

# Global Issues and Role of ITOCHU Group

We invited five eminent panelists representing various groups of stakeholders to come together for dialogue with President Kobayashi and other members of our management on global issues and ITOCHU's social role.

(The dialogue was held on June 6, 2007.)

## The crisis of global warming

**Sueyoshi:** I have a two-fold sense of crisis about the problem of climate change. One concerns the progress of warming and the actual damage it brings. We must feel more of an emergency and urgency about this problem. My other focus is that the risks of climate change are now business risks as well.



Behind these risks lie business opportunities tied to provision of solutions. It is crucial for companies to closely watch the trends in society as it moves toward reduction of carbon emissions, figure out how to turn what are risks for them into opportunities, and link this to solution of global warming.

**Kobayashi (Eizo):** ITOCHU has particular strength in business related to the people's life, i.e., clothing, food and housing. This makes us all the more aware that the lives of the 6.5 billion people on the earth are directly connected to our work in various aspects. With this awareness, our members on the front-line in each sales division are doing a lot of thinking on the problem.

What will happen, for example, if temperatures were to rise by four degrees around the world? What action should we take in that event? We are taking this crisis very seriously and have started engaging in the alternative energy and resources business. As you pointed out, the situation presents us with business opportunities.

**Minamitani:** In the Chemicals, Forest Products & General Merchandise Company, our business has naturally become environment-oriented because we deal in natural resources and handle chemicals that require constant environmental care. We are always conscious of how climate change poses direct risks to our business. Last year, for example, we suffered losses due to the blight in forests we planted. And this year, no crude rubber can be extracted due to drought in Indonesia.

**Kawaguchi:** Trading firms have enriched life by moving merchandise and money. I assume that, from now on, they will be

asked to continue having the same enriching effect without moving merchandise as far as possible. People are now even using terms such as "food mileage"<sup>1</sup> as an indicator of CO<sub>2</sub> emissions and "virtual water"<sup>2</sup>.

Money, in contrast, does not entail CO<sub>2</sub> emissions even if moved, and should be vigorously moved through investment in eco funds and micro finance schemes that incorporate the social perspective. My point is that we could consider the rise of new trading firm orientations prompted by CO<sub>2</sub> emissions.

**Kobayashi (Eizo):** I think your remarks about trade business without physical transport are well taken. In our energy transactions, we are actually practicing this, in the form of swapping. For example, even though we have rights to crude oil in the Middle East, we could sell the output in Europe instead of bringing it back to Japan. Then, we could buy output from rights held in Asia by an European oil major and take it to Japan instead. This tactic yields a total cost savings and also lowers CO<sub>2</sub> emissions.

From now on, I believe we must try to shorten the absolute distances of our physical transport.

**Minamitani:** The selection of the optimal site for production, i.e., what and where to produce, is the most important key for improving energy efficiency, which in turn, becomes the largest contributor to strengthening competitiveness. The effectuation of the amended Energy Conservation Law, too, has compelled companies to control transport distances from the perspective of ton-kilometers<sup>3</sup>.

For the future, we have to consider whether to carry chemical in a gaseous state, liquid state, or in the form of a processed product. In this way, we intend to pursue business, taking exactly the right balance between CO<sub>2</sub> emissions and economic merit.

**Sueyoshi:** Environmental problems are directly connected to the question of how to fulfill our responsibility to future generations. Our generation established overconsuming lifestyles, and we have a duty to propose better styles of consumption to those coming after us. Your firm is deeply involved in consumer fields, and I hope you will exercise your interdivisional synergy in a company-wide effort to offer lifestyles befitting the 21st century.

## Panelists



**Mariko Kawaguchi**  
Senior Analyst  
Management Strategy Research  
Department  
Daiwa Institute of Research



**Takejiro Sueyoshi**  
Special Advisor to the UNEP  
Finance Initiative in the Asia  
and Pacific region



**Toshihisa Nagasaka**  
Professor  
Faculty of International Studies  
Takushoku University



**Toshihiko Fujii**  
Consulting Fellow  
Research Institute of Economy,  
Trade and Industry



**Fusako Matsuda**  
Lead Assessor of Greenhouse Gas,  
and Environmental Management System  
Ph.D., President, Environmental  
Economics Institute, Inc.



