industry. Typically a vessel is owned in one country, managed from a second one, registered in a third, and manned by seafarers from one or more other countries. Today, international shipping comprises 50,000 merchant vessels and 1.25 million mariners. About one fifth of these vessels are tankers. Marine transport accounts for an estimated 90% of the world's trade. Larger ships can cost as much as $100 million each. The sector faces such challenges as changing markets, higher technology, and new security regulations post 9/11, as well as complications arising from direct and indirect national subsidies in several countries.

Shipyards in Canada, like those in the U.S and the U.K., are only a shadow of their former selves. They emphasize maintenance and repair services rather than new vessel construction. No new ship has been built in a Canadian shipyard since 1985. In July 2004 BC Ferries announced a controversial decision to source $500 million in new vessels from a German, rather than a domestic, company. Likewise, steelworkers and seafarers criticize CSL Group (formerly Canada Steamship Lines) and CP Ships for commissioning new vessels from offshore shipbuilding yards in Brazil and China. The companies flag them under foreign registry, and man them with foreign, lower paid, workers. Corporate spokespersons say economies of scale and tax laws require them to adopt flags of convenience in order to hire crews from countries such as India.

Ethics Guidance and Reinforcement

While these companies have many individual administrative rules and procedures, few report a written code of business conduct or ethics.

PROFILES: MARINE TRANSPORTATION

ALGOMA CENTRAL CORP *(1)*
Founded, Headquarters: 1899: Sault Ste Marie — *Ownership:* Amolga Holdings: 29%
Revenues: $ 202 mil (02) — *Operations:* Can, Japan, UK
Number of Units: 27 vessels — *Listings:* TSX: ALC
Services: Great Lakes-St Lawrence bulk cargo — *Sister Company:* Marbulk Can (50%)

B.C. FERRY SERVICES INC
Founded, Headquarters: 1959: Victoria — *Ownership:* BC Ferry Authority
Revenues: $ 473 mil (2002) — *Number of Units:* 37 vessels
Operations: BC — *Sister Company:* Catamaran Ferries
Services: Passenger service, bulk cargo

CP SHIPS LTD *(2)*
Founded, Headquarters: 1886: London ENG, formerly Calgary
Ownership: TUI AG: 100% — *Revenues:* $US 2,700 mil (2002)
Number of Units: 88 vessels; 182 vessels with merger
Sister Companies: Americana, ANZDL, Canadian African, Christienson, Contship, Lykes Lines, Italia Line, Montreal Gateway Terminals
Listings: TSX and NYSE: TEU — *Services:* International container

CSL GROUP INC
Founded, Headquarters: 1845: Montréal — *Ownership:* Martin family: 100%
Revenues: $ 285 mil (2002) — *Number of Units:* 24 vessels *(3)*
Operations: All provinces but AB, SK and MN — *Services:* Shipping; port operations
Sister Companies: Canada Steamship Lines, Voyageur Colonial

FEDNAV LIMITED
Founded, Headquarters: 1944: Montréal — *Ownership:* Pathy family: 100%
Revenues: $ 60 mil (2000) — *Services:* International dry bulk carrier
Number of Units: 70 vessels: 20 owned; 50 leased
Sister Companies: Canarctic Shipping, FaLLine, Federal Marine

(1) Co-partner with Upper Lakes Group Inc. in Seaway Marine Transport
(2) Acquired by TUI AG in Oct 2005
(3) Plus 20 in joint ventures or pools

MARINE TRANSPORTATION COMPANIES: MODIFIED DELPHI GRADING, NOVEMBER 2005

Company	Equity & Family	Community Responsibilities	Management Practices & Consumer Relations	Corporate Governance	Environmental Performance	Environmental Management	Employee Relations	Progressive Staff Policies	Sourcing & Trading	Candor
Number of Variables	29	24	21	12	20	26	26	33	24	216
Algoma Central	D	E	D	C	D	E	C	E	E	14
BC Ferry Services	C	D	B	E	D	D	C	E	E	32
CP Ships	D	D	C	D	D	E	C	E	E	39
CSL Group	D	E	C	E	D	E	C	E	E	18
Fednav	D	E	D	E	D	E	C	E	E	16

Source: EthicScan Corporate 1500 DataBase: shading indicates sector best performance. The grading in this Table reflects many more variables than what is reported in this Essay, or in the charts on page 84 and 86. The criteria are described in a series of six articles in *The Corporate Ethics Monitor*, vol 12, issues 1-6. The grading scheme was developed in 2000 by a team of 60 businesspersons, social justice advocates, journalists, unionists and others. Grades are as follows: A+: 90% and over; A: 75-89%; B: 60-74%; C: 40-59%; D: 20-39%; and E: 19 or less. More detail is available at www.ethicscan.ca.

TABLE 1: EMPLOYMENT EQUITY SCORES, 2004

Marine Transport Company	Sample Size	Women	Aboriginal Persons	Persons with Disabilities	Visible Minorities
Algoma Central	790	C	A	C	A
BC Ferries Ltd. *(1)*	3,479	D	A	A	B
Marine Atlantic	1,269	B	C	B	A

Source: Employment Equity Act; grades by HRDC based on data supplied by companies
Legend: A superior; B: good; C: average; D: poor; Z: no representation
(1) Includes BC Maritime Employers Association

CSL posts a three page *Code of Corporate Responsibility* on its web-site. CP Ships has a more substantial one dealing with insider trading and disclosure. Such codes, in their fullest form, would address subjects like fair competition, health and environmental commitments, confidentiality of information, giving and receiving gifts, and whistle blower protection. Translation of codes into languages spoken on board ships and at major ports of call isn't addressed.

Ethics reinforcement isn't mentioned. CSL Group speaks of whistle-blowing to the CEO or head of the legal department without fear of reprisal or retribution. That aside, there is little discussion of ethics training, annual code sign-offs, case studies-based integrity education, a toll free ombudsman line, or whistle-blower protection. An independent regulator over BC Ferries is appointed by the provincial government.

The Canadian Shipowners Association (CSA) and The Shipping Federation of Canada (SFC), respectively, represent the domestic and international companies reviewed here. Both are lobby groups. The CSA, founded in 1903, has no national code of responsible practice for its members, nor a dispute resolution process.

There have been ethics-related court cases and dismissals in the 1990s. Cases include BC Ferries firing a senior executive for cost overruns (unjust dismissal in 1999), CP Ships involving labour relations (stevedoring in 1999), and competition (CAST and CP Ships in 1996).

Equity and Family Issues

Marine industries have traditionally been dominated by white males, from the boardroom, through ship captain's and officers' bunks, to the carpenters and metal workers in shipyards. Seafarer ranks are heavily male, with the position of women at sea in closed quarters over long voyages being an uncommon trade and an uneasy life. The same job ghettoization holds true for those working as longshoremen loading and unloading cargo.

What data exists suggest that women are underemployed and under-represented at these Canadian marine transport companies. This isn't true for certain other disadvantaged groups— visible minorities and aboriginal persons. Based on sample data supplied by the companies to Industry Canada, through the federal Employment Equity Act reporting system, there are superior scores for hiring and promoting from these two groups. For example, as Table 1 shows, the highest scores (A or superior) are found for aboriginal persons at BC Maritime Employees Association and Algoma Central. Likewise, the same high scores are found for visible minorities at Marine Atlantic and Algoma Central. Fednav and CSL Group were not scored as they both report less than 100 employees in Canada.

Hiring and promotion scores are low for women and persons with disabilities. The marine industry faces related problems in terms of nationality. It can't readily function if regulations which apply to a ship and the ship's crew change each time a vessel enters a port in a different country. Seafarers should be entitled to expect that their basic employment, anti-discrimination and human rights will apply irrespective of the flag of the ship on which they serve. Critics charge that vessels are registered under flags of convenience in countries where equity, safety and labour standards are lower and where companies don't have to pay Canadian taxes.

Women represent only two of 29 directors and one of 25 officers sector-wide. The presence of women as directors has tripled from 2% in 1998 to 7% today. Women's share of senior management ranks is minimal, down marginally from an average of 8-10% six years ago. At least two and possibly four companies have neither a female director nor a woman as an executive officer. There is little sense that change would be encouraged— no use is reported of annual diversity reports or quotas on hiring executives from disadvantaged groups. Placement of strategic hiring advertisements in ethnic newspapers isn't volunteered. Mentions of diversity training, formal mentoring programs, or anti-harassment training are uncommon. No company reports how many women are ship's captains.

Community Responsibilities

Among the four transport sectors reviewed in the last and current issue of *The Monitor*, these marine companies are the least likely to reveal full details of their charitable giving programs. Passenger carriers are slightly more forthcoming than their cargo counterparts. Some of this may be due to lack of national identification by shippers, or the long distance nature of cargo carrier operations, or the fact that many companies are privately held.

No company discloses its charitable giving. Only CP Ships is pledged to the voluntary, Imagine Canada campaign. Statements of donation program priorities aren't clear nor are web-site postings of how charities can apply for grants or donations. Community engagement, whether through ongoing panels or community investment programs, is muted. BC Ferries operates twelve local ferry advisory committees. While no company issues an annual corporate responsibility report, BC Ferries comes closest when it reports results from an annual customer satisfaction tracking study, including posting these data on its web-site. One part of these survey data reveals a very satisfied versus very dissatisfied response ratio of 10:6 in 2004.

Individually and collectively, these companies have important commercial relations with government. Transport Canada regulates them. Governments issue or underwrite annual public contracts for ports dredging, harbour maintenance, and customs functions. Subsidies for shipyard vessel building and maintenance exceeded $1.6 billion during the 1970s and 1980s. Since Paul Martin became federal Minister of Finance in 1993, CSL Group (with his shares put in a blind trust) received $162 million in federal government contracts, grants and loans. This amount contradicts first figures released by the company of $137,000.

