

## Third-Party Comment

We asked Mr. Toshihiko Goto, a specialist in initiatives relating to corporate social responsibility and information disclosure, to read and comment on the Cosmo Oil Environmental Report 2003.

### Comments on the *Cosmo Oil Environmental Report 2003*

I evaluate this report highly because, although it is titled the *Cosmo Oil Environmental Report*, it also includes information about safety, work conditions and contributions to the community. In this sense, I perceive Cosmo Oil's movement toward "sustainability reporting," a direction that fits well with the expectations of the international community for corporate social responsibility (CSR).

The fact that the world is calling for CSR does not need to be interpreted as an attack on corporate responsibility, but rather a hope that corporations will fulfill their roles as institutions in society.

Two key issues that humanity must address in the twenty-first century are the failures of the market, and the failures of governments. If the market economy were perfect, today's environmental problems would not have emerged, and inequity in income distribution—that is, poverty—would not exist. International inequity in income distribution is particularly a problem. But despite the consensus reached at the Rio Summit in 1992 that poverty was at the root of environmental degradation in developing countries, the problem has continued to worsen, and in fact has become one of the root causes of terrorism. Meanwhile, corporations have grown even larger and become more global, and move freely around in what is for them in many ways a borderless world. In this context, through corporate social responsibility, corporations are being expected to play a role in solving the two problems mentioned above.

There are a number of new concepts and initiatives with the aim of supporting corporations that are actively dealing with CSR. One of these is Social Responsibility Investment (SRI), and I am happy to see that Cosmo Oil has been included in the FTSE4Good Global Index, because this will have a positive financial impact directly on a company's cost of capital. But because it has been included, I believe that the company will need more systematic efforts and must provide more complete information. On the other hand, activities that contradict CSR will be severely criticized by society. Because of that, risk management is becoming increasingly important. Thus, I think it is a good thing that in this report, Cosmo Oil provides information about strengthening its organizational structure for risk management and for implementing the corporate code of ethics. The challenge for the future is in improving its performance in these areas.

As my overall impression of this *Cosmo Oil Environmental Report*, I think it would be good to reduce the amount of textual information and increase the amount of numerical information. For this I think that one good solution would be to reduce the descriptions of operating processes of the facilities by shifting them to the terminology section. In terms of report structure, in order to guarantee consistency between the corporate principles, corporate code of conduct, and the *Blue Earth 21* plan, and to make the report easier for readers to understand, I think it would be better to show and explain their interconnections a bit more precisely. In terms of each individual initiative, I think it would be better to say less about the overall industry and more about your own company. Your cooperative activities in oil-producing countries are commendable, but I would urge you to give more of a human face to activities for cooperation with the local society in those countries. A company's reputation is ultimately an evaluation of the people who work for it. Cosmo Oil is undertaking a variety of initiatives for communication with local society and with customers. Without a doubt, such activities will be positive for the company's reputation. But because the relationship between the corporation and society is always changing, it is probably necessary to strengthen frameworks for the corporation to listen to society and to hear the needs of various stakeholders, and to reflect them in your policies. In this context, many companies have begun efforts such as stakeholder dialogue in which top management participates.

After the middle of the nineteenth century, oil became the core source of energy for humanity, and it has played a major role in raising standards of living. But during the twenty-first century, we face the possibility of depletion of oil reserves. And even if they don't run out, if one considers climate change, we probably cannot continue burning and using oil as we are today. As energy suppliers, BP and Shell have made the commitment to shift toward providing renewable energy. Over 20% of shareholders at the Exxon Corporation's annual shareholder's meeting voted in favor of a similar shift (although the resolution did not pass). This trend toward renewable energy is a sign of the times. In the midst of this all, I hope that in the near future, Cosmo Oil and other Japanese companies too will take on the challenge of "sustainability" in a serious way and make similar commitments.



**Toshihiko Goto**  
Chair, Environmental Auditing Research Group  
Member, Board of Directors, Global Reporting Initiative (GRI)