- \*1 The food transport distance from the site of production to that of consumption multiplied by the amount of food transported.
- \*2 The amount of water that would be needed if the imported agricultural products had been cultivated, kept, and produced in the importing country; the consumption of agricultural and livestock products may also be considered indirect consumption of water.
- \*3 A unit to measure the amount of goods transported. The weight in tons of goods transported multiplied by the number of kilometers driven. The amended Energy Consumption Law obliges all cargo owner companies to take actions to save energy. Measurement by ton-kilometer is required to judge whether the company has a large amount of transportation ("specific cargo owner").

## Higher awareness of social issues

**Nagasaka:** The global issues include not just environmental problems but also social issues such as poverty, healthcare, education and human rights.

In his remarks in the "President's Commitment" at the beginning of this CSR Report, Mr. Kobayashi tells that the company decided against participating in a water project in China on the grounds that water is a life necessity and should not be turned into mere business. This struck me as an admirable judgment. In developing countries, water privatization is further distancing the poor from water supply. Combined with starvation, the lack of clean water causes many deaths due to infectious diseases caught through impure water.

Those social issues are listed in the Millennium Development Goals<sup>4</sup>, for example, and the international society has started addressing them as the highest priority. I think it is necessary to become aware of social issues, and properly incorporate the efforts against such issues into company-wide CSR activities.

**Kawaguchi:** Reading the CSR Report, I got the impression that the key word "human" was not used very much. One factor here is human rights. Behind business activities lie key tasks, such as child labor for the Textile Company and fair trade for the Food Company. I presume that ITOCHU has taken steps on the site to prevent problem practices, but this is not clear from the report.

**Secretariat:** We perceive the protection of human rights in the



supply chain as a task that must be earnestly addressed by the company. On this front, the Textile Company is planning to start conducting a survey with suppliers mainly on human rights and labor issues. It has tentatively decided what and how to survey and is going to begin it with China. After ascertaining the facts, it plans to discuss matters, if improvement is required, with the people on the site, and roll this out gradually to other Companies.

Meanwhile, since trading firms deal with an enormous number of suppliers, understanding their real condition alone would be difficult. Thus, it would be essential for each and every person on the site to take action on his or her own initiative. We aim to engage in close consultation with the on-site people to deal with the issue.

**Kobayashi (Yoichi):** Viewed from the aspect of the poverty issue and involvement with local communities, I think CSR boils down to coexistence and co-prosperity. Our Company, for instance, is now also considering to enter a gas development project in Papua New Guinea. We will launch the development work only after assessing the impact on the ecosystem and the life of residents in the area to confirm that there will be no fundamental problems in these regards. While helping to eliminate poverty by creating jobs, we can also supply developed countries with energy offering low level of environmental burden. This kind of business is what I believe a value chain of coexistence and co-prosperity.

**Matsuda:** Talking of coexistence and co-prosperity, I think it is vital to listen to the opinions of all parties concerned in or affected by the business about whether the situation is really harmonizing and co-prospering, and reflect them in the operations. Development must be undertaken on a large scale, and therefore runs the risk of destroying the indigenous culture if there is no concern for it.



## ITOCHU Corporation



**Eizo Kobayashi**  
President and CEO



**Toshihito Tamba**  
Senior Managing Director  
Chief Administration Officer



**Yoichi Kobayashi**  
Managing Director  
President of Energy, Metals & Minerals Company



**Yosuke Minamitani**  
Managing Director  
President of Chemicals, Forest Products & General Merchandise Company



**Shigeharu Tanaka**  
Managing Director  
President of Food Company



**Kazutoshi Maeda**  
Managing Executive Officer  
Deputy Chief Administration Officer



When talking about coexistence and co-prosperity, I think it is important to first ascertain the extent to which checks and evaluations have been made of impacts on the environment and human beings.

**Sueyoshi:** Development projects, even if local residents are satisfied, can not be always justified. I think, in the future, it will become part of the social need even to consider how the consumers buying the resulting products see the entire project and to listen from various perspectives to the opinions of stakeholders with diverse interests.

Checks by third parties are also effective. In recent years, for example, financial institutions have begun to apply the Equator Principles<sup>4</sup> and avoid financing projects that lack due concern for the environment and society. External checks from this standpoint have begun to function as frameworks in this context.