Insights into corporate community involvements often are provided from sources other than the company. For example, Elections Canada reported that CSL donated $13,300 to the federal Liberal Party in 2000, when its principal owner was the Minister

ETHICAL PERFORMANCE OF MARINE TRANSPORT COMPANIES

	ALGOMA CENTRAL	BC FERRY SERVICES	CP SHIPS	CSL GROUP	FEDNAV
Management Practices & Consumer Relations					
Written Code of Ethics (Yes/No; Date)	No	Yes, 2001	Yes, no date	Yes, no date	No
Code Updated Within Last Five Years	Not applic	Yes, 2005	No info	No	Not applic
Ethics Training	No	No info	No info	No	No
Annual Sign-off	Not applic	No info	No info	No	Not applic
Ethics Ombudsman or Hotline	No	Yes *(1)*	No info	No	No info
Whistle Blower Protection	No	No	No	Yes	No
Ethics Audit	No	No	No	No	No
Code on Web-site	No	No	No	Yes	No
Equity and Family					
Women on Board	0 of 11	2 of 9	0 of 9	No info	No info
Women in Senior Management	0 of 6	1 of 7	0 of 7	0 of 5	No info
Female Ship Captains	No info	No info	No info	No info	No info
Disclose Diversity Hiring Statistics	Yes	Yes	No	No	No
Aboriginal Hiring / Contracting Program	No	No	No	No	No
Formal Mentoring Program	No	No	No	No	No
Anti-Harassment Policy	No info	No info	No info	No info	No info
Employment Equity Program	No	No info	No	No info	No
Human Rights Cases, Last Ten Years	Not reported	Not reported	Not reported	Not reported	Not reported
Daycare (Referral or Onsite)	No	No	No	No	No
Community Responsibilities					
Total Company Giving ($)	No info	No info	No info	No info	No info
Total Employee Giving ($)	No info	No info	No info	No info	No info
Imagine Canada Pledge	No	No	Yes	No	No
Matching Gift Program	No info	No info	No info	No info	No info
Community Development Programs	No info	No info	No info	No info	No info
Involvement in Multi-Stakeholder Dialogue	No info	Yes	No info	No info	No info
Disclose Donation Guidelines	No	No	No	No	No
Number of Annual Responsibilty Reports	Nil	Partial	Nil	Nil	Nil
Corporate Governance					
Independent Compensation Committee	Yes	No	No info	No	No
Independent Nominating Committee	Yes	No	No info	No	No
Some / All Policy Decisions Made in Canada	All	All	Some	All	All
Limit on Director Tenure	No	No info	No info	No	No
Number of Independent Directors	8 of 11	Appointed	6 of 9	No info	No info
Separate Chairman and CEO	Yes	No info	No info	No info	No info
Existence of Poison Pill (Share Structure)	No info	No info	No info	No	No
Environmental Management					
Environmental Policy (Yes/No: Year)	No	Yes, 1993	No info	No	No info
Policy Updated Within Last Five Years	Not applic	No	No info	Not applic	No info
Number of Full-time Environmental Staff	Nil	Nil	1	Nil	No info
Environmental Training for Employees	No info	No info	No info	No info	No info
Environmental Committee of the Board	No	Yes	No	No	No
Separate EH&S Report	No	No	No	No	No

of Finance. This was Paul Martin, who would go on to head the Liberal Party and later be elected Prime Minister. Employees at CP Ships have been running an e-based petition campaign urging the employer to address safety concerns at the company's port-based parking lot in the U.K.

While marine transport operations serve communities, they can also present direct threats to them in terms of noise, pollution, spills, raw sewage in harbours, and the concentration of lower income residents near ports. Progressive shipping managers respond with initiatives like ship tours, participating in waterfront emergency response tests, and hosting community panels as well as assisting in waterfront rehabilitation program discussions. None mentions a community dispute resolution process.

Corporate Governance

The ownership structures here are varied. BC Ferries has one shareholder—the BC Ferry Authority. Algoma Ships and CP Ships are publicly traded, although the latter won't be for much longer, once it is acquired by German-based competitor TUI AG. Mr Martin, now our Prime Minister, became president of CSL (then called Canada Steamship Lines) in 1974 when it was still owned by Power Corporation and then purchased an equity share in the company in 1981. He later bought out partner Laurence Pathy (major shareholder of Fednav) in 1984.

Compensation and nomination Board committees at publicly traded companies have more independent directors. Algoma Central has both committees comprised of independent directors. Across two companies in the sector, 14 of 20 directors are independent. The chair and CEO positions are split at Algoma Central.

Environmental Management

Environmental challenges are both legacy as well as current operations. The former include older less efficient or safe vessels, ocean and lake water pollution, invasive species in ballast water, the effects of continuous dredging, leaking storage tanks, the need for asbestos removal, and contaminated sites. The latter involve use of cargo fumigants, air emission exceedances (including GHG emissions from ships' engines), ocean dumping or spills, and noise as well as handling of chemical wastes and hazardous cargo. Managements must respond with programs addressing procurement of more eco-efficient vessels, efficient on- and off-loading management, cargo vapour emission control systems, waste handling and disposal training programs, and emergency response planning and reporting.

Up to half the global total of cargo transported by ships at sea is hazardous or harmful. CP Ships estimates that that 8-10% of its total cargo is hazardous goods. In 2004, five chemical prod-

TABLE 3: HEALTH AND SAFETY STATISTICS

Company	Injury Frequency per 200,000 Hours Worked		Fatalities		
	2004	2000	2000-2004	1995-1999	Year Latest Fatality
Algoma Central	No info	No info	No info	No info	No info
BC Ferry Services	No info	No info	No info	2	1997
CP Ships	No info	No info	No info	No info	No info
CSL Group	No info	No info	No info	No info	No info
Fednav	No info	No info	No info	1	1999

Source: EthicScan, data supplied by companies or literature review.

ucts tanker incidents globally resulted in 26 deaths. In May 2005, new MARPOL standards were introduced. They include fuel quality, emission and sulphur content (in bunker fuels) caps on vessels operating in the Baltic (in May 2006) and the North Sea (in 2007). Canadian shippers complained to a Parliamentary Committee earlier this year about Bill C-15, which would criminalize environmental violations.

Transport of oil is an especially sensitive topic. Almost two billion tonnes of oil and petroleum products (1.95 billion) were transported by sea in 1999. This represents about 10% of all shipping. Annual quantities of oil spilled are increasing— from 67,000 tonnes in 1997 to 81,000 in 2002, as Table 4 reveals. As cargoes and risks increase, remedial action taken includes crude oil washing, segregated ballasts for tankers, loading on top, and double-hulled vessels. Governments are responding with stronger legislation. In 2005, the European Union tabled a Directive on Criminal Sanctions for Ship Source Pollution that permits criminalization and imprisonment of seafarers for pollution offences. In March 2005, Canada proposed to include migratory birds to the definition of actionable accidental pollution offences.

The International Chamber of Shipping (ICS), established in 1921, is a voluntary association of national ship-owner associations. Guidelines issued by the ICS suggest that about 95% of material from older vessels can be recycled. Newer generation ships are less noisy, stronger hulled, and designed for dis-assembly. New, tin-free, anti-fouling paints have been mandated by 2008 and are being used today. Drawing boards are said to be filled with designs for environmentally cleaner ships with neutral overall environmental impact. The companies profiled here don't disclose the proportion of their vessels that are double hulled or newer, noise suppressing design. The CSA reports that all tankers in Canada are double-hulled.

No company reports that it has an integrated environmental management system (EMS) which addresses water and air emissions, fleet eco-efficiency improvements, and environmental targets in its annual business plans. Companies don't answer when asked whether or not they have a full time environmental staff headed by a Director, or if regular reports are made twice a year or more frequently on issues to the Board. BC Ferries has an environmental committee of its Board. Shipping companies don't mandate system-wide recycling at all terminals, yards and offices, nor monitor quantities recycled. Shane Foreman of CSA reports that bunker crude used in domestic vessels averages 1.7 ppm for sulphur.

Environmental Performance

CSL has an operations code which requires all crews to undergo regular audits of safety and environmental performance using teams of internal staff or external consultants. There are annual inspections recommended by the International Marine Organization (IMO) using International Safety Management (ISM) auditors for operators of all vessels and shore establishments. The ISM Code of the IMO sets out standards for safe ship operations and pollution prevention. This includes code procedures and standards representing best practice for all safety-related activities. External auditors from Lloyd's Register periodically evaluate the ISM audit function and document compliance. No company reviewed here refers to the frequency of such audits or verification audits system-wide, on vessels and at shore operations.

Environmental convictions aren't reported. BC Ferries had five citations in the last ten years. It is difficult to monitor compliance and convictions because legal standards are complex and hard to understand. The applicable law is usually that of the flag (national registry) of the vessel on which a crew serves. However, laws can also encompass legislation from the country in which a seafarer is resident. Also, in certain situations, the law could include rules of the port authority where a vessel is berthed.

