

CORPORATE ENVIRONMENTAL DISCLOSURE

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ABSTRACT:

This paper focus on the environmental disclosure (ED) promoted by firms, due to the strong demand for information and identification of the relevant data that pursuit the new legal requirements. The methodology is separate, by one side, on the theoretical framework based on the disclosure of environmental information (EI) and the true and fair view based on the accounting perspective.

Corporate environmental reporting becomes a crucial issue in today's corporate reporting. The present status and future focus gives every indication that it is going to capture a permanent position in the bundle of general-purpose financial statement. Because, the corporate reporting is for the stakeholders and every stakeholders show a keen interest on such disclosure. Protecting the environment is the social responsibility and commitment of corporations towards the society. It is believed that corporation is responsible for the environmental crisis and so they should pay for this (cost-benefit trade off).

However, reporting is mostly guided by standards, guidelines etc. And, we do not have any standards designed for such disclosure. So, such reporting is still voluntary that has no specific format and style. Voluntary disclosure often leads to non-disclosure and mandatory disclosure leads to minimal disclosure. Thus, environmental disclosure should have both type of orientation, as it is a question of life and sustainability. The paper gives a conceptual discussion on corporate environmental reporting and guidelines.

KEYWORDS: Corporate environmental reporting, Corporate environmental report, Environmental accounting, Financial reportin

INTRODUCTION:

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It is widely recognised that firms, through better management practices, can play a major role in addressing many environment problems. Companies have strong incentives to do so. On the one hand, they are influenced by a variety of external pressures (e.g. from customers, socially concerned investors, environmental interest groups and regulators), on the other hand firms' own stakeholders increasingly expect 'their' company to behave in a socially responsible manner. Consequently, an increasing number of companies have taken steps to assess, monitor and report on their environmental performance.

Environmental information must help the society and firms to recognize the impact on the environment of business decisions. By making use of current business information technology, such as Internet-accessible tools, and industrial environmental management tools, standards, policies and legislation an information system for EI management has been designed. The constant need of information from the EI system help managers to identify environmental risks, structure of costs and investments which need a challenge to be faced by firms. The environment could not be defended only by strictly economic results. Indeed, environmental accounting and its reporting are, mostly, made by a voluntary character, especially when they concern the natural environment. The ED is a topic that has gained interest of many researchers from the accounting to the report perspective. Environmental reporting and disclosure practices are a means of communicating to the stakeholders about the impact of the organization's actions on the environment. This indicates that bigger-sized companies and the environmentally certified companies by an external agency disclose more environmental information. There is a growing pressure from the stakeholders, particularly government and international funding agencies, to publish environmental reports. Disclosing information regarding their environmental practices may be more beneficial to a company's reputation than their actual environmentally friendly performance, a new study shows. This unexpected benefit of information disclosure may environmental performance in the future,.

Researchers also compared each firm's environmental scores using this Environmental disclosure reporting, which rates an organization's environmental impact, by calculating their emissions of greenhouse gases, water, waste and air pollutants, as well as their use of natural resources.

ENVIRONMENTAL ACCOUNTING:

Environmental accounting refers to the identification, measurement and communication of the data on environmentally responsible performance of a business entity to facilitate economic decision-making. It identifies the resources used by a business and measures and communicates costs of its impact on the environment. In other words, it is the process of accounting for any costs and benefits that arises out of the resulting change in environment due to the change to a firm's product and processes of production. The costs include costs to clean up or remediate contaminated sites, environmental fines, penalties and taxes, purchase of pollution prevention technologies and waste management costs. Simply, environmental accounting is all about making environment related costs more transparent with corporate accounting system and reporting. The concept of environmental accounting was first adopted by Norway in the early 1970s.³

OBJECTIVES OF ENVIRONMENTAL ACCOUNTING:

The objectives of environmental accounting and reporting are as follows:

1. To help in negotiation of the concept of environment and to determine the enterprise's relationship with the society as a whole and the environmental pressure group in particular.
2. To segregate and collaborate all environmental related flows and stocks of resources.
3. To minimize environmental impacts through improved product and process design.
4. To estimate the total expenditure on protection and enhancement of environment.
5. To assess changes in environment in terms of costs and benefits.
6. To ensure effective and efficient management of natural resources.

