EU Non-Financial Reporting Directive

Implications for Business Travel Reporting

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Date: November 2015

ABSTRACT:

The new EU Accounting Directive 2014/95/EU will make the reporting of non-financial information mandatory for at least 6,000 companies in the European Union as of 2017. GBTA Europe and atmosfair publish this white paper explaining the regulatory background and the impact this will have on travel buyers. The paper analyses current reporting practices and gives an indication of how prepared the business travel industry is for this new regulation. It also offers solutions on how travel buyers can prepare for the new reporting requirements.

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PART I:
EXPLANATION AND BACKGROUND ON THE NFR DIRECTIVE

1. WHAT IS IT?

The Directive 2014/95/EU on disclosure of non-financial and diversity information (NFR Directive)[1] was adopted by the European Council on October 22, 2014 and amends the Accounting Directive 2013/34/EU[2].

With this Directive the European Union establishes new **mandatory environmental, social and governance ("ESG") reporting requirements** covering all areas of Corporate Social Responsibility ("CSR"). The key aim is to promote transparency of certain companies and to enhance the relevance, consistency and comparability of current disclosure of non-financial information.

All EU member states have to transpose this Directive into national law by December 6, 2016. Its enforcement commences in 2017.

2. WHO DOES IT APPLY TO?

The NFR Directive applies to companies of significant public relevance with **more than 500 employees**. "Public interest entitites" are stockmarket listed companies, credit institutions and insurance companies as well as any other organisations designated by an EU member state as such due to the nature of their business or size.

It is expected that approximately 6,000 companies incorporated within the European Union will be directly affected by the NFR Directive. Depending on national implementation, this may potentially include both local companies based in the EU and foreign companies traded at EU stock markets that have a balance sheet total of at least €20 million or a net turnover of at least €40 million.

For group organisations the parent company is required to disclose non-financial information at the consolidated level, while the subsidiary companies are exempt from the reporting obligation.

key criteria
□ incorporated or listed in the EU □ public interest entitiy □ > 500 employees

3. WHAT DOES THIS MEAN?

As of 2017, the NFR Directive requires companies affected to disclose an **annual non-financial statement** in their management report, which also refers to their supply chain. This statement shall at least contain information on environmental, social and governance matters. The information should allow

[1] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32014L0095

[2] http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013L0034

stakeholders to understand the company's development, performance and position as well as the impact of its activity on society.

As a result, companies concerned need to evaluate the Directive, set up internal structures and processes that allow for a comprehensive management and reporting of sustainability issues, which entails the following:

- to collect, measure and analyse non-financial data;
- to identify, evaluate and manage both risks and opportunities related to sustainability issues;
- to introduce policies, set targets and implement adequate measures;
- to promote skills and incentives to drive better decision-making, performance, transparency and accountability.

Reporting is not an end in itself. It enables companies to **measure and start managing the impacts their business activities have on society**. This also means that companies might need to change certain company practices, as necessary. Indeed, more transparency in combination with growing stakeholder expectations leads to more scrutiny and creates a need to show improvement – or face questions!

4. WHAT NEEDS TO BE REPORTED?

Article 19a and for group entities article 29a of the amended EU Directive now includes the mandatory disclosure of a "non-financial statement" in the management report.

The non-financial statement shall contain information "to the extent necessary for an understanding of the undertaking's … impact of its activity relating to as a minimum environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters ..",.

This includes but is not limited to the following:

- Short description of the "[company's] business model";
- Description of
  - the company's "[CSR] policies" including "implemented due diligence processes";
  - the "outcome of those policies";
  - "principle risks related to [ESG] matters" and their management, which are linked to the activity of the company, including its "business relationships, products or services" (where relevant and proportionate);
- Presentation of the most important "non-financial key performance indicators" (KPIs).

Whereas the above bullet points of Article 19a refer to the core business and the related CSR policies of companies (e.g. the production of textiles and potential issues in the supply chain), the leading text in article 19a also refers to business travel. For example, if business travel constitutes a significant part of the direct greenhouse gas emissions of a company, or if a relevant part of the workforce travels, as it is at least the case for most companies in the tertiary sector, then the required "understanding of the undertaking's impact of its activity relating to environmental, social and employee related matters" needs information on business travel in the mandatory non-financial statement.

Environmental impacts

In addition to the above, recitals (7) and (17) specify that the non-financial statement should contain, as regards environmental matters, “details of the current and foreseeable impacts of the undertaking’s operations on the environment, and, as appropriate, health and safety, the use of renewable and/or non-renewable energy, greenhouse gas emissions, water use and air pollution“. Which concrete information should be included on the topic of greenhouse gas emissions is not specified further.

Risks along the entire value chain

In general, only business-relevant matters should be reported, which are “most likely to bring about the materialisation of principal risks of severe impacts, along with those that have already materialised“ (point 8). This risk assessment extends to a company’s “**supply and subcontracting chains**“ (point 8).

Reporting is mandatory but flexibility is given to companies by the “**comply or explain**“ approach. If a company does not pursue policies in any of the ESG areas, it must provide a clear and reasoned explanation for not doing so. Thus, this does not free a company from the obligation to identify and disclose principle risks.

Reporting standards

The NFR Directive references various standards that companies can rely on in their reporting, including the UN Global Compact, OECD Guidelines for Multinational Enterprises, Eco-Management and Aufit Scheme (EMAS), ISO 26000 or the Global Reporting Initiative (GRI). Yet any national, EU or international framework can be used.

5. HOW WILL IT BE IMPLEMENTED AT THE NATIONAL LEVEL?

An EU Directive is a flexible instrument. It obliges Member States to achieve a specific result but leaves them a certain level of flexibility in the way they will transpose and implement these requirements into internal law – including the possibility to go beyond the minimal requirements.

EU adopts NFR Directive	28 member states transpose NFR Directive into national law	Mandatory CSR reporting enforced	1st reports by companies
Oct 2014	**2015 until 6 Dec 2016**	**2017**	**2018**

Member states are required to incorporate the contents of the Directive into law by December 6, 2016. While the EU NFR Directive sets out a number of **aspects that must be adopted into national law, some provisions are optional** and will be maintained or dropped in the transposition into national law. It includes the so-called safe harbour clause and the possibility for the company to provide a separate report rather than integrating the non-financial statement in the management report as well as the verification by an independent assurance services provider.

Further information on national implementation and country specific case studies are available in the Appendix.

6. WHAT IS THE OPPORTUNITY?

The NFR Directive does not need to be seen as a burden on companies, but can also be perceived as an opportunity to increase European companies‘ long term competitiveness and Europe’s long term sustainable growth prospects.

EU leadership in establishing a new sustainable economic model

First of all, the NFR Directive is a strong signal from the EU to accelerate the pace to achieve the Europe 2020 strategy towards inclusive, smart and sustainable growth.[3] The aim is to make Europe the global leader in establishing a new economic model, which combines long-term profitability with social justice and the protection of our environment. To reach this goal, transparency is a must. Mandatory non-financial reporting contributes to the evaluation, monitoring and the management of corporate performance and their impact on society. In particular, this responds to investor and stakeholder needs for more comparable data and facilites the access to information for consