

In a groundbreaking speech to the United Nations General Assembly in 1989, Britain's Prime Minister Margaret Thatcher warned of an urgent threat to the global environment and called for a global treaty on climate change.

The UN General Assembly had conveyed a sense of urgency about sustainable development by convening an independent World Commission on Environment and Development, chaired by Norwegian Prime Minister Gro Harlem Brundtland. Published in 1987, the Brundtland Commission's report was called "Our Common Future" and outlined a long-term global agenda to protect and enhance the environment by the year 2000 and beyond.

Mrs. Thatcher underscored that call to action. "Degrading land surfaces, polluting the waters and adding greenhouse gases to the air at an unprecedented rate" raised the prospect of "irretrievable damage to the atmosphere, the oceans, to earth itself," the British Premier declared. Urgent action would only be effective if taken at the international level, she said, and countries must rely on industry to do the research and find the solutions. "The multinationals have to take the long view," she added.

A year after the speech, Mrs. Thatcher was out of office but her words proved prophetic. Over the following two decades, business and nongovernmental organizations have supported and guided governments of the day to take the right decisions on the environment.

This year, the UN once again has moved center stage with a new Environmental Stewardship Strategy to be unveiled at the Global Compact Leaders Summit 2010. The new environmental strategy tool builds on the three environmental principles in the Global Compact and will provide business with clear directions and measures for years to come.

Keith Saveal, Head Corporate Health Safety and Environment & Business Continuity, will represent Novartis at the Global Compact Summit and was a member of the working group that produced the Environmental Stewardship Strategy. The new strategy acknowledges that environmental challenges – from climate change and water issues to ecosystems and biodiversity – are growing in scale and complexity. While corporate environmental and sustainability management has made great strides in recent years, the working group concluded that a new level of stewardship will be required in coming years and decades.

"The Global Compact's environmental strategy tool provides a challenge to all businesses and requires top level commitment, a visionary long term approach, strong communication and a drive across the entire supply chain," Mr. Saveal said.

In the following interview, Mr. Saveal discusses environmental strategy at Novartis, the impact of the commitment to the Global Compact to date and future developments.

Could you describe the corporate environmental strategy at Novartis and the challenges the strategy aims to confront.

Environmental strategy is embedded in Corporate Citizenship policy at Novartis. Specifically, Novartis seeks to reduce energy consumption by improving efficiency of energy use in existing operations, adopting renewable energy sources where economically attractive and undertaking carbon offset projects to complement internal initiatives. In 2009, solar energy systems achieved major gains with the tripling of our solar electricity capacity.

Our strategy aims to address all areas of the environment, certainly in terms of the way we use the limited resources in the world but also in limiting pollution. That leads, in turn, to specific targets and actions. We have targets in a number of areas including carbon dioxide, waste, volatile organic compounds, water and energy efficiency. Our target of completely eliminating organic hazardous waste sent to landfill is rare amongst businesses.

What served as the catalyst to the development of this strategy?

It is evolutionary – emanating from the broader principles of doing no harm through our business. Our commitment to the Global Compact has been an important factor. The three environmental elements in the Global Compact are integrated in the Novartis Corporate Citizenship policy.

What roles do the Chief Executive Officer and the Board of Directors have in shaping or managing environmental policies and strategies?

The answer is every part of it. All policies, strategies, and targets are approved by the Executive Committee of Novartis (ECN). Corporate Health, Safety and Environment reports to the members of the ECN at least quarterly for some of the indicators – and annually for all of the indicators that I mentioned earlier. Additionally, progress against targets and other information is published in the Novartis annual report.

Just over five years ago, the ECN decided Novartis would voluntarily abide by the Kyoto protocol. In addition to energy efficiency improvements, we also looked for carbon offsets in terms of forestry. We purchased a 34-square-kilometer parcel of former grazing land in Argentina and have planted 3 million trees. Through this project, and another in Mali, Novartis will collect 3 million tons of carbon dioxide by 2040.

What differentiates companies “leading” on environmental management from ones “following” environmental management initiatives?

Three elements: a leadership vision, measurement combined with ambition, and disclosure. The first thing is management commitment to a triple-bottom-line culture that encompasses social and environmental dimensions as well as economic criteria in measuring organizational success. Management’s desire to take a long-term business approach and avoid short-term decisions is crucial.