The ICS has a *Code of Practice*, entitled S*hipping and the Environment*, which calls for a phase out of TBT-based fouling paints and ozone-depleting substances. The ICS supports the International Chamber of Commerce's *Business Charter for Sustainable Development.* As Table 2 suggests, none of the companies profiled here are direct, voluntary signatories to a range of

TABLE 2: PLEDGES TO OR PARTICIPATION IN BUSINESS PRACTICE AND OTHER CERTIFICATION OR REPORTING STANDARDS

Company	ISO 14001 *(1)*	ISO CC *(2)*	DJSI *(3)*	FTSE *(4)*	Kyoto *(5)*	GRI *(6)*	CERES *(7)*	UNGC *(8)*	Q 21 *(9)*
Algoma Central	No *(11)*	No info	No	No	No	No	No	No	Yes *(10)*
BC Ferry Services	No info	No info	No	No	No	No	No	No	No
CP Ships	No info	No info	No	No	No	No	No	No	No info
CSL Group	No info	No info	No	No	No	No	No	No	No info
Fednav	No info	No info	No	No	No	No	No	No	No

Source: EthicScan Corporate 1500 Database Notes: Data verified by company. Not all standards are reported, and depending upon the company, may apply to certain operational units and not others.

(1) International Standards Organization 14001
(2) ISO Climate Change, formerly VCR (Voluntary Challenge & Registry) Inc Program
(3) Dow Jones Sustainability Index
(4) FTSE4 Good Index
(5) Kyoto Protocols pledge, climate change
(6) Global Reporting Initiative
(7) Coalition on Environmentally Responsible Systems
(8) United Nations Global Compact
(9) Qualships 21 Standard
(10) 12 of 27 vessels
(11) Pledged to ISO 9002

ETHICAL PERFORMANCE OF MARINE TRANSPORT COMPANIES (CONT'D)

	ALGOMA CENTRAL	BC FERRY SERVICES	CP SHIPS	CSL GROUP	FEDNAV
Environmental Performance					
Audit Team (Internal, External, Both)	Internal	Internal	Both	Both	Internal
Commodity Types Recycled (#)	No info	No info	No info	No info	No info
Disclosure of Quantities Recycled	No	No	No	No	No
Environmental Awards	No info	No info	No info	No info	No info
Environmental Convictions, Last Ten Years (#, $)	Not reported	5, $31,000	Not reported	Not reported	Not reported
% Fleet ISO Certified	No info	No info	est 80%	No info	No info
% Fleet Double Hulled & Noise Suppressing	No info	No info	No info	No info	No info
Charitable Giving to Environmental Organizations	No info	No info	No info	No info	No info
Performance Bond (Yes/No; $ mil)	No info	No info	No info	No info	No info
Health & Safety					
Policy (Yes/No: Year)	Yes, no date	Yes, 2003	Yes, no date	No info	Yes, no date
Disclose Accident Statistics	No	No	No	No	No
Accidents Resulting in Deaths (Last Five Years)	2	No info	No info	No info	1
EH&S Committee of Staff	No	Yes	Yes	No	No
H&S Violation Fines (#, $)	Not reported	Not reported	Not reported	Not reported	Not reported
Policy On Web-site	No	No	No	No	No
Employee Relations					
Employment This Year Canada	No info	3.345	No info	No info	100
Employment This Year Worldwide	1,200	3,345	4,150	475	No info
Employment Change in Canada, Last Five Years	No info	5	No info	No info	No info
Percentage of Workforce Unionized	Yes, % n.k.	Yes, 91%	Yes, 3%	No info	No info
Number of Strikes, Last Ten Years	No info	4	No info	No info	No info
Disclose Training Budget	No	No	No	No	No
Profit Sharing with Employees	No	No	No	No	No
Retraining/Relocation in Case of Layoffs	No	No	No	No	No
Gainsharing Programs (Yes/No; #)	Yes, 1	No	Yes, 1	Yes, 1	No info
Progressive Staff Policies					
Employee Assistance Programs (Yes/No; #)	No	No	No	No	No
Health Promotion Programs (Yes/No; #)	No	No	No	No	No
Employee Newsletter	No info	No info	No info	No info	No info
Refund on Book & Tuition ≥ 75%	No info	No info	No info	No info	No info
Internal Communications Programs (Yes/No; #)	No info	No info	Yes, 3	No info	No info
Scholarship for Employees	No	No	No	No	No
Scholarship For Employees' Children	No	No	No	No	No
Sourcing and Trading					
Policy on Canadian Sourcing	No	No	No	No	No
Foreign Sourcing Code	No	No	No	No	No
Policy Against Sourcing in Repressive Regimes	No	No	No	No	No
Signatory to International Labour Standards	No	No	No	No	No
Disclose % of Canadian Traffic	No	Yes	No	No	No
Active in Repressive Regimes	No	No	Yes, 1	Yes, 3	Yes, 3
Independent Monitoring of Policy and/or Code	No	No	No	No	No
Sensitive Business Activities					
Alcohol, Tobacco, Gambling	No	Yes	No	No	No
Military Service	No info	No info	No info	Yes	No info

Notes:
(1) Independent regulator appointed by government
Research Prepared by Danny Kastner

Information for this comparison is drawn from year 2005 reports prepared by EthicScan Canada. Where the performance of an institution is described as "No info," the company may have a salutary record, but the facts are not known to EthicScan researchers. The regular fact checking process involves corporate database reviews, interviews, and two requests that the company review, update and validate the major findings on file.

important international standards of reporting or auditing. None appears on the DJSI or FTSE4Good indexes.

The sector has yet to seize upon the substantial public relations potential of being the first transport sector to articulate a sustainable development plan. Partnerships or joint programs with emergency preparedness or dangerous waste handling programs from related industry associations aren't high on the agenda of the Canadian Shipowners Association. For example, Voisey's Bay Nickel Company is soon to be a major Fednav client, but Fednav isn't a MAC or CCPA member. The potential returns on investment and reputation for cross-company, association-wide, joint ventures are large.

Performance bonds for handling catastrophic incidents are significant. That insurance risk coverage is important as the costs of a serious ship collision or sinking, or a terrorist incident involving loss of life and serious property damage, are massive. Including class action suits, estimates run as high as $500 million-1.5 billion or more. No marine company reports on this figure—but others in the air and trucking sectors do.

Health & Safety

Shipping faces a number of health and safety challenges. The international standard is set by a Safety of Life at Sea (SOLAS) convention. Management must contend with threats of collision or marine weather disasters, continuous safety improvement, ship construction standards, exposure of workers to chemicals, and oil spill pollution liability. Crew issues include substance abuse, fatigue prevention, shore leave, manning levels, and language barriers. Handling issues include hazardous cargo on container ships, liability insurance, competition rules, the quality of mariner training, and tanker safety.

Safe work challenges are continuous. BC Ferries and CP Ships report staff health and safety committees. Questions are raised about continuous testing of fitness, substance abuse, and safety training of crews. Fatalities occur. For example, a Fednav employee was crushed to death while operating a forklift in the Port of Montreal in 1997. In the last decade, BC Ferries and Fednav each have had incidents resulting in fatalities. Reporting on accidents and fatalities, as revealed in Table 3, is poor.

TABLE 4: CORPORATE PERFORMANCE

Company	Quantity of Oil Spilled (tonnes)		Number of Vessels Owned	Annual Tonnage Carried (million)	Annual Passengers
	2004	2000	2005		
Algoma Central	No info	No info	27	No info	NA
BC Ferry Services	No info	No info	37	No info	27
CP Ships	No info	No info	88 *(3)*	No info	NA
CSL Group	No info	No info	24	No info	NA
Fednav	No info	No info	20	12	NA
Total	81,000 *(1)*	67,000 *(2)*			

Source: EthicScan, data supplied by IMO, Environmental Defence, and the companies
(1) 2002 *(2)* 1997 *(3)* 139 with TUI AG merger

ICS introduced an International Safety Management (ISM) Code in 1998. The standard, which only came into effect for all ships in 2002, addresses whether procedures are in place and regulations complied with. The U.S. has a Qualships 21 Standard (quality of safety of foreign flag vessels operating in U.S. waters). Twelve of Algoma Central's 27 vessels have this designation.

Employee Relations

The five companies employ about 10,000 employees. There have been steady and substantial reductions in staffing levels per vessel, at least until the 1990s when larger vessels with more sophisticated technology and equipment were introduced. For example, CSL Group's employment declined from 2,500 in 1980, to 2,000 in 1989, to 475 in 1999. This includes a loss of 800 jobs with the closure of CSL's Collingwood (Ontario) shipyard in 1986. Fast-on fast-off (or self unloading ships) need smaller crews. There are skilled labour shortages for certain trades like senior engineers and gas carrier technicians.

Unions represent workers at all these companies. Collective bargaining includes union locals at Algoma Central (CMOU, Seafarers International and CMSG), BC Ferries (BCFMWU), and Fednav (CUPE). Sometimes the union representing on-ship crews isn't the same as the one representing maintenance or shore workers. Bill Ross, an SIU rep, commented in 2002 that only one grievance at Algoma Central had reached arbitration stage over the past three years. Over the last decade, strikes and lockouts have occurred at BC Ferries (4 in 1995, 1997, 1998, and 2003), though none as long as the earlier one at Voyageur (a CSL Group unit) between 1987 and 1990. In 1999 CP was involved in an inappropriate stevedoring and related services case. Another CP Ships work assignment case involved a forced divestiture of its CAST unit.

This industry is one of the few for which a global minimum wage has been agreed, although some countries exempt their citizens on their flag ships. Many are employed seasonally. For example, BC Ferries has 2,920 full time and 1,620 on call employees. The International Shipping Federation (ISF), an international employer's association, has adopted *Guidelines on Good Employment Practice* in 2001. Under this employer-friendly regime, an employer can negotiate a collective agreement or enter into individual contracts with seafarers.

A career at sea means that an employee is away from family and community for months at a time. Working conditions involve sensitive matters such as crew or manning levels, fatigue prevention, and more complex restrictions on shore leave since 9/11. Wages for seafarers are usually in excess of International Labour Organization (ILO) minimums for developing countries. This would be $US 1,000 a month for a person from China. Salaries for senior officers are much higher. CSL Group acknowledges that it employs a number of Korean seafarers. *Guidelines for Good Employment Practices* inspired by the ILO address issues of rights to union membership, employment conditions, and a host of discipline, grievance, and abuse standards.