**Tamba:** I really appreciate your observations about taking greater account of social problems in CSR activities at ITOCHU. I am determined to improve our efforts in this aspect.

<sup>4</sup> Goals adopted at the United Nations assembly in September 2000 on poverty eradication, improvement in healthcare and education, environmental preservation, etc. to be achieved by 2015 by the international society.

<sup>5</sup> A voluntary code stipulating guidelines for environmental and social consideration in provision of loans by private-sector financial institutions for large-scale projects such as development of natural resources, dams, and power stations.

## CSR supply chain management in “Sogo Shosha”

**Kawaguchi:** I think trading firms have the ability to get a firm grasp of the entire spectrum in the supply chain. So far, at supermarkets, products from around the world were put on the shelf, and they sold well, regardless of the source, as long as they were in good quality. And it was trading firms that built the infrastructure supporting all this. But today, people are looking for information on the environmental impact, human rights violation (because of labor conditions), and other problems occurring in the process of production. Trading firms also have the know-how needed for getting this kind of information. I therefore would definitely like to see ITOCHU bridging the upstream and downstream ends of the supply chain.



**Nagasaka:** One of the core functions of trading firms is trading. After all, trading amounts to a supply chain. In other words, Division Companies have a priority to work on the supply chain management. I expect trading firms to take initiatives, such as confirming the entire process of their merchandise from production to distribution to sales to find out whether labor standards are met including no child labor involved, and also consistently checking the ecological connections to see whether the firm is not destroying biodiversity.

## Diversity of CSR perspectives

**Fujii:** In Japan, most people would probably agree that, say, a pharmaceutical firm would be meeting its CSR obligations if it produced good medicine that helped to prevent disease. In Europe, on the other hand, most people would consider this to

be only a matter of course and not a sufficient condition for CSR fulfillment. Overseas, CSR is viewed in terms of a way of working. As a result, people would look at the procedure, human resource utilization and education, and material procurement practiced in the process of pharmaceutical production, and focus on the methodology of how such arrangements should be changed. In the case of a pharmaceutical firm, animal testing may come to the fore as an issue. In Japan, people are apt to view CSR merely as “doing something good.” In many instances, the initiatives of Japanese firms do not rate highly in any respects in the eyes of foreign reviewers. It is frightening to think that they fail to notice their own neglect of things which really matter in the other countries.



**Kawaguchi:** A Japanese chemicals manufacturer was once sharply criticized by environmental NGOs for its claim on a TV commercial that its detergent was friendly to the environment because it was made from palm oil. When used in Japan, its detergent could be considered environment-friendly, in that it would not pollute water because it did not contain oil. But extracting palm oil itself was the cause of environmental destruction at the site of production, because residents were forced to evacuate and natural forests were logged for plantations, where chemical fertilizers were extensively used.

Trading firms do their business globally, coming into contact with all sorts of sense of values. I would like you to consider how your firm should operate under such different values. I would also like you to provide information on actual examples of such different values and cases in other countries.

**Fujii:** The detergent case might be taken as a typical example that there are still a lot of risks overseas which cannot be detected if viewed from the standpoint of Japan. However, Japanese companies are largely unaware of this fact.

Because the U.S. failed to ratify the Kyoto Protocol, the European subsidiary of a U.S. IT firm came in for a barrage of criticism after it ran ads in Europe claiming that it was environment-friendly. In the same way, Japanese firms could encounter criticism from other countries in connection with the poverty problem. I imagine trading firms have the ability to detect such business risks in advance.

**Tanaka:** I was surprised to hear Ms. Kawaguchi’s story about the detergent. The trouble may have been caused by an information mismatch.

We are doing business in beverages packed in paper cartons. The cartons are environment-friendly containers, because they are made from wood left from the work of thinning forests to assist their growth. Nevertheless, the cartons have been slow to catch on, partly because some consumers have the mistaken impression that we are cutting down forests to make them. I think it is important for the industry as a whole to provide accurate information on such matters.

**Kobayashi (Eizo):** We are determined to be mindful to prevent any situation in which some business activities were being conducted only in line with ITOCHU’s common sense and were not in fact expected by others at all.