MERITS OF ENVIRONMENTAL ACCOUNTING:

The basic advantage of undertaking the practice of environmental accounting is that the identification and increased awareness of environment related cost gives the opportunity to find ways to trim down or to completely avoid these costs whilst improving environmental performance. To be more specific environmental accounting is an effective tool in order to place the environmental related issues resolutely before the top management, to provide valuable data to inform environmental and financial managers' decision making process, and to demonstrate environmental commitment of the company to its stake holders. The

³Alok Kumar Pramanik, Chandra, Nikhil and Das, Bhagaban (2007), "Environmental Accounting and Reporting with special reference to India", Munich Personal RePEc Archive, December

organization that opts to disclose environmental issues in their financial statements gets certain other benefits which are listed below:

1. It enhances the image of the product and the company which may have an impact on the sales and ultimately profitability.
2. It improves the safety of the workers which in turn will help increasing productivity.
3. It provides competitive advantage as the customers may prefer environmental friendly products and services.
4. It helps to build up trust and confidence in the society.
5. Environmental cost can be offset by generating revenues through sale of waste or by products.
6. Better knowledge of environmental cost can facilitate more accurate costing and pricing of products.

FORMS OF ENVIRONMENTAL ACCOUNTING:

Environmental accounting can be classified under three forms:

1. Environmental management accounting:

Environmental management accounting focuses on material and energy from information as well as environmental cost information. It can be studied under the following sub classes:

- (i) Segment environmental accounting: This is an internal environmental accounting tool that facilitates the selection of an investment activity, or a project which is environmental friendly from among all processes of operations. It also helps in evaluating the environmental effects of the project for a certain period.
- (ii) Eco balance environmental accounting: This is also an internal accounting tool to support the firm for sustainable environmental management activities.
- (iii) Corporate environmental accounting: This is a tool to inform the public of relevant information compiled in accordance with the environmental accounting. It can be called as corporate environmental reporting and it uses the cost and effect of its environmental conservation activities.

2. Environmental Financial Accounting (EFA):

Environmental financial accounting refers to the financial accounting practice with special reference to the reporting of environmental liability costs and other significant environmental costs.

3. Environmental National Accounting (ENA):

Environmental National Accounting focuses on natural resources stocks & flows, environmental costs & externality costs etc.

LEGAL FRAMEWORK FOR ENVIRONMENTAL ACCOUNTING IN INDIA:

The environmental clearance from various government authorities has taken the centre of attraction with the abolishing of industrial licensing for all practical purposes. India has a Union Ministry of Environment with the motive of coordinating among the states and the various ministries, the environmental protection and anti pollution measures. The country has also passed various legislations to ensure the protection of environment. The latest Companies Act, 2013 also incorporates a stress on green initiatives. The various laws pertinent to environmental protection were:

- (i) Water (Prevention and Control of Pollution) Act, 1974
- (ii) Water (Prevention and Control of Pollution) Cess Act, 1977
- (iii) Air (Prevention and Control of Pollution) Act, 1981
- (iv) The Forest Conservation Act, 1980
- (v) The Environment (Protection) Act, 1986⁴

ENVIRONMENTAL REGULATIONS FOR CORPORATIONS:

1. ENVIRONMENTAL IMPACT ASSESSMENT:

The environmental impact assessment began in India in the years 1976-77 when the Planning Commission asked the then Department of Science and Technology to examine the river-valley projects from an environmental perspective which was subsequently extended to the projects requiring approval of the Public Investment Board. However, these were only

⁴ SEC Considering Changing Environmental Disclosure Requirements for Foreign Corporations
by Lawrence P. Schnapf, 2000

administrative decisions and were lacking in legislative support. Subsequently, the EP Act, 1986 was enacted and pursuant to Section 3(1) and 3(2)(v) of the Act read with Rule 5 of the Environment (Protection) Rules, 1986, environmental impact assessment became a statutory provision as contained in a notification issued on 27th January 1994 and subsequently amended on 4th May 1994, 10th April 1997 and 27th January 2000 thereby making environmental impact assessment statutory for 30 activities. This is the principal legislation which governs environmental impact assessment. Owing to the fact that every human activity has an effect on the corresponding environment, it is essential to harmonise developmental activities with environmental concerns. Environmental Impact Assessment (EIA) is one of the tools available to ensure that the development options under consideration are sustainable. The objective of EIA is to detect the potential environmental problems likely to arise out of a proposed development project and to settle those problems in the planning and design stage itself thereby preventing future liabilities as well as expensive alterations in project design.