Gainsharing is restricted. Stock options for executives exist at publicly-traded companies like CP Ships. No mention is made of share option plans, profit sharing, or suggestion reward incentive programs. Traditional cash bonus plans like that at CP Ships raise challenges for health and safety.

Progressive Staff Policies

Mention isn't made of corporate EAPs or HPPs. Employee assistance programs (EAPs) provide confidential counselling to staff. The broader programs in other transport sectors, like that at Canadian Pacific Railroad, go beyond drug and alcohol abuse to include counselling on life-work balance, family and marital issues, separation and loss, debt and depression. A health promotion program (HPP) typically involves smoking cessation, drug coverage as part of health benefits, and a fitness subsidy. No company reports a more sophisticated plan that includes wellness programs, balanced cafeteria meals, health education workshops, and on-ship fitness facilities.

Internal communications are vital in shipping where operations are so far-flung. They can enhance morale, productivity, teamwork, and access to knowledge to better perform one's job. But it's difficult for the CEO to visit or meet system-wide with crews. They're literally all over the globe, and moving. The broadest number of internal communications programs is reported at CP Ships. That company, the largest in this sector, reports an on-line newsletter, a performance development and tracking process, and a suggestion rewards program.

Annual average employee budgets for training aren't disclosed. Training standards, skill requirements, and seafarer competence are in transition. There are a growing number of ships officers from the developing world. While training is largely on-ship, there are growing numbers of sophisticated simulation and classroom-based programs in high risk specialties like captaincy, specialized navigation, and handling dangerous goods. Popular courses include marine officer development, trades apprenticeship, and alternative workforce structures. Georgian College in Barrie has a program for attracting new people to the industry.

Sensitive Business Activities

Shipping companies do not sell alcohol, tobacco or lottery tickets. Certain passenger ferries sell alcohol and tobacco products. Neither lakers nor international container ships transport weapons or nuclear energy fuel or sub-systems, although they may carry two sensitive products. One is non-strategic dual application (military and non-military) electronic parts and equipment. The other is coal for nuclear plants.

Ethical Sourcing and Trading

Marine companies have few formal international business practice policies dealing with matters like human rights, free association (the right to unionize), or living wages for staff employed by shippers, suppliers and contractors. They respond that they need few such guidelines as their bulk of their operations are legal activities that take place on water or at ports. As shipping volumes to and from repressive regimes increase, and piracy becomes more common, problems like bribery, corrupt hiring and loading practices, illegal drug trafficing, and payments directly to port authorities represent greater challenges. These carriers serve ports in repressive regimes identified by Covenant House. Examples include Indonesia (CSL and Fednav), Myanmar (CSL and Fednav), China (CP Ships, CSL and Fednav) and Vietnam (Fednav).

Parallel challenges for procurement and supply chain management will increase. The case of China is particularly sensitive for two reasons. First, that country represents a growing share of successful shipbuilding yards that have replaced or displaced work at competitor yards in North America and Europe. Second, since 2003, that country has expanded its shipping volumes enormously, with huge increases in demand to import raw materials like coal, iron ore and potash. At the same time, export surpluses of Chinese consumer goods to Europe and North America are flooding ports on Canada's east and west coasts.

China merits particular risk management attention. While Canada has ratified the ILO Merchant Shipping Minimum Standards Convention (of 1976) in 1993, China never has. The regime allows no independent trade unions. Nonetheless, Algoma Central has an agreement with Jiangnan Shipyard in China for construction of a $41 million double hulled chemical tanker. Since 1999, CSL Group has maintained a permanent office in China to win coastal shipping and materials handling contracts. Likewise, a railroad like Canadian National is actively seeking to increase its share of container shipment movements from China to Pacific ports.

These companies could exert positive influence upon their shipper clients. For example, CP Rail asks potential service providers and contractors to sign and adhere to the same code that governs the actions of its own staff. There is potential for the CSA and SFC to lead by further coordinating exploration of ethical sourcing and trading issues.

Grading & Candor

No company consistently outperforms its competitors in many areas of corporate responsibility. Transparency and candor in this sector are inferior to all three other modal transport sectors.

Conclusion

Marine transport companies are largely low profile. They don't demonstrate sophisticated ethical, community or environmental programs. They could enhance their performance in terms of ethics audits, equity goals, occupational safety, and labour relations. Many directors, investors, or members of the general public would not readily assign high reputation or leadership scores to many companies in this sector.

Ethical Performance Comparison

Air Transport Sector

The airline industry is volatile, with profits fluctuating wildly. In 2002, the seven largest U.S. airlines had a combined loss of $US 6.1 billion. The aftermath of 9/11 has seen large drops in traffic volume. Fuel costs as well as landing and terminal fees are up sharply. For all these reasons, major airlines— such as US Airways in August 2002, United Airlines in December 2002, and Air Canada in April 2003— have filed for bankruptcy protection. Over the past two decades, the lengthy list of failed North American-based airlines includes Eastern, PanAm, TWA and Texas Air in the U.S. and Canadian Airlines, Royal Aviation, and Canada 3000 in Canada.

Nonetheless, challenge hasn't meant change in Canada. Equilibrium remains in the sense that we continue to have one dominant carrier which has the lion's share of Canadian business with niche carriers flying alongside. Air Canada, now called ACE Holdings, is as dominant as it was five years ago. It is the same size and market share as its combined antecedent company (Air Canada) and its major acquisition (Canadian Airlines) were, taken together, five years ago. In 2003, the federal Department of Transport concluded that levels of domestic competition inside Canada were insufficient, a conclusion mirroring an earlier one in 1997.

The companies reviewed here include the largest airline in the world (American Airlines or AA), and Canada's largest carrier (Air Canada), as well as niche players— Transat in tourist travel, and CanJet (a wholly owned subsidiary of I.M.P) and WestJet. Both are regional operations with larger North American aspirations. As Table 1 reveals, there are great differences in fleet size and scale of operations between these companies. Our domestic market represents $4.5 billion in sales, whereas the trans-border market is $5.5 billion. While Canada is less deregulated than the U.S., there is more cooperation practiced south of the border than here. While rejecting a merger model, U.S. competitors book and connect passengers on one another's flights, code share, and redeem one another's frequent flyer miles.

Despite "open sky" treaties between Canada and the U.S., the airline sector remains highly protected. Airlines based in either country can fly trans-border routes, but not domestic flights in one another's country. Canadian carriers can pick up U.S. passengers in that country but must drop them off at a Canadian airport. In the old days, Air Canada was an instrument of government policy. As a Crown corporation until 1988, the emphasis was on competition protection of Canada's national airline. Today, Air Canada has moved from eighteenth to twelfth largest passenger airline in the world, and seventh largest in North America.

Ethics Guidance and Reinforcement

The two larger airlines have written codes of ethics. American Airline's code, called *Standards of Business Practice*, is found on the company's website. This 16 page code deals with business standards for topics such as giving and receiving gifts, conflicts of interest, political contributions, confidentiality of information, and the environment and safety, as well as workplace violence. Air Canada's code is only presented to (and

TABLE 1: GENERAL PERFORMANCE IN THE AIRLINE INDUSTRY

Company	Scheduled Passengers Carried (000)		Fleet Size (total number of planes)		Operating Expense Per Seat Km (cents)
	2004	2000	2005	Global Rank	
Ace Aviation	21,355	No info	202	14	10.2
American Airlines	91,570	No info	711	1	9.0
I.M.P.	No info	No info	No info	No info	No info
Transat	No info	No info	23	No info	No info
WestJet	No info	No info	54	No info	No info

Source: EthicScan, data supplied by ICAO, IATA, and the airlines.

PROFILES: AIR TRANSPORT SECTOR

ACE AVIATION HOLDINGS INC *(1)*
Founded, Headquarters: 1937: Montréal — *Ownership:* Widely-held
Revenues: $2,062 mil (2004) — *Number of Units:* 325 aircraft
Operations: 30 mil passengers annually — *Listings:* TSX: AC
Sister Companies: Aeroplan, Destina.ca, Jazz, Jetz, Tango, Zip
Service: Domestic and international air carrier

AMERICAN AIRLINES INC
Founded, Headquarters: 1930: Dallas TX — *Ownership:* AMR Corp: 100%
Revenues: $US 19,709 mil — *Number of Units:* 991 aircraft
Operations: __ mil passengers annually — *Listings:* NYSE: AMR
Sister Companies: American Airlines, American Eagle
Service: Domestic and international air carrier

I.M.P. GROUP INTERNATIONAL INC
Founded, Headquarters: 1967: Halifax — *Ownership:* Privately-held
Revenues: $ 400 mil (2002) — *Number of Units:* n.k.
Operations: Can, US, Russia — *Sister Companies:* Can Jet, Execair, Innotech

TRANSAT A.T. INC
Founded, Headquarters: 1987: Montréal — *Ownership:* Johnview Corp: 50%
Revenues: $2,100 mil (2001) — *Number of Units:* 23 aircraft
Operations: 3.5 mil passengers annually — *Listings:* TSX: TRZ
Sister Companies: Air Transat, Club Bolero, Regent Holidays, World of Vacations
Service: Holiday travel specialist

WESTJET AIRLINE LTD
Founded, Headquarters: 1996: Calgary — *Ownership:* Ontario Teachers: 17%
Revenues: $1,058 mil (2004) — *Number of Units:* 54 planes
Operations: Can, US — *Sister Companies:* WestJet
Listings: TSX: WJA — *Service:* North American air carrier

(1) Name comes from Air Canada Enterprises

shared with) its management staff and the Board.

