MAKING ENVIRONMENTAL DISCLOSURE MANDATORY: THE CASE OF SPAIN

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Introduction

The fifth European Community programme of policy and action in relation to the environment and sustainable development (‘Towards Sustainability’) contained a number of proposals aimed at improving and promoting environmental disclosure by firms. In this context, in 1995 the Accounting Advisory Forum prepared a consultation document on how companies should report on the different ways that environmental issues could affect their financial figures.

Most of the suggestions made by the Accounting Advisory Forum were later included in an Interpretative Communication and finally in a Recommendation (2001/453/CE) on the recognition, measurement and disclosure of environmental issues in the annual accounts and annual reports of companies. A Recommendation in the European regime means that the member States should ensure that the companies apply the provisions included in it.

Considering first the AGAP, it is paradoxical, but far from unusual, for the ICAC to issue general standards through AGAPs, as is the case with this disclosure obligation, which was issued through the AGAP for electric utilities (RD 437/98). The foreword mentions that while this standard has been introduced in the electric utilities’ AGAP, it is to be regard as generally applicable, on the understanding that the standard is but a clarification of the general accounting regulation. In addition, this standard has been introduced in other adapted general accounting plans (water supply and sewage industry or road transport facilities).

The electricity utilities’ AGAP (RD 437/98) requires environmental disclosure in the notes to the financial statements (called ‘memoria’). The compulsory disclosures are itemized in a model (see Table 1). Note 4 requires the disclosure of accounting policy
about environmental assets, expenses and liabilities. Note 18 involves the disclosure of expenses on energy saving and efficiency programs. Finally, note 19 requires a description of the nature and the amount of environmental investments, expenses, provisions and contingent liabilities.

Table 1 Spanish environmental disclosure standard 437/98

(a) Environmental information to be disclosed in the notes to the financial statements (Memoria)†.

<table>
<thead>
<tr>
<th>Item</th>
<th>Accounting criteria related with environmental actions with environmental impact and saving and energy efficiency programs. It should be disclosed:</th>
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<tbody>
<tr>
<td>4.r</td>
<td>- Valuation criteria and impacts on the earnings of the company. Particularly, the criteria used for discriminating expenses between current expenses and a higher value of assets should be disclosed.</td>
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<td></td>
<td>- Description of the assessment and calculation method for the liabilities caused by the environmental impact.</td>
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<td>Item 18.2</td>
<td>Current expenses related with energy saving and efficiency projects, indicating the amount and their nature</td>
</tr>
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<td>Item 19</td>
<td>Information on the environment</td>
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</tbody>
</table>

Description and characteristics of the most significant systems, equipment and installations capitalized, whose aim be the minimization of environmental impacts and the protection and improvement of the environment. It should be included its nature, purpose, accounting value, and its accumulated depreciation.

Current expenses with the aim of environmental protection and improvement, distinguishing between ordinary and extraordinary items, including its purpose in every case.

Risks and expenses covered with provisions related to environmental actions, with special reference to those derived from current litigation, reparations and others. For every provision it should be disclosed:

- Initial amount.
- Accruals.
- Write downs.
- Final amount.

Contingent liabilities related with environmental protection and improvement, including risks transferred to other entities, method of assessment and contingent factors, with indication of the eventual effects on net worth and on profits. If needed, reasons that impede this assessment must be explained, as well as the minimum and maximum risks.

(b) Environmental disclosure standard, re-classified

1. Accounting policy in relation to the recognition and valuation of current expenses and environmental assets
2. Accounting policy in relation to the recognition and evaluation of environmental liabilities
3. Expenses on resources saving and efficiency
5. Current expenses
6. Environmental provisions
7. Environmental contingent liabilities

(Source: Royal Decree 437/1998)

The abovementioned environmental standard came into force in 1998, but experience reveals that the standard was not being enforced (Larrinaga et al. 2002). Larrinaga et al. (2002) showed that only about 20% of industrial companies traded on the Madrid stock exchange disclosed some minimal information. Several reasons could
explain this situation. First, there is a lack of institutional arrangements to ensure that companies apply the standard. Second, it seems that the mechanism (AGAP) used to enact this standard was not effective. Finally, the AGAP does not include stipulations on the recognition and valuation of environmental expenses, assets and liabilities. It is likely that the lack of guidance on those aspects discouraged companies to make environmental disclosures.

