

ICT YET TO FULLY INSTALL SUSTAINABILITY CHIP

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Source: Weim/fistock

Some key sustainability issues face the ICT sector. These include the human rights and environmental aspects of the supply chain; the energy consumed from use of equipment; and the disposal and recycling of ICT equipment.

Management of the social and environmental footprint of ICT is a challenge for many companies. Some can demonstrate they are managing some parts of the supply chain reasonably well. But at present, not many are demonstrating they are managing the complex issues across the whole supply chain.

The supply chain of global ICT companies

The ICT supply chain has been a major focus of the AMP Capital Responsible Investment Leaders (RIL) International Share Fund with respect to corporate engagement.

Supply chains tend to be more prone to poor labour practices if the product design is relatively simple. For example, we have seen particularly egregious practices, including child labour and dangerous conditions, in footwear and toy manufacture in the past.

ICT hardware in contrast involves a more sophisticated manufacturing process, and has not been seen as a higher target for corporate

engagement. Yet AMP Capital, working with its manager panel, had identified it as still an important area of focus.

Working with one of the managers within the RIL International Share panel, Boston Common, we have engaged companies within the portfolio to join up to the Electronic Industry Code of Conduct (EICC). This initiative establishes standards to ensure that working conditions in the electronics industry supply chain are safe, that workers are treated with respect and dignity, and that business operations are environmentally responsible.

Key tenets of the EICC include: freely chosen employment; child labour avoidance; working hours; wages and benefits; humane treatment; non-discrimination; and, freedom of association

The strategy has been to build on initial signatories at the blue-chip end of the market (eg IBM), and through concerted communications by a of group investors, encourage new signatories.

After a period of engagement it was encouraging to see both Sun Microsystems and Philips sign on to the initiative. Both of these companies were holdings within the RIL International Share Fund at the time of engagement.

In terms of an investment outcome for clients, having our major ICT share investments supporting this initiative

has the benefit of being a contributor to protecting those companies' brands from labour scandals. And having a common code across the industry has the benefit of a lower cost of implementation. Each company can draw on the common tenets of the initiative in drawing up contracts with suppliers and training staff. It also makes it far more practical for suppliers, who may be working for a range of global ICT companies, to set in place minimum standards which will suit a range of their customers who have signed on to the EICC.

Energy consumed from use of equipment

Governments increasingly are developing energy product standards for ICT equipment. Stand-by power or computer power supply efficiencies are examples. It reflects that emissions from the ICT sector are expected to grow significantly in the future.

There is an additional question of how well companies understand the energy-related issues associated with ICT use. Companies tend to focus on energy consumption from computers, computer screens and printers/faxes and the associated extra heat load that this puts on HVAC systems in their green IT policies. But to appropriately address energy use, a more holistic view of ICT is needed, which involves consideration of energy and air conditioning

associated with computer servers and data centres.

A survey in 2007 (*An Inefficient Truth – Global Action Plan*) found that the ICT department was not engaged in the organisation's sustainability strategy in 25 per cent of cases and only partially in 49 per cent of cases. The study also found that for 56 per cent of organisations the ICT department did not have to pay for the energy consumed by ICT equipment. This lack of accountability for energy use, in part, explains why the ICT departments are not engaged. However, ICT suppliers could also be part of the problem. The study showed that 60 per cent of UK ICT professionals considered the environmental information provided by ICT vendors to be poor or confusing.

The importance of ICT in a company's energy use should not be underplayed, including whether these issues are being outsourced through the use of third-party server providers.

For example, **National Australia Bank (ASX: NAB)** in its *2007 Corporate Responsibility Report*, highlighted that 23 per cent of its building portfolio stationary energy use occurred in two data centres.

NAB also said electricity used in its largest data centre increased by 26 per cent as a result of an ongoing technology architecture strategy.

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NAB would be typical of many service-type companies. It highlights the challenge and importance of ICT for companies in managing one of their major direct environmental impacts.

When comparing the energy performance of companies, for example banks, the reported energy performance of the companies in the same sector can vary significantly, depending on whether computers servers and data centres are outsourced or in-house. However, many sustainability reports do not clearly state if the

company outsources these services or not.

Clearly, outsourcing of data centres and computer servers creates additional challenges in trying to measure, understand and reduce the environmental footprint of a company.

Disposal and recycling of ICT equipment

A number of ICT suppliers, particularly printer suppliers, eg Fuji-Xerox, have done some significant work on improving the recycling compatibility of their printers. However, the disposal of ICT equipment is still a significant issue in Australia, with limited recycling facilities available (**Sims Metal Management (ASX: SGM)** do have a facility in Australia), challenging economics when metal prices are low, and limited ability to resend material to be recycled overseas due to international law on exporting waste. As a result, much of the ICT equipment ends up in landfill. 

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