There is no indication that these two codes of responsible business practice have been updated in the last five years. Compliance certification is restricted. In Air Canada's case, staff sign-off is limited to time of hire, but not annually thereafter as part of performance appraisals. While executives at Air Canada do not sign off regularly on the ethics code, they do on a conflict of interest policy. At American Airlines (or AA), the code is part of a Business Ethics and Compliance program that includes recurrent compliance certification. Neither airline mentions whether these codes are translated into languages spoken in sales offices or maintenance shop floors in non-English speaking jurisdictions.

Ongoing training and reinforcement of ethics is limited. No airline commissions an independent social or ethics audit of its operations. The two airlines with codes each report offering their employees an anonymous, toll free, whistle blower telephone line as well as ethics training. Details about training subjects and frequency aren't provided. AA's chief compliance officer is its senior VP, legal. By contrast, toll-free lines at the smaller airlines typically deal with flight operational information, not employee complaints.

Ethical challenges in the sector are numerous. There have been three misleading advertising cases and one securities laws violation (in 2001, with a $580,000 penalty) levied against Air Canada. Although governments are continually involved in overseeing and approving mergers and consolidations, Air Canada gave $54,000 in 2000 in political donations to the federal Liberal Party. In August 2004, WestJet apologized for corporate espionage involving a co-founder and former COO who illicitly accessed competitors' financial data and subsequently resigned. WestJet has charged Air Canada with using private investigators to go through the garbage of WestJet executives. Currently Air Canada has a $220 million lawsuit against WestJet.

The business environment is cut-throat. Predatory pricing to eliminate competitors in both countries is common. In 2001 Air Canada cut travel agent commissions completely except for its Tango brand, an action that resulted in a class action suit in 2003. Air Canada's Destina.ca site is seen by some as a computer reservation system favouring Air Canada, rather than as a neutral travel agency. Air Canada is accused of using Aeroplan data in ways that violate privacy. Despite pledges to the contrary, Air Canada failed to maintain Canadian Airlines as an independent airline with its head office in Calgary, its own management team, and its own Board.

Equity and Family

Women continue to be poorly represented in senior airline ranks. There are a total of three women among 42 directors in all these airlines. Air Canada and WestJet have no women directors. Likewise, there are five women among 50 senior executive officers. Neither American Airlines (AA) nor WestJet has one female officer. The current numbers for women managers are not widely different from those a decade ago. In 1994, Air Canada reported women in 10.1% of senior management positions, 24.2% of management positions, and 36.0% of the total workforce.

There are grounds for concern about the performance of Canadian airlines respecting various disadvantaged groups, relative to U.S. competitors operating here. Consider Table 2, which shows Employment Equity Act scores based on data supplied by the companies. Hiring and promotion of women in Canada is better at American, Delta and United Airlines (each with a superior grade) than at Jazz, CanJet or Air Transat (good grades). Likewise, American Airlines has a stronger performance in hiring and promoting persons with disabilities (a superior grade) in Canada than does I.M.P. Group or WestJet (each with a poor score), or any other carrier. Ditto for visible minorities.

There are some positive signs. Air Canada, Air Transat, I.M.P. Group and Jazz Air score well (an A or superior grade) in hiring and promoting aboriginal persons. American Airlines has a near-site daycare at its headquarters. Air Canada and AA have an employment equity program. AA has a diversity advisory council.

Mention isn't made of a hiring or procurement program that favours aboriginal-owned or minority-owned businesses or contractors. Companies adhere to current legislation (but not a higher standard) with respect to extended maternity leave, paternity and adoption leave, or same sex benefits. No airline reports having a formal mentoring program, or setting designated group advancement target goals and following them up by diversity training or auditing performance toward achieving such goals.

In April 2005 the Canadian Human Rights Commission entered into a proactive memo of understanding with WestJet about hiring practices. To date, imbalances in hiring and promotion of designated disadvantaged groups have not yielded many group discrimination suits or individual human rights cases at these companies. Indeed, aside from Air Canada, there are comparatively few such cases for such large workforces.

Community Responsibilities

Of the five companies reviewed here, Air Canada stands out in terms of community responsibilities. It reveals total dollar amounts donated by the employer as well as its staff and pensioners. In 2000, of the $5 million given by Air Canada and its staff, the ratio was 1:4. Air Canada alone is pledged to the Imagine Canada campaign. It formally matches employee donations to charitable causes. No other airline details either the amount of its contributions or in-kind donations, the loan of facilities and staff, or involvement in community dialogue. Air Canada reports on giving but only some recipients are listed.

There is clear need for improvement. Airlines aren't donating at least 1.0% of pre-tax earnings, rather than profits, to charity over a three year average. Donation guidelines aren't readily posted on web sites, even in years when profits were healthier. WestJet, which has a donations coordinator, devotes a page in its *Annual Report* to charitable giving. Mention is not made of creating a registered charitable foundation to evaluate appeals and disperse funds to community-based charitable groups and causes. Executive compensation criteria don't seem to include community investment or performance criteria.

Aside from cash, airlines donate travel vouchers to worthy causes, such as seriously ill, disabled or underprivileged children. Staffs take part in various humanitarian, relief mission, and children-directed causes like Dreams Take Flight, Easter Seal Telethon, Hope Air, and the Childrens Miracle Network. Hope Air is a national charitable organization that arranges free transportation for financially-burdened Canadians in need of medical treatment outside their home communities.

Few airline executives display responsibility or accountability in the public arena. None issues a community report on responsible practices throughout system operations. Few CEOs report ongoing experiments with triple bottom line accounting, or initiate awards for employees who meet social responsibility performance targets. Few offer employees credits toward share ownership when they are active in community voluntarism or personal environmental causes.

Sometimes, operations result in complex involvements in communities. I.M.P. Group has interests in hotel properties in Nova Scotia (Holiday Inn Halifax, and Oak Island Resort) and Russia (Moscow Aerostar Hotel). Contributions to environmental causes are noted at Air Canada (the Trans Canada Trail—a recreation resource extending over 15,000 kilometers) and American Airlines (which sponsors Earth Day projects in national parks such as building boardwalks, clearing trails and planting trees).

TABLE 2: EMPLOYMENT EQUITY SCORES, 2004

Airlines in Canada	Sample Size	Women	Aboriginal Persons	Persons with Disabilities	Visible Minorities
ACE Aviation *(1)*	24,579	A	A	C	B
American Airlines	251	A	Z	A	A
CHC Helicopters	420	C	B	C	B
Delta Air	272	A	Z	D	C
I.M.P. *(2)*	347	B	A	D	C
Jazz Air	3,684	B	A	C	C
Skyservice Airlines	1,143	B	C	C	C
Transat	1,866	B	A	C	C
United Airlines	162	A	A	D	C
US Airways	108	A	Z	Z	A
WestJet	3,830	A	C	D	D

Source: Employment Equity Act; grades by HRDC based on data supplied by companies
Legend: A superior; B: good; C: average to less than average; D: poor; Z: no representation
(1) Air Canada, not including Jazz Air *(2)* CanJet division, not including Execaire

Corporate Governance

Many practices championed by good governance advocates are absent in this sector. For example, only AA has compensation and nominations Board committees comprised wholly of independent directors. Little more than two thirds of all directors (34 of 45) across these companies are independent. Only Air Canada and AA have one executive officer (in both cases, the CEO) on their Boards. Don Carty, the former CEO at American Airlines (and an Air Canada alumnus), was forced to resign in 2001 after union leaders discovered a plan to award executive compensation pack-

AIR TRANSPORT COMPANIES: MODIFIED DELPHI GRADING, NOVEMBER 2005

Company	Equity & Family	Community Responsibilities	Management Practices & Consumer Relations	Corporate Governance	Environmental Performance	Environmental Management	Employee Relations	Progressive Staff Policies	Sourcing & Trading	Candor
Number of Variables	29	24	21	12	20	26	26	33	24	216
ACE Aviation	D	C	C	C	B	B	C	C	D	48
American Airlines	D	D	C	B	C	B	C	C	D	27
I.M.P. Group	E	E	E	E	D	E	D	D	E	13
Transat A.T.	C	E	E	D	D	E	D	D	D	36
WestJet Airline	E	E	E	D	D	E	B	D	D	35

Source: EthicScan Corporate 1500 DataBase: shading indicates sector best performance. The grading in this Table reflects many more variables than what is reported in this Essay, or in the charts on page 91 and 93. The criteria are described in a series of six articles in *The Corporate Ethics Monitor*, vol 12, issues 1-6. The grading scheme was developed in 2000 by a team of 60 businesspersons, social justice advocates, journalists, unionists and others. Grades are as follows: A+: 90% and over; A: 75-89%; B: 60-74%; C: 40-59%; D: 20-39%; and E: 19 or less. More detail is available at www.ethicscan.ca.

