

Make Business Work for People & Planet

Companies Bill Verdict

(November 2006)

Overview

The Companies Bill has concluded its passage through Parliament and has now become law (as the Companies Act 2006) having received Royal Assent (approval by the Queen) on 8 November. Thanks to your campaigning, we have been able to achieve some important improvements to UK company law.

This paper outlines the changes your campaigning has helped to make and what these will mean for the operation of British business both here and abroad. It also gives details of some of the changes that are still needed to make British business work better for people and the planet.

In 2007 and beyond, Friends of the Earth will be continuing to campaign alongside other organisations in the Corporate Responsibility (CORE) Coalition and the Trade Justice Movement to right corporate wrongs. This will include looking at how the Companies Act 2006 works in practice, and pushing for rights of redress for communities harmed by UK companies operating overseas.

Keep an eye on Corporate Alert and the Community website for information on what's next and how you can get involved:

<http://community.foe.co.uk/campaigns/corporates/>

What have we been demanding?

The Companies Bill was the biggest shake up of UK company law for 150 years and an unprecedented opportunity to make laws to help stop big British business profiting at the expense of people and the environment. Friends of the Earth has been campaigning as part of two major UK civil society coalitions, CORE and the *Trade Justice Movement*¹, to demand improvements to the Companies Bill so that:

- Companies are legally required to report on their social and environmental impacts
- Directors are legally obliged to minimise any damage their company does to local communities and the environment
- People overseas who are harmed by the activities of a UK company are able to take action against them in a UK court

What have we achieved?

Real Improvements to UK company law

Thanks to your campaigning, we have achieved some significant improvements to the Companies Bill during its passage through Parliament over the course of the past year. The following improvements were made as a result of your emails, letters and visits to MPs:

1. Stronger social and environmental reporting requirements

- Thanks to over 100,000 UK voters contacting their MP in 2006 through emails, postcards, letters and local lobbying, the Government strengthened the requirements in the Companies Bill on social and environmental reporting.

¹ Together CORE and the Trade Justice Movement have over 130 member organisations with over 9 million individual members. For more information see their websites:

- CORE: <http://www.corporate-responsibility.org/>
- Trade Justice Movement: <http://www.tjm.org.uk/>

- More progress was made as the pressure group *Compass* joined our calls for stronger reporting requirements in June. *Compass* MPs Jon Trickett and Colin Burgon tabled amendments to the Companies Bill which gained cross-party support, including from over 50 Labour MPs as well as the Liberal Democrat and Scottish Nationalist Party Trade & Industry front bench teams.
- The resulting Companies Act 2006 now requires that the 1300 or so publicly-listed companies report on the following issues where they are necessary to understanding the company's business:
 - I. Environmental matters (including the impact of the company's business on the environment)
 - II. The company's employees
 - III. Social and community issues
 - IV. Risks down company supply chains
- Unfortunately, some big business interest groups lobbied hard against our call for widening the application of the reporting requirements to a much larger number of companies and for legal standards on how they should report on these issues. The Government sided with these groups on these matters.
- However, in response to public pressure, the Government has promised to review the system of reporting standards within two years, and to bring forward stricter legal standards if the system is not working.

2. Directors' Duties on Environmental and Social Matters

Thanks to your campaigning, the directors of UK companies now have a duty not only to maximise profits but also to consider the impacts of their business operations on the community and the environment.

This is the first time that the words 'community' and 'environment' have been mentioned in UK company law in this way, and CORE and The Trade Justice Movement are not aware of any other country in the world that demands in written law this kind of responsibility from company directors. However, it is hard to know until this legislation is implemented what the exact extent of its practical implications will be.

Unfortunately, business lobbying and scaremongering also meant we didn't manage to get the directors' duties strengthened to include a positive duty to minimise negative impacts. However, public pressure to make companies behave more responsibly meant that the Government put in place a link between the reporting requirements and the directors' duties in the Bill, making it clearer that the reports must show how directors are performing in their duties, including those on environmental and social issues. This brings decision-making on these matters in to the heart of the boardroom.

The Government also added a new provision so that the law now recognises that some companies can be run for purposes other than to make profits. In addition, the Government have committed to publishing advice on how directors should interpret their duties, helping them understand exactly how they should take social and environmental matters into consideration.

Awareness about corporate wrongs

Your campaigning has also helped to bring about a major increase in awareness about the abuses committed by British companies overseas and the need for laws to prevent these, laying the groundwork for more progress in the future.

- **Parliamentary Petition:** Over 225 MPs (over one-third of all MPs) signed Early Day Motion 697 – the Parliamentary petition tabled by Sarah McCarthy-Fry MP supporting our proposed amendments to the Bill.

- **Debates:** Our concerns about the social and environmental provisions dominated all the debates in Parliament on the Bill and have been represented by MPs across the political spectrum.

“I’ve had more letters from constituents about trade justice and the Companies Bill than any other issue since I became an MP. I have written to the Minister about their concerns as a result.”

Ed Balls MP, Economic Secretary to the Treasury

“I believe that the rights of companies should be counterbalanced by meaningful and effective responsibilities including responsibility for the environmental, social and economic impacts of their business. I agree that the law should be changed to ensure that this is realised.

I have received a staggering number of letters from constituents who share the concerns you raise. I have therefore already been in contact with the Minister to urge them to amend the Companies Bill.”

Diane Abbott MP, Hackney North & Stoke Newington

Coverage in the Media

Towards the end of the Bill’s passage through Parliament, the story broke through in the media and gave the coalitions and member organisations a new level of coverage in radio and print news. There were regular stories in *The Guardian* and *Financial Times* towards the end of the campaign, along with broadcast interviews for coalition members on BBC News 24, Radio 5, Radio 4’s Today programme and the World Service.