2. ENVIRONMENT (SITING FOR INDUSTRIAL PROJECTS) RULES, 1999:

Environment (Siting for Industrial Projects) Rules, 1999 (1999 Rules) have been issued by the Central Government in exercise of the powers conferred on it by Section 3(2)(v) of the EP Act, 1986 read with Rule 5 of the Environment (Protection) Rules, 1986. These rules mainly provide for three things: a. precautionary measures to be taken for site selecting b. areas to be avoided for siting of industries c. aspects of environmental protection which need to be incorporated during the implementation of the industrial development projects. Rule 2 prohibits the setting up of certain industries in the following areas:

a. the entire area within the municipal limits of all Municipal Corporations, Municipal Councils and Nagar Panchayats and a 25 km belt around the cities having population of more than 1 million b. 7 km belt around the periphery of wetlands c. 25 km belt around the periphery of National Parks, Sanctuaries and core zones of biosphere reserves d. 0.5 km wide strip on either side of national highways and rail lines. Rule 4 prohibits the establishment of new units of industries to be set up within 7 km periphery of the important archaeological monuments. Rule 2, nevertheless allows the establishment of new units in 7 km to 25 km belt around the periphery of the wetlands, however, with certain conditions that such allowance shall be given only after careful assessment of their adverse ecological and environmental impacts. Rule 3 imposes certain restrictions on the establishment of new units and expansion or modernization of existing units of the industries^{xv} in the Taj Trapezium. It lays down that

they shall be regulated as per the guidelines laid down by the Central Pollution Control Board (CPCB).

WILDLIFE PROTECTION ACT, 1972:

Section 12 provides for grant of permit for special purposes. It lays down that the Chief Wild Life Warden may grant a permit to any person to hunt any wild animal specified in such permit, for the purpose of scientific research and derivation, collection or preparation of snake-venom for the manufacture of lifesaving drugs, inter alia. Such permit shall be given by an order in writing stating the reasons there for and on payment of prescribed fee. However, proviso to the section further provides that such permit shall not be granted in respect of any wild animal specified in Schedule I, except with the prior permission of the Central Government, and in respect of any other wild animal, except with the prior permission of the State Government. Chapter III-A of the Act has specified provisions to protect specified plants of sanctuaries, national parks, forests or such other notified area. Section 17D (1) prohibits dealing in specified plants without licence. It provides that any person shall not commence or carry on business or occupation as a dealer in a specified plant or its part or derivate without a licence granted by the Chief Wild Life Warden or any other officer authorised by the State Government. Moreover, every licence granted shall also specify the premises in which and the conditions under which the licensee shall carry on his business (Section 17D (1)).

THE FOREST CONSERVATION ACT, 1980:

Section 2 provides that any State Government or other authority shall not make any order directing certain acts, without the prior approval of the Central Government. The acts are as follows: i. de-reserving any reserved forest or any portion thereof ii. use of any forest land or any portion thereof for any non-forest purpose iii. assignment of any forest land or any portion thereof by way of lease or otherwise to any private person, authority, corporation, agency or any other organisation not owned, managed or controlled by Government iv. clearing of trees which have grown naturally in forest land or portion there from from such land or portion, for the purpose of using it for re-forestation. The term 'non-forest purposes' has been defined in Section 2 as breaking up or cleaning of any forest land or its portion for a. the cultivation of tea, coffee, spices, rubber, palms, oil-bearing, plants, horticultural crops or

medicinal plants or b. any purpose other than afforestation. Section 2 further clarifies that non- forest purposes do not include any work relating or ancillary to conservation, development and management of forests and wildlife viz. a. the establishment of check-posts, fire lines, wireless communications and b. the construction of fencing, bridges and culverts, dams, waterholes, trench marks, boundary marks, pipelines or other like purposes. However, the State Governments chose to apply the vaguely defined term only to 'reserve forests' thereby effectively de-reserving other protected forests and allocating them for commercial or industrial use which led to large scale felling of trees.