ETHICAL PERFORMANCE OF AIR TRANSPORT COMPANIES

	ACE AVIATION	AMERICAN AIRLINES	I.M.P. GROUP	TRANSAT A.T.	WESTJET AIRLINE
Management Practices & Consumer Relations					
Written Code of Ethics (Yes/No; Date)	Yes, 1989	Yes, 1972	No	No	No
Code Updated Within Last Five Years	No info	No info	Not applic	Not applic	Not applic
Ethics Training	Yes	Yes	No	No	No
Annual Sign-off	No	No	Not applic	Not applic	Not applic
Ethics Ombudsman or Hotline	Yes	Yes	No	No	No info
Whistle Blower Protection	Yes	Yes	No	No	No
Ethics Audit	No	No	No	No	No
Code on Web-site	No	Yes	No	No	No
Equity and Family					
Women on Board	0 of 10	2 of 11	No info	1 of 12	0 of 9
Women in Senior Management	1 of 6	0 of 15	No info	4 of 24	0 of 5
Disclose Diversity Hiring Statistics	Yes	Yes	Yes	Yes	Yes
Aboriginal Hiring / Contracting Program	No info	No info	No info	No info	No info
Formal Mentoring Program	No info	No info	No	No	No info
Anti-Harassment Policy	No info	Yes	Yes	No info	No info
Employment Equity Program	Yes	Yes	No info	No info	No info
Human Rights Cases	Yes, 5	Not reported	Not reported	Not reported	Not reported
Daycare (Referral or Onsite)	Yes, referral	Yes, near site	No	No	No
Community Responsibilities					
Total Company Giving ($)	$113,545	No info	No info	No info	No info
Total Employee, Retiree Giving ($)	$464,675	No info	No info	No info	No info
Imagine Canada Pledge	Yes	No	No	No	No
In-kind Donations	Yes	Yes	No info	No info	No info
Matching Gift Program	Yes	No info	No info	No info	No info
Involvement in Multi-Stakeholder Dialogue	Yes	Yes	No info	No info	No info
Disclose Donation Guidelines	No	No	No	No	No
Number of Annual Responsibility Reports	Nil	Nil	Nil	Nil	Nil
Corporate Governance					
Independent Compensation Committee	No	Yes	No	No	No
Independent Nominating Committee	Yes	Yes	No	Yes	No
Some / All Policy Decisions Made in Canada	All	Some	All	All	All
Limit on Director Tenure	No	No	No	No	No
Number of Independent Directors	12 of 13	10 of 11	No info	7 of 12	5 of 9
Separate Chairman and CEO	Yes	No	No	No	No
Existence of Poison Pill (Share Structure)	Yes	No info	Not applic	No info	No info
Environmental Management					
Environmental Policy (Yes/No; Year)	Yes, 1991	Yes, no date	No	No	No
Policy Updated Within Last Five Years	Yes, 2000	Yes, 2001	Not applic	Not applic	Not applic
Number of Full-time Environmental Staff	9	No info	Nil	Nil	Nil
Senior Full-Time Official (Rank)	No info	VP *(2)*	No info	No info	No info
Environmental Training for Employees	Yes	Yes	Yes	No info	No info
Environmental Committee of the Board	No	No	No	No	No
Frequency of Reports to the Board (per year)	4 / yr	No info	No info	No info	No info

ages at the same time as he was downsizing staff.

Government regulations limit foreign ownership of voting shares of Canadian airlines to 25%. Three of the companies reviewed here are widely-held. I.M.P. and Air Transat have founding executives who hold a controlling share in their respective operations. No airline has significant employee ownership. While there are no union appointees on Boards, a member of the PACT team at American Airlines is invited to join that airline's Board to strengthen communication and team spirit, as well as take part in training programs and vacation pay negotiations. Air Canada has a poison pill, anti-takeover plan.

Environmental Management

Air traffic creates many environmental challenges. Some involve airports, others involve on-ground access and support, and still others involve aircraft flights themselves. Structural ones include things like land used, noise reduction, and air emission standards. Operational things include fuel consumption, air safety, disposal of hazardous wastes (like ethylene glycol or de-icer fluids, solvents, and paints), and use of CFCs in extinguishers.

Unlike other transportation sectors, a majority of these air carriers do not report having a written environmental policy. The ones at Air Canada and American Airlines have been updated within the past five years. AA posts a Corporate Environmental Commitment on its website. Air Canada, AA and I.M.P. report that they offer regular environmental training for staff, including handling and disposal of hazardous waste and dangerous goods.

So much information is withheld that it hard to conclude the degree to which specific airlines have an environmental management system (EMS), including an internal auditing and reporting system. Only AA reports a full time director/VP of environmental affairs, as well as an "environmental manager" at each hub and 2-3 trained personnel at each station. Air Canada says it has nine full time environmental affairs staff members, though not a full time VP responsible for this portfolio.

Annual environmental progress reports aren't issued by these air carriers, although American Airlines did so in the 1990s. United Parcel Services, which operates the world's ninth largest airline, currently issues an annual sustainability report. Staff at Air Canada prepares quarterly environmental progress reports for its Board. No airline discloses multi-year data on capital expenditures for waste management, pollution prevention and control, or energy efficiency. No airline reports an environment, health and safety (EH&S) awards program that recognizes superior efforts in waste reduction, recycling, and corrosion monitoring. If any airline has adopted an integrated strategy of promoting itself as an environmental leader, this hasn't been reported.

No airline reports a closed loop waste disposal system—one where all liquids, gases and chemicals are captured and recycled— with no emissions or releases to the environment. Airlines don't report whether they post materials management (WHMIS) documents and environmental standards— mandatory in Canada— at all terminals and business units in other countries. Likewise, it isn't possible to determine whether Canadian or international standards are used in countries where local waste handling or disposal laws are less stringent.

American Airlines committed to the CERES Principles in 1999. However, as Table 3 suggests, neither this airline nor the others are active in pledging to or developing sustainable standards. For example, none reports that it subscribes to ISO 14001 or the U.N. Global Compact. These airlines neither pledge to, nor are recognized by, voluntary international standards or protocols like the Global Reporting Initiative (GRI), Financial Times Stock Exchange (FTSE 4 Good), or Dow Jones Sustainability Index (DJSI). Neither Air Canada nor American Airlines reveals the percentage of their fleet that complies with the stage four noise and emission guidelines of the International Civil Aviation Organization (ICAO). By contrast, United Parcel Services, which was profiled last issue as a highway sector carrier, does. In 2003 that UPS figure was 94%.

Environmental Performance

While airlines are required to keep records of maintenance of individual aircraft, that information isn't summarized for public consumption. Air Canada reports that it audits all system-wide operations for environmental issues once every five years. It uses external or third party consultants to help conduct these audits. Audits of operations and follow-up actions receive little comment.

Airlines don't face direct demands from passengers or freight customers to be more energy and materials responsible. Shippers do not require them to be proactive, satisfy procurement standards, or monitor their performance. Reports are rare of airlines receiving environmental awards, contributing to environmental causes (Air Canada and AA do), or being forthright about environmental prosecutions, liabilities, or quantities of recycling.

Recycling typically includes waste oils, aluminum, video and cassette tapes, paper, cardboard, and metals. More responsible operations also recycle plastics, wire, solvents, and waste food products. Air Canada does not report on quantities of wastes recycled, even though Canadian Airlines did so until it was acquired by Air Canada in 2000. There are few reports of car and van pool support programs for staff, or corporate propane or hybrid fuel vehicle fleet for field staff, or preferential workplace parking for multiple occupancy vehicles.

Performance bonds are important in a sector which is vulnerable to terrorist incidents and airborne failures that can cause extensive life and property damage. Nonetheless, these airlines don't publicly provide such data.

Health and Safety

Pilots, who are retested frequently for air worthiness competency, undergo recurrent classroom, simulator and cockpit training. Likewise, flight attendants, maintenance workers and mechanical engineers each undergo career-long re-training. Over the last thirty five years, American Airlines stands out for having higher than average numbers of fatal events as well as a higher fatal event rate. For that period, as Table 4 shows, there were three fatal crashes involving Air Canada planes versus 13 for American Airlines. By comparison, Southwest Air has never had a fatal crash.

Airlines won't disclose data on their workplace injuries, serious accidents and fatalities, either for employees or passengers. Transport Canada levied a $250,000 maintenance infraction fine against Air Transat, from an incident involving an emergency landing.

Passenger health issues include seat space, fresh air, and deep vein thrombosis (DVT). Blood clots in lower limbs on long distance flights are a growing concern due to passenger immobility and poor circulation. Air Canada won awards from the World Health Organization (WHO) and the Canadian Cardiovascular Society for its early elimination of smoking on all flights and airport lounges. Air Canada was not one of the 17 international airlines who attended the WHO conference in 2001 on DVT.

Outside experts identify many ways that workplace health could be nurtured beyond the use of safety teams who inspect equipment and procedures during site visits. One would be a pre-employment medical and drug screening program. Another would be compulsory substance abuse checks for employees working in sensitive positions, such as pilots and tarmac crews. A third is the use of customized safety training (videos, computer programs) initiatives to complement personal instruction from experienced staff. A fourth is annual

TABLE 3: PLEDGES TO OR PARTICIPATION IN BUSINESS PRACTICE AND OTHER CERTIFICATION OR REPORTING STANDARDS

Company	ISO 14001 *(1)*	ISO CC *(2)*	DJSI *(3)*	FTSE *(4)*	Kyoto *(5)*	GRI *(6)*	CERES *(7)*	UNGC *(8)*	ICAO *(9)*
ACE Aviation	No	No	No	No	No	No	No	No	No
American Airlines	No	No	No	No	No	No	Yes, 1999	No	No
I.M.P.	No	No	No	No	No	No	No	No	No
Transat	No	No	No	No	No	No	No	No	No
WestJet	No	No	No	No	No	No	No	No	No

Source: EthicScan Corporate 1500 Database Notes: Data provided by airline. Not all standards are reported, and depending upon the company, may apply to certain operational units and not others.