Friends of the Earth played a major role in the campaign by CORE and the Trade Justice Movement, helping to position the coalitions as key voices in debates around corporate accountability, which is a great platform for future campaigning. Indeed, the FT reported that “business had been comprehensively outmanoeuvred by environmental and corporate responsibility campaigners, in a stunning lobbying victory” (Financial Times, 25 October 2006).

There was some impressive coverage including:

- Polly Toynbee’s article in *The Guardian*:
<http://business.guardian.co.uk/story/0,,1932620,00.html>
- John Battle MP’s article on rights of redress for affected communities:
<http://business.guardian.co.uk/story/0,,1926631,00.html>

Inspiring New Campaigns Around the World

This groundbreaking campaign has inspired coalitions in other countries to press for changes in their laws to make companies more accountable.

Across Europe and around the world there has been a strong interest in our campaign and it has been referenced in international media from the New York Times to national papers in Singapore and Saudi Arabia.

CORE and the Trade Justice Movement have received enquiries from a diverse range of academics, thinkers, civil society groups and others all over the world who have been closely following the campaign. A representative of the campaign will be speaking at an event at the European Parliament next month.

Our Supporters in Parliament

This progress could not have been made without the help of supportive MPs in Parliament, many of whom became interested in the Bill because of your lobbying and then went on to work very hard to get the improvements to the Bill. MPs and Peers who have been active in Parliament in support of our campaign include:

MPs

Labour MPs	Labour MPs continued..
David Anderson (Blaydon) John Battle (Leeds West) Richard Burden (Birmingham, Northfield) Colin Burgon (Elmet) Martin Caton (Gower) Colin Challen (Morley & Rothwell) Michael Clapham (Barnsley West & Penistone) Katy Clark (North Ayrshire & Arran) Tom Clarke (Coatbridge, Chryston & Bellshill) Harry Cohen (Leyton & Wanstead) Jim Cousins (Newcastle upon Tyne Central) Jon Cruddas (Dagenham) Clive Efford (Eltham) Bill Etherington (Sunderland North) Neil Gerrard (Walthamstow) Ian Gibson (Norwich North) Helen Goodman (Bishop Auckland) John Grogan (Selby) Patrick Hall (Bedford) Kate Hoey (Vauxhall) Kelvin Hopkins (Luton North) Glenda Jackson (Hampstead & Highgate) Lynne Jones (Birmingham, Selly Oak) Alan Keen (Feltham & Heston) Peter Kilfoyle (Liverpool, Walton) Mark Lazarowicz (Edinburgh North & Leith) Tony Lloyd (Manchester Central) Rob Marris (Wolverhampton South West) Robert Marshall-Andrews (Medway) Chris McCafferty (Calder Valley) Sarah McCarthy-Fry (Portsmouth North) John McDonnell (Hayes & Harlington)	Jim McGovern (Dundee West) Michael Meacher (Oldham West & Royton) Edward O'Hara (Knowsley South) Gordon Prentice (Pendle) Clare Short (Birmingham, Ladywood) Alan Simpson (Nottingham South) Anne Snelgrove (South Swindon) David Taylor (North West Leicestershire) Emily Thornberry (Islington South & Finsbury) Jon Trickett (Hemsworth) Paul Truswell (Pudsey) Desmond Turner (Brighton, Kemptown) Keith Vaz (Leicester East) Robert N. Wareing (Liverpool, West Derby) Mike Wood (Batley & Spen)
	Liberal Democrat MPs
	Lorely Burt (Solihull) Edward Davey (Kingston & Surbiton) Martin Horwood (Cheltenham) David Howarth (Cambridge) Susan Kramer (Richmond Park) Jo Swinson (East Dunbartonshire)
	MPs from Other Parties
	Mike Weir (Angus), SNP Adam Price (Carmarthen East & Dinefwr), Plaid Cymru Hywel Williams (Caernarfon), Plaid Cymru

Peers

Labour Peers	Liberal Democrat Peers
Lord Dubs Lord Judd Lord Haskel Lord Rea Baroness Thornton Baroness Uddin Lord Whitty Lord Young of Norwood Green	Lord Avebury Baroness Miller of Chilthorne Domer Baroness Northover Lord Phillips of Sudbury Lord Razzall Lord Sharman Baroness Tonge
Crossbenchers	Bishops
Lord Joffe Earl of Sandwich	Bishop of Winchester The Lord Bishop of Chester

What next?

Your hard work campaigning and lobbying has helped to build a big increase in public and political awareness of corporate accountability issues, and we want to keep up this momentum in 2007 to push for stronger rules to ensure that companies are transparent, responsible, and accountable for their impacts on people and the planet.

This will include pushing to ensure that the Companies Act 2006 works well in practice, and work with the CORE Coalition and the Trade Justice Movement to advance rights of redress for communities harmed by UK companies and their overseas subsidiaries.

The Corporates and Trade teams at Friends of the Earth are also in the process of merging to create a new activity focusing on Britain's role in the global economy and how this impacts on the environment and poor communities overseas. To make sure you don't miss this and other new campaigning work on corporates and trade keep an eye on:

<http://community.foe.co.uk/campaigns/corporates/> and..

http://community.foe.co.uk/campaigns/global_trade

A very big thank you for all your hard work, which has helped to make the Companies Bill a stronger and more effective piece of legislation. Watch this space for more information on what's coming up next and how you can get involved to make UK business work better for people and the planet.

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