The lack of enforcement together with the European Recommendation lead the ICAC to issue a 2002 resolution. This standard clarified that environmental disclosure is compulsory in the annual accounting of any company, including Small and Medium-sized Enterprises and non-for-profit organisations. It should be stressed that this standard is only concerned with the financial implications of environmental issues. In comparison with the Global Reporting Initiative, which is concerned with social and environmental performance, the Spanish standard pays attention to environmental expenses and liabilities, regardless of the environmental performance of the company. However, it should be admitted that, progressively, it is intended that the standard addresses environmental issues in decision making processes.

The approach adopted by the Spanish standard is that environmental issues can be successfully integrated in the conventional accounting model. The notion of the environment is a very traditional one, based on its view as being a resource and neglecting the notion of sustainable development. Interestingly, the Spanish standard overlooked the specifications made in the European Commission recommendation regarding disclosure in the management report of information concerning environmental performance and the reference to any separate environmental report.

The content of the 2002 ICAC resolution is summarised in Table 2.

Table 2 Environmental disclosure standard (2002 resolution)

<table>
<thead>
<tr>
<th>Issues considered in the 2002 resolution of the ICAC</th>
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</thead>
<tbody>
<tr>
<td>Environmental expenses - Definition of operating environmental expenses</td>
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<tr>
<td>- Examples of operating environmental expenses: those caused by pollution prevention, waste management, pollution abatement and environmental management.</td>
</tr>
<tr>
<td>- Treatment of costs that should be partially considered as environmental</td>
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<tr>
<td>- Definition of extraordinary environmental expenses</td>
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<tr>
<td>- Examples of extraordinary environmental expenses: fines and compensations for pollution</td>
</tr>
<tr>
<td>Environmental assets - Definition of assets</td>
</tr>
<tr>
<td>- Recognition: restrictive treatment, linked to future economic benefits.</td>
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<tr>
<td>Environmental liabilities - Definition of environmental liabilities</td>
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<tr>
<td>- Includes constructive obligations</td>
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<td>- Similar treatment to the IASB, including contingencies</td>
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<tr>
<td>- Treatment of recoveries from third parties</td>
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<tr>
<td>- Long term commitments related with assets should be treated as liabilities</td>
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</tbody>
</table>

(Source: 25th of March, 2002 resolution of the ICAC)

In conclusion to this brief presentation on the Spanish standard on environmental disclosure, it adopts a very conventional stand. It is not only similar, but maybe more
conservative, than the proposals made by other international bodies. However, interest in this standard is related to the fact that it has been made mandatory, thereby raising concerns about the important difference between regulation and enforcement in social and environmental accounting.

Reference

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THE USE OF ENVIRONMENTAL MANAGEMENT SYSTEMS NETWORKS BY SMALL SWEDISH FIRMS

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Abstract
Collaborative networks have become an important tool used to increase environmental performance within the small to medium-sized enterprise (SME) sector. One popular technique is the Hackefors model, a process devised to implement group ISO 14001 certification in Sweden. Use of the Hackefors network approach has since spread rapidly throughout that country, where there are now some 24 networks, with over 450 member firms, using the model to achieve group environmental certification.

Given the rapid growth of this networking tool, it is perhaps appropriate to examine some of the issues relating to the processes in this system. More specifically, the purpose of this project was to:

• Examine the external and internal factors that lead firms to chose to become ISO certified;
• Determine why member firms used a network system to become ISO certified;
• Identify the problems that they encountered by participating in a network; and
• Assess if the network approach has lead to any further joint initiatives amongst members.

Four networks, containing 50 respondent firms, were surveyed. The study found that there appear to be a number of factors which affect environmental networks amongst small firms. It is clear that networks can be used by a variety of firms from different industrial sectors. Several factors influence the decision to adopt ISO 14001, both external and internal. In general, small firms in networks use a group (or team) approach to gaining certification because they lack many of the resources needed to successfully pursue accreditation alone.