Also, I would say leading firms are highly engaged in measurement of their activities. If you don’t measure an activity you don’t know what is happening and you certainly can’t manage it.

I am a scientist by background and measurement to me is fundamental. Top management is very numerate, and we need to make the environmental numbers as real and as lively as the financial numbers. Once measurement is in place, it is possible to set ambitious improvement goals in the areas that matter.

And the last part of demonstrating leadership is disclosure: making what you are doing publicly available, because that shows accountability and respect to all stakeholders, external and internal.

Does environmental management strategy at Novartis incorporate a value chain and/or life cycle approach?

This is an area where we can do more. It is clearly the next generation for us. But already we measure scope 1 and 2 and partly scope 3 emissions.¹ We do life cycle assessments of our strategic products. We consider the risk of the products to the environment and do long-term, and not just acute, environmental toxicity testing.

Making a pharmaceutical product is quite complicated. For example, some of our products have multiple chemical steps, followed by pharmaceutical formulation and packaging in many sites worldwide, all coordinated through a global supply chain. It is a complex picture. We

¹ Scope 1 describes greenhouse gases directly emitted from our own operations. Scope 2 is greenhouse gas emissions from the generation of purchased energy. Scope 3 is indirect emissions for activities outside company boundaries not included in scope 2

have made a start in this area, and there is additional work to be done regarding full value-chain or life-cycle analysis.

What types of government policy have had the greatest impact in transforming environmental management practices at Novartis?

International policies, such as the Kyoto protocol, have a major impact and prompted a major energy efficiency drive. With Kyoto, on a voluntary basis, we set the greenhouse gas target for the whole company. Without Kyoto, to which we committed in 2005, we would not have the targets we have. Earlier the Montréal Protocol, which deals with substances that deplete the ozone layer, also had a significant impact.

National legislation has a lesser impact, because around the world we generally operate above legal minimum standards. We have a view that operating on or close to the legal line will lead to periodic failure because sometime either technology or people will fail and that could result in being outside of legal compliance. So we have to set the limit or the bar above the legal requirements.

Moreover, as an international company we clearly can't operate at different standards in different locations. Having said that, I would add that $2+2=4$ and $3+1=4$, so while we have the same goals, we might not achieve them in exactly the same ways. For example, in Switzerland we use a lot of very sophisticated instrumentation. In some other countries, by contrast, we might build in three or four physical and human checks.

How do you think more firms, including small and medium-sized enterprises, can engage with local, state, federal and international governance institutions to develop proactive environmental policies and guidelines?

That is a difficult question. I believe that for small or medium companies the lead probably has to come from a combination of legal requirements and societal pressure. The only other way is by having visionary management in these enterprises.

The understanding gap could go back to university education. If, for example, environmental aspects were included in all MBA programs, then future leaders would be more aware of the long-term potential risks of business activities. The Global Compact obviously has an important role to play. But not so many small and medium enterprises have committed to the Global Compact so far.

I personally believe that within our education system we need to encourage longer term thinking. Sustainability starts with finance — we know that if you are not making a profit you can't have a business. But financial thinking isn't enough — social and environmental aspects are also essential for long-term business success.

How does Novartis track upcoming environmental management issues and challenges?

It is very important to be one step ahead. As I mentioned, the aquatic environment could be a future challenge regarding pharmaceuticals in the environment. Also nanotechnology is an important future area because nano science could be very helpful in drug delivery systems. But there are concerns about the toxicity and the persistence of the materials.

Twenty-five years ago no one expected carbon dioxide emissions to become the issue that it is today. It was ozone layer problems that led to the Montréal protocol — at that time carbon dioxide was not a headline issue. So the question is what issues will be paramount in 25 years. Hopefully not carbon dioxide — because in the meantime some form of leadership should emerge. Water scarcity may become the next major issue.

How do you envision evolution of the Global Compact's environmental framework in the future?

The Global Compact Environmental Stewardship strategy will require companies to look again at how we manage all aspects of the environment including climate change, emissions and waste management, resource consumption, water conservation and biodiversity protection. This will be in our own worldwide operations and with suppliers and customers. To do this seriously will require much effort and teamwork across Novartis and other companies, but the reward is significant – an improved environment for future generations.