THE BIOLOGICAL DIVERSITY ACT, 2002:

Section 3 provides that no person shall obtain any biological resource occurring in India or knowledge associated thereto for research or for commercial utilization or for bio survey and bio utilization without previous approval of the National Biodiversity Authority. The persons who shall be required to take the approval of the National Biodiversity Authority include a body corporate, association or organization either not incorporated or registered in India; or incorporated or registered in India having any non-Indian participation in its share capital or management (Section 3(2)). Section 7 provides that a body corporate, association or organization which is registered in India, shall not obtain any biological resource for commercial utilization, or bio survey and bio utilization for commercial utilization without giving prior intimation to the State Biodiversity Board concerned.

DISCLOSURE OF INFORMATION:

There exist three categories of environmental disclosure viz. involuntary disclosure, voluntary disclosure and mandatory disclosure. Involuntary disclosure is the disclosure of information of a company's environmental activities without its prior permission as well as against its will. Voluntary disclosure is the disclosure of information of a company's environmental activities voluntarily by the company itself. Mandatory disclosure is the disclosure of information of a company's environmental activities as per the requirements of law. In pursuance of the provisions of the EP Act, 1986, several rules have been issued by the Central Government which, inter alia, contain provisions relating to disclosure of information by corporations which can be classified under three heads, viz. information regarding industrial operations, accidents, and mitigation measures. It must be noted at this juncture that

all the Rules mentioned hereinafter do not contain provisions requiring all the kinds of information mentioned above.⁵

BIOMEDICAL WASTE (MANAGEMENT AND HANDLING) RULES, 1998:

These rules were notified by the Central Government for the management and handling of bio-medical waste in exercise of the powers conferred on it by Sections 6, 8 and 25 of the EP Act, 1986. These rules apply to all persons who generate, receive, collect, transport, store, treat, dispose, or handle bio-medical waste in any form. Rule 4 imposes a duty on every occupier of an institution generating bio-medical waste to take all steps to ensure that such waste is handled without any adverse effect to human health and the environment. Institution includes are hospital, nursing home, clinic, dispensary, veterinary institution, animal house, pathological laboratory, blood bank by whatever name it may be called.

Information regarding industrial operations:⁶

Rule 10 provides for submission of an Annual Report by every occupier to the prescribed authority by 31 January every year containing information about the categories and quantities of bio-medical wastes handled during the preceding year.

CHEMICAL ACCIDENTS (EMERGENCY PLANNING, PREPAREDNESS AND RESPONSE) RULES 1996:

The Central Government notified Chemical Accidents (Emergency Planning, Preparedness and Response) Rules, 1996 (hereinafter Chemical Accidents Rules, 1996) for the management and handling of bio-medical waste in exercise of the powers conferred on it by Sections 6, 8 and 25 of the EP Act, 1986.

Information regarding mitigation measures:

The Rules provide for the setting up of Crisis Group at the Central, State, and District levels to deal with major chemical accidents and to provide expert guidance for handling chemical accidents at the apex, State and District respectively. The Chemical Accidents Rules, 1996 also provide for the Local Crisis Group (Rule 8) shall be the body in the industrial pocket to deal with chemical accidents and coordinate efforts in planning, preparedness and mitigation

⁵ Corporate environmental management by Welford, edition:1999

⁶<http://thecommercepedia.blogspot.in/2015/03/environmental-accounting-and-reporting.html> visited on 19.01.2018 @ 15.06

of a chemical accident (Rule 10). Rule 3(1) provides for the setting up of a Crisis Alert System by the Central Government. Rule 13 provides that the Central Crisis Group and the State Crisis Group shall provide information to the public on request regarding chemical accident prevention, preparedness and mitigation in the country and the State respectively. It further provides that the Local Crisis Group shall also provide information to the public on request regarding possible chemical accident at a site in the industrial pocket and related information (Rule 13(3)).

MANUFACTURE, STORAGE AND IMPORT OF HAZARDOUS CHEMICAL RULES, 1989:

The Central Government notified these rules for the manufacture, storage and import of hazardous chemicals in exercise of the powers conferred on it by Sections 6, 8 and 25 of the EP Act, 1986.