(1) International Standards Organization 14001
(2) ISO Climate Change, formerly VCR Program
(3) Dow Jones Sustainability Index
(4) FTSE4Good Index
(5) Kyoto Protocols pledge, climate change
(6) Global Reporting Initiative
(7) Coalition on Environmentally Responsible Systems
(8) United Nations Global Compact
(9) International Civil Aviation Organization, Stage IV Guidelines

ETHICAL PERFORMANCE OF AIR TRANSPORT COMPANIES (CONT'D)

	ACE AVIATION	AMERICAN AIRLINES	I.M.P. GROUP	TRANSAT A.T.	WESTJET AIRLINE
Environmental Performance					
Audit Team (Internal; External; Both)	Both *(1)*	No info	No info	No info	No info
Frequency of Audit	Every 5 years	No info	No info	No info	No info
Commodity Types Recycled (#)	Yes, 4	No info	No info	No info	No info
Disclosure of Quantities Recycled	No	No	No	No	No
Workplace Recycling Program	No info	Yes	No info	No info	No info
Environmental Awards	Nil	Nil	Nil	Nil	Nil
Environmental Convictions Over Last Ten Years	Not reported	Not reported	Not reported	Not reported	Not reported
Waste Reduction Program	Yes	Yes	No info	No info	Yes
Charitable Giving to Environmental Organizations	Yes	Yes	No info	No info	No info
Performance Bond, Disaster ($ mil)	Not reported	Not reported	Not reported	Not reported	Not reported
Health & Safety					
Policy (Yes/No; Year)	Yes, no date	Yes, no date	No info	No info	No info
Accidents Per 200,000 hours worked	No info	No info	No info	No info	No info
Number of Crashes Last Ten Years	No info	3	No info	No info	No info
Fines Last Five Years (#, $)	Not reported	Not reported	Not reported	1, $250,000	Not reported
Employee Relations					
Employment This Year Canada	18,765	250	No info	4,000	4,025
Employment This Year Worldwide	23,175	77,100	3,500	5,600	5,000
Employment Change in Canada, Last Five Years	-2,300	-12,000 *(2)*	No info	-500	No info
Percentage of Workforce Unionized	84%	60%	14%	No info	Nil
Number of Strikes, Last Ten Years	1	2	2	No info	Nil
Disclose Training Budget	No	No	No	No	No
Profit Sharing with Employees	Yes	Yes	No	No	Yes
ESOP, Employer Contribution	Yes, 33%	Nil	No info	Yes, 10%	Yes, 50%
Gainsharing Programs (Yes/No; #)	Yes, 2	Yes, 2	Yes, 1	Yes, 2	Yes, 3
Progressive Staff Policies					
Employee Assistance Programs (Yes/No; Number)	Yes, 4	Yes, 5	No info	No info	No info
Health Promotion Programs (Yes/No; Number)	Yes, 3	Yes, 2	No info	No info	No info
Employee Newsletter	Yes	Yes	No info	No info	No info
Child/Elder Care Support	No info	No info	No info	No info	No info
Same Sex Benefits	No info	No	No info	No info	No info
Refund on Book & Tuition ≥ 75%	No, 25%	No info	No info	No info	No info
Internal Communications Programs (Yes/No; #)	Yes, 4	Yes, 5	Yes, 2	Yes, 2	Yes, 4
Scholarship for Employees	No info	No info	No info	No info	No info
Sourcing and Trading					
Policy on Canadian Sourcing	No	No	No	No	No
Foreign Sourcing Code	No	No	No	No	No
Policy Against Sourcing in Repressive Regimes	No	No	No	No	No
Signatory to International Labour Standards	No	No	No	No	No
Canadian Traffic as % Total	No info	No info	No info	No info	No info
Active in Repressive Regimes	Yes, China	Yes, 3 countries	No info	Yes, Cuba	No
Sensitive Business Activities					
Alcohol. Tobacco, Gambling	Yes	Yes	Yes	Yes	Yes
Military Services (Est. % Total Revenues)	Yes, 7%	Yes, 6%	Yes, 9%	No info	No info

Notes:
(1) Some locations *(2)* Parent company

Research Prepared by Danny Kastner

Information for this comparison is drawn from year 2005 reports prepared by EthicScan Canada. Where the performance of an institution is described as "No info," the company may have a salutary record, but the facts are not known to EthicScan researchers. The regular fact checking process involves corporate database reviews, interviews, and two requests that the company review, update and validate the major findings on file.

safety audits carried out by internal and external personnel who monitor, evaluate, and enhance safety management systems. While some such programs may exist, no airline would disclose to EthicScan researchers or the public that it employs all four.

Employee Relations

Over the years, larger airlines have acquired smaller competitors, or launched special operations (discount and regional) to eliminate competition. The recurrent pattern is consolidation and job cuts. Since 9/11, layoffs in the sector have affected an estimated 100,000 workers in the U.S. and some 20,000 in Canada, only a fraction of which have been called back. These recent layoffs were major. At the end of 2004, Air Canada had 8,000 fewer full time equivalent positions than at the end of 2002 (31,991 versus 39,995). In August 2002, AA announced planned to cut another 7,000 jobs after previous cut of 20,000 positions. Transat announced elimination of 500 positions in May 2003.

There has been a long history of contentious labour relations involving separate pilot, maintenance and employee unions, on the one hand, and airline employers on the other. Principal unions include CUPE, CAW, and ALPA. In May 2002, CUPE filed a motion with the Canada Labour Relations Board asking that Air Canada and Zip Air be declared a common employer—in order to stop Air Canada from hiring outside existing contracts. Pilots at Air Canada (ALPA) blocked an effort by Air Canada to fashion a discount carrier with the help of Skyservice, since assignments would have gone to pilots outside the union. Over the last decade, strikes have occurred at Air Canada (one), AA (two, one of which was a "sickout") and I.M.P. Group (two).

Unions represent over 60% of hourly workforces at Air Canada and American Airlines, but lower levels at the other airlines. WestJet is not unionized. Disclosure of numbers of grievances and turnover rates are incomplete. Canadian Autoworkers (CAW) union leader Ken Taylor notes that there are about 30-35 grievances a year at I.M.P., about 4-5 of which go to arbitration. In 2003, he observed that the company did not involve the union in decisions outside of collective bargaining. In 2004, the CAW agreed to different wage rates for new versus existing staff rather than see an equal pay cut for all the Air Canada staff that it represented.

Profit sharing is practiced at Air Canada (since 2004), American Airlines, and WestJet. Employee share ownership programs (ESOPs) whereby the company encourages employees to buy shares in the airline are reported at Air Canada, Transat and WestJet. While it admits to paying lower wage rates, WestJet also has the highest employer contribution—50% of the share purchase price, up to 20% of annual salary. Some 86% of WestJet staff participates. Unionists looking at non-unionized WestJet contend that share ownership is no substitute for workers earning decent, comparable wages.

Progressive Staff Policies

Employee assistance programs (EAPs) like those at Air Canada and AA provide confidential counselling to staff and their dependents. Typically they are offered through an independent third party provider. Air Canada, which has the broadest EAP, includes counselling for alcohol, drug dependency, stress and weight concerns. EAPs at companies in other transport sectors explicitly mention counselling for families of staff as well as for employees.

Health promotion programs (HPPs) are offered to staff at Air Canada and AA. They typically involve smoking cessation, drug coverage as part of health benefits, and a fitness subsidy. More sophisticated plans at companies in other transport sectors include wellness programs, healthy and well balanced cafeteria meals, health education workshops, corporate marathons, and on-site fitness facilities. AA has a Life Balance program for staff, including three personal emergency days a year, when necessary.

Good internal communications can enhance morale, productivity, teamwork, and access to knowledge to better perform one's job, especially for highly mobile pilot and steward staff. Smaller programs include newsletters, an employee opinion survey, and excellence awards. The broadest number of such programs is reported at American Airlines. Internal communications at that company, the largest in this sector, include a bi-weekly newsletter, a suggestion program, employee recognition, and face-to-face meetings where executives meet staff, as well as access to a toll free hotline. To better communicate its culture, WestJet has no executive parking spaces.

No airline confirms that it fully reimburses tuition and book costs for work-related training at outside educational institutions. Air Canada reimburses 25% of tuition costs and 100% for books, depending on their work-relatedness. Investment in education typically involves on site training supplemented by enrollment in outside education programs.

Sourcing & Trading

All carriers must procure fuel, parts, maintenance services, and other provisions like accommodation and supplies wherever in the world their planes, buses and coaches operate. Airlines touch down in countries where systemic abuse of human rights is practiced. Dictatorships like Iran, Libya, Myanmar, and North Korea pride themselves on operating international airport terminals and air connections. In those countries, the military or relatives of the person or party in power typically have a monopoly on these supply chain transactions. Countries typically guilty of human rights abuses are rarely off-limits to commercial aviation. Air Canada has landing rights in China and Air Transat has them in Cuba. Neither country has free trade unions.

None of the airlines reviewed here report a foreign sourcing code that applies human rights standards to all food, fuel, aviation, and other service contractors in those countries. Certain large transnational carriers have business practice rules that not only allow for operations in repressive regimes but also allow facilitation payments internationally, if allowed by law, given conditions of transparency and executive approval. Thus we find AA in China, Vietnam and North Korea. Air Transat manages a Cuban hotel whose ownership is a matter of legal dispute, following expropriation by the Castro regime.

Sensitive Business Activities

Airlines sell alcohol and tobacco duty free, where permitted by law, to international travel passengers (excluding minors). Air carriers control passenger boarding as well as in-flight provision of alcohol. Revenues from each product make up an estimated 3-5% of all sales. American Airlines and I.M.P. earn an estimated 6-10% or more of total revenues from aviation services (maintenance, management, parts and scheduling) to defence industry clients. For example, Air Canada transports military personnel; American Airlines makes its flight reservation and operations system available to the military; and I.M.P. provides engineering, depot level maintenance, and other services to the Department of National Defence and the U.S. Navy.