## Food, water, and energy issues in Japan

**Tanaka:** If I may go back to the food mileage mentioned a little earlier, it would be nice if we could do import business in line with that concept, but it would be hard to do, seeing that Japan now depends on import for some 60 percent of its food. As I see it, the major task related to food in Japan right now is more efficient consumption. Japan has a food self-sufficiency rate of 40 percent on the calorie basis, but a stunning 25 percent of the food is discarded without being eaten. This situation means that Japan constantly has an excessive supply of food, and should be taken as an issue of the entire industry on the supply-demand balance, which all must join hands to address. This is why we are working to increase the ordering precision through investment in IT and striving to eliminate both shortages and dumping.

On the other hand, raise the self-sufficiency rate, Japanese agriculture has to become more strengthened. Agricultural firms are the leaders of domestic food production, and we are taking various steps to make them stronger and help them to stand on their own. We intend to continue collaborating with NPOs to spread the values of cyclic agriculture among consumers and help to market and sell the products made by these firms.

**Kawaguchi:** Today, many of the panelists have commented on what role a global company, like ITOCHU, is expected to play. I think ITOCHU and other global trading firms based in Japan have a vital role to play in addressing matters concerning security in Japanese society, such as the country's supply of food, water, and energy. They presumably have information on the occurrence of droughts somewhere and resulting price rise in different parts of the world. Thus I hope they will regard issues on food, water, and energy in Japan as their own key tasks.

**Kobayashi (Eizo):** Since our corporate global activities naturally cover Japan, I would like to fully consider what you have pointed out.

We set "Enhancing Corporate Values on the World Stage" as a subtitle of our mid-term management plan. We are committed to becoming a truly respected company around the world, taking into account lessons from everyone here.

### Reflections on the dialogue

#### Toshihito Tamba

Senior Managing Director and Chief Administrative Officer

This year, we engaged in dialogue with authorities active in various fields on the subject of global issues and the role of the ITOCHU Group. I think it served to shed more light on what we must do as a "Sogo Shosha" in the context of our global corporate activities.

In our supply chain, we are going to steadily implement organized and systematic initiatives on the human rights and labor problems pointed out by the participants.

Bearing fully in mind the multifaceted nature of CSR, including the different perceptions between Japan and other countries, in our CSR promotion activities, we intend to continue deepening communication with our diverse stakeholders and practicing management that demonstrates concern for their interests.

Because the panelists gave us precious advice on the substance of the CSR action plans prepared by our organization units, we will take a very close look at their observations and hope to heighten the level of the plans themselves in the future.



**ITOCHU makes action plans for CSR tasks in its core businesses and executes these plans while applying the PDCA cycle. We believe review of this area absolutely requires external objective examinations as well as internal checks, and consequently asked the dialogue panelists for their opinions on the method and substance of our CSR initiatives, including the progress made from last year.**

#### Matsuda

I think the policy of having each Division Company set targets and go through the PDCA cycle is a very good one. In the PDCA reports, there must be clearer statements of the problems resulting from the execution, the tasks for the future, and the reasons why efforts cannot be continued if that is the case.

#### Nagasaka

As I see it, ITOCHU's methodology for CSR promotion activities makes an excellent model of CSR management to be applied to the Division Company System. I got the impression that the Division Companies tended to focus on compliance, which it did not seem necessary to incorporate into the action plans. I felt the resolve to take sure action on environmental problems, but it seemed that social ones were not recognized enough as tasks to be addressed.

#### Sueyoshi

I would like to see new standards of value incorporated into the CSR activities. As social requirements are changing with regards to the environment, food safety, and other agenda being addressed by each unit, these changes should be recognized and reflected in the action plans.

I must add that, in some cases, routine work appears to be described as CSR activities, and that targets and means are not entirely clear.

#### Kawaguchi

The CSR Report makes little mention of concerns for human rights, partnership with developing countries, and other items that, properly speaking, should be contained, and appears to be composed of bits and pieces of what is common knowledge among Japanese consumers. Trading companies have detailed information on many parts of the world. I think you should furnish information unavailable in Japan.

In the personnel aspect, ITOCHU has made arrangements allowing women to give full play to their talents through its plans for human resource diversification. Unfortunately, the report only briefly touched upon it.

#### Fujii

Given its character as a trading firm, which means that it is a global company essentially, I think it is vital for ITOCHU to bear in mind that, once it steps outside Japan, it is liable to encounter CSR perspectives profoundly different from those in Japanese society.