INFORMATION REGARDING INDUSTRIAL OPERATIONS:

Rule 15(2) provides that the occupier shall take appropriate steps to inform persons about an industrial activity, before that activity is commenced and in the case of an existing industrial activity within 90 days of coming into operation of these rules.

HAZARDOUS WASTE(MANAGEMENT AND HANDLING) RULES, 1989:

The Central Government notified these rules for the management and handling of hazardous wastes in exercise of the powers conferred on it by Sections 6, 8 and 25 of the EP Act, 1986. Rule 4 provides for the responsibility of the occupier while handling wastes. It entails that the occupier generating hazardous wastes (listed in column 2 of the Schedule) in quantities equal to or exceeding the given limits (listed in column 2 of the Schedule) shall take all practical steps to ensure proper handling and disposal of such wastes without any adverse effects. The occupier shall be further responsible, either himself or through the operator of a facility, for proper collection, reception, treatment, storage and disposal of these wastes. He shall also give such information to the operator of a facility, as may be specified by the SPCB. Information regarding industrial operations Rule 9 provides that the occupier generating hazardous waste and operator of a facility for collection, reception, treatment, transport, storage and disposal of hazardous waste shall maintain records of such operations and send

annual returns to the State Pollution Control Board. Information regarding accidents Rule 10 provides that the occupier or operator of a facility shall immediately report an accident which occurs at the facility or on a hazardous waste site or during transportation of hazardous wastes to the State Pollution Control Board.

HAZARDOUS WASTE (MANAGEMENT AND HANDLING AND TRANSBOUNDARY MOVEMENT) RULES, 2008:

The Central Government notified these rules for the management and handling of hazardous wastes in exercise of the powers conferred on it by Sections 6, 8 and 25 of the EP Act, 1986. Information regarding accidents Rule 24 provides for immediate reporting of accident which occurs at the facility or on a hazardous waste site or during transportation of the hazardous waste by the occupier or operator of the facility or the transporter to the State Pollution Control Board. Information regarding mitigation measures Rule 4(5) provides that while handling hazardous wastes, the occupier shall take all adequate steps to contain contaminants and prevent accidents and limit their consequences on human beings and the environment. It further lays down that the occupier shall provide necessary training, equipment and the information to persons working on the site to ensure their safety.

BATTERIES (MANAGEMENT AND HANDLING RULES) 2001:

The Central Government notified Batteries (Management and Handling) Rules, 2001 for the management and handling of batteries in exercise of the powers conferred on it by Sections 6, 8 and 25 of the EP Act, 1986. These rules are applicable on every manufacturer, importer, re-conditioner, assembler, dealer, recycler, auctioneer, consumer and bulk consumer involved in manufacture, processing, sale, purchase and use of batteries or its components (Rule 2).

INFORMATION REGARDING INDUSTRIAL OPERATIONS:

It is the responsibility of a manufacturer, importer, assembler and re-conditioner to file a half-yearly return of their sales and buy-back to the State Board by 30th June and 31st December every year (Rule 4(iii)). A dealer also has the responsibility of filing half-yearly returns of the sale of new batteries and buy-back of old batteries to the manufacturer by 31st May and 30th November every year (Rule 7(iv)). A recycler has to submit annual returns to the State Board (Rule 8(iii)) and to make all the records available for inspection to the State Board (Rule 8(iv)). A bulk consumer and an auctioneer also have the responsibility of filing half-yearly returns to the State Board (Rule 10(2)(ii) and Rule 11(ii)).

MUNICIPAL SOLID WASTE (MANAGEMENT AND HANDLING) RULES, 2000:

The Central Government notified these rules to regulate the management and handling of the municipal solid wastes in exercise of the powers conferred on it by Sections 6, 8 and 25 of the EP Act, 1986. Information regarding industrial operations Rule 4 imposes a responsibility on the municipal authority to furnish its annual report, with a copy to the State Board or the Committee, to a. the Secretary-in-charge of the Department of Urban Development of the concerned State or as the case may be of the Union territory, in case of a metropolitan city; or b. the District Magistrate or the Deputy Commissioner concerned in case of all other towns and cities. Information regarding accidents Rule 9 provides that when an accident occurs at any municipal solid wastes collection, segregation, storage, processing, treatment and disposal facility or landfill site or during the transportation of such wastes, the municipal authority shall forthwith report the accident to the Secretary in-charge of the Urban Development Department in metropolitan cities, and to District Collector or Deputy Commissioner in all other cases.

ENVIRONMENTAL ACCOUNTING PRACTICES IN INDIAN COMPANIES:

Environmental accounting is at inception stage in India. In the context of requiring environmental related disclosures from business units on a periodic basis, the first public announcement was made by the Government of India in 1991, immediately after adopting the financial reforms that liberalized the economic policies of the country. The Ministry of Environment and Forests has proposed that “Every company shall, in the Report of its Board of Directors, disclose briefly the particulars of steps taken or proposed to be taken towards the adoption of clean technologies for prevention of pollution, waste minimization, waste recycling and utilization, pollution control measures, investment on environmental protection and impact of these measures on waste reduction, water and other resources conservation.”

In 2011, the Securities and Exchange Board of India mandates listed companies to report on Environmental, Social and Governance (ESG) initiatives undertaken by them, according to the key principles enunciated in the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business.'

The Companies act 2013 emphasizes on corporate social responsibility that makes it mandatory for certain class of profitable enterprises to spend money on social welfare activities. It is mandatory for companies with net worth of more than Rs 500 crore, or

turnover of Rs 1,000 crore to adopt a CSR policy. Also it provides that the companies are required to give more disclosures besides Company's general state of affair and financial performance regarding conservation of energy and environmental protection.

Also, The Union Ministry of Environment and Forests has issued various instructions in to prepare environment statements. It is mandatory in the country to get an environmental clearance for all new projects that concerns both the Union Ministry of Environment and Forests and the corresponding State Government department of environment. There are various guidelines in this regard and all such projects are expected to obtain environmental and antipollution clearance before they are actually set up. It can be observed through their accounts that mainly the following set of information is disclosed.

A gazette notification on environmental audit has been issued by ministry of environment and forests on 3-3-1992 which was amended through a notification on 22-4-1993(India: Environment Statement, as a part of Environment Audit, Govt. of India, 1993) requires the submission of an environment statement to the Central Pollution Control Board. This notification is applicable to any person carrying out an industrial operation or process requiring consent to operate by under section 25 of the Water (Prevention and Control of Pollution) Act 1974, under section 211 of the Air (Prevention and Control of Pollution) Act, 1981 or both, or authorization under the Hazardous Waste (Management and Handling) Rules, 198, issued under the Environment (Protection) Act, 1986.⁷

CHALLENGES OF ENVIRONMENTAL ACCOUNTING AND REPORTING:

Even though the environmental accounting and reporting practices are being attempted by many countries, the concept has certain obstacles in implementation. The major limitations are as follows:

1. Environmental accounting lacks economic value.
2. There is no standard method of estimating the social value of environmental goods and services.
3. Social value given to environmental goods and services are changing so fast that the estimates are likely to be obsolete before they are available for use.

⁷Harte, G. and D. Owen (1991), "Environmental Disclosure in the Annual Reports of British Companies: Research Note", Accounting, Auditing & accountability Journal

4. There is no accounting standard for environmental accounting
5. It involves inapplicable assumptions
6. Environmental accounting is not a legal obligation except for few industries in India.
7. It lacks reliable industry data.

CONCLUSION:

Environmental accounting is an important measure for understanding the role played by natural environment in the development of an economy. It provides data that contains the contribution of natural resources to economic well being as well as the costs imposed by environmental pollution and resource degradation. In India, the level of environmental related disclosures in the corporate annual reports is poor. As the environmental disclosures are voluntary in nature, except few industries for which environmental accounting is mandatory such as oil and petroleum, natural gas, cement, steel, etc. the companies hesitates to implement the practice in their books of accounts. The poor environmental performance of the company may also bind them to no-disclosure. The lack of awareness and commitment on the part of company management about the social responsibility of the firm also keeps the firms away from reporting environmental costs and benefits. Thus, it can be concluded that the absence of a standardized environmental accounting practice and disclosure norms at national as well as international levels spur the corporates to be away from the environmental accounting practices and to shut their eyes towards the deterioration in the environment.