Grading & Candor

As the grading table shows, these companies rate few A or B scores. Comparatively higher marks for corporate responsibility go to Air Canada, which led in five categories. Candor seems to lag as much as corporate responsibility scores do.

TABLE 4: HEALTH AND SAFETY STATISTICS

Airline	Injury Frequency per 200,000 hours worked		Fatal Events and Fatal Event Rates Since 1970			
	2004	2000	Rate	FLE *(1)*	Events	Last Year
Ace Aviation	No info	No info	0.33	1.58	3	1983
American Airlines	No info	No info	0.59	10.08	13	2004
Delta	No info	No info	0.16	3.24	6	1997
I.M.P.	No info	No info	No info	No info	No info	No info
Southwest Air	No info	No info	0.00	0.00	Nil	Nil
Transat	No info	No info	No info	No info	No info	No info
United	No info	No info	0.37	6.69	11	2001
US Air	No info	No info	0.35	4.97	9	2003
WestJet	No info	No info	No info	No info	No info	No info

Source: EthicScan, AirSafe.com; data supplied by companies *(1)* Fatal event rate

Conclusion

Airlines need to enhance their performance in terms of accountability and reporting for ethical practices. Disclosure in areas like occupational health and safety, governance, targets to address equity inequities, and human rights cases among employees needs to be vastly improved. For such a reputation-sensitive and highly-regulated sector, levels of transparency and leadership are beneath expectations.

OPEN FORUM

Comment, By Vincent di Norcia

Canadian Business, Sustainability & Human Rights

The globalization of human rights was the focus of this fall's *Canadian Business for Social Responsibility* (CBSR) conference. Canada's strengths, several speakers noted, are our limited geopolitical designs, our innocuous, non-threatening reputation, our socially and culturally diverse society, and public knowledge and support of human rights and human development, often well ahead of government action. In his keynote conference address, the Right Honourable Joe Clark maintained that Canada's positive reputation is an asset for Canadian businesses internationally, especially in the developing world.

His views were reinforced by the luncheon talk of Dr. Walter Reid, Director of the Millenium Ecosystems Assessment Program at Stanford University, who graphically depicted the growing global crisis of climate warming, environmental degradation, and species extinctions. He called on the Canadian business community to adopt sustainability practices, and support government actions to mitigate these risks.

The UN Universal Declaration of Human Rights (to which Canada is a signatory), has connected human rights and development. The result, Dr. Reid noted, has been a set of social, economic and environmental Millenium Development Goals (MDGs), and a ten year target deadline for reaching them.

Socially responsible businesses, Dr. Reid stressed, can contribute significantly to achieving MDG goals such as reducing poverty, and debt improving trade and the financial system, supporting local businesses and entrepreneurship, emancipating women, extending public education, employing youth, and ending environmental degradation and global warming. Sheila Watt-Cloutier of the Inuit Circumpolar Conference, depicted climate change as a human rights issue. She graphically described its harsh impact on the Arctic ecology and life in Inuit communities.

Canadian businesses need to back human rights and adopt the Triple Bottom Line approach in their foreign as well as domestic operations. They should also support open trade and financing (especially micro enterprises), good corporate governance, marketing affordable drugs, increasing access to information, and biotechnologies.

THE UN MILLENNIUM DEVELOPMENT GOALS (MDG)

- Eradicate extreme poverty and hunger. By 2015: halve the proportion of people living on a less than a dollar a day and suffering from hunger.
- Achieve universal primary education. By 2015: all children should complete primary school.
- Promote gender equality and empower women. By 2015: Eliminate gender disparity in primary and secondary schools.
- Reduce child mortality. By 2015: Reduce child mortality by two thirds.
- Improve maternal health. By 2015: Reduce the ratio of women dying in childbirth by three-quarters.
- Combat HIV/AIDS, malaria and other diseases. By 2015: Halt and reverse the spread of these diseases.
- Ensure environmental sustainability. By 2015: halve the number of people without safe drinking water, and restore habitats and recover lost environmental resources.
- Develop global partnerships for development. By 2015: develop open trading and financing with commitments to good governance, poverty and debt reduction, youth employment, and affordable essential drugs.

But challenges remain. They include Canada's reluctance to pioneer new business practices, a false sense of complacency and security, and a lack of understanding of sustainability strategies. Business resistance to adopting proactive human rights policies and practices reflects the concerns some firms have about credibility with regulators and the public, legal liabilities, and managing relations with stakeholders like responsible investors and pension funds.

In contrast those businesses that take leadership positions on human rights and development in their operations should enhance their opportunities. Such proactive stances should, for example: Facilitate/reinforce access to many emerging markets; Reduce the risks of civil strife and criminality, and related security costs; Enable and reinforce connections with progressive local leaders, women, youth, and small businesses; Enhance profitability and open up markets, especially for responsible products which enjoy premium prices and reinforce consumer loyalty; and buttress a firm's credibility and Canada's human rights 'brand.'

A number of Canadian firms support the CBSR initiative: Alcan, Hewlett Packard Canada, Citizens Bank of Canada, Ethical Funds, Scotiabank, Tembec, Nexen, BP Canada, Vancity Group, Syncrude, and FedEx, among others. We urge such businesses to transform their policies, practices, domestic and foreign operations into models of sustainability and respect for human rights. The credibility of the Canadian 'brand' increasingly rests on business actions that advance the MDG goals at home and abroad.

Our thanks to Andrew Frank and Adine Mees of Canadian Business for Social Responsibility for the invitation to their conference on human rights. For more information you can contact CBSR at 416.703.7435, or access their website: www.cbsr.ca.

MediaScan, by David Olive

The Fantasy of Multiple Voting Shares

If there's one thing corporate governance experts agree on, it's that multiple-voting shares are a curse, undermining the cherished ideal of shareholder democracy that first emerged in the early decades of the twentieth century. Never mind that IBM Corp., AT&T Corp., General Motors Corp. and the other early examples of widely held enterprises that had outgrown the Henry Ford model of one-man rule were – and continue to be – under the lengthened shadow of a CEO, whose will ordinary investors are powerless to thwart.

The Canadian Coalition for Good Governance has worked tirelessly to eradicate multiple-voting shares. David Beatty, the group's managing director, told the *Globe and Mail* in October of this year that, "As a matter of religious ideology, the coalition members are unanimous in their support of one share-one vote." But that's a blinkered view of corporate social responsibility (CSR); for it presents a one-class share structure as a silver bullet to protect ordinary investors from abusive managers and majority owners. Conversely, it suggests that the presence of a multiple-share voting structure is an invitation to scandal.

Never mind that such firms as Nortel Networks Corp., Enron Corp. and WorldCom Inc. succumbed to scandal in the absence of multiple-voting shares, or even the presence of a majority shareholder. And that such consistently well and honestly run firms as Canadian Tire Corp. Ltd., Atco Ltd., Great-West Lifeco and CCL Industries Inc. do have multiple-voting shares by which their founders and the founders' heirs or a conglomerate owner controls the firm. The financial media tend to embrace the CSR reformers' view about the bane of multiple-voting shares as well as the need for a majority of outside directors on the board and the separation of the chairman and CEO posts – despite no convincing evidence that these benchmarks are reliable predictors of superior ethical or financial performance.

A favourite comparison of mine is the conglomerate Power Corp. of Canada, controlled by the Desmarais family with multiple-voting shares; and BCE Inc., a widely held firm adhering to the vaunted single-share principle. With its chronic propensity to make ill-advised takeovers in pursuit of diversification, BCE has destroyed billions of dollars of shareholder value in the past two decades. By contrast, Power's disciplined focus on financial services and lucrative media franchises has rewarded shareholders. The five-year total return to BCE shareholders is –9.1%, and for Power investors it is +93%.

We pay a price for clinging to notions of shareholder democracy which, in plain fact, were never more than a fantasy to start with. In the absence of a controlling shareholder or multiple-voting shares, Fairmont Hotels & Resorts Inc. fell prey in November to U.S. corporate raider Carl Icahn, who seeks to break up the 119-year-old chain of historic hotel properties – a fate that Issy Sharp, founder of Four Seasons Hotels Inc., need not fear. He insisted on a dual-class voting structure from the time Four Seasons first went public two decades ago so that his company would never confront the possibility of being broken up by an interloper.

Edicts against multiple-voting shares are an obvious deterrent to entrepreneurs who increasingly choose not to list their firms on the NYSE when the time came for them to go public. They fear the eventual loss of their company because of the NYSE's long-standing ban on dual-share-class firms. By the 1990s, though, with its listings and influence in decline, the NYSE relented, aligning itself with other exchanges that did not have a similar prohibition.

The best protection for investors is homework – a careful study of how the managers and owners of a business have reacted to ethical quandaries. Take note of how ExxonMobil Corp. showed a lack of sensitivity in dealing with the Valdez disaster and now campaigns against measures to curb global warming. The company has a profit-first worldview that is appropriate to some investors.

Note that Costco Wholesale Corp. and Starbucks Corp. firms in a typically low-pay sector, have consistently given above-average compensation and benefits to their front-line employees. This occurs despite potential competitive disadvantages. This again is a different worldview for perhaps a different type of "socially sensitive" investor.

Such right behaviours involve real financial sacrifices in the short term. They are far more meaningful than checking off the boxes on a CSR compliance form inquiring about the number of independent directors on the board. In the case of Nortel before disaster struck, all the directors except the CEO were outsiders. It was a model of CSR compliance that is cold comfort for investors who bought Nortel close to its $124.50 peak.

All in all, certain sacred truths of shareholder democracy appear to do investors, employees and other stakeholders little good. The example of multiple-voting shares is another practice which needs more mature recording, appreciation and shareholder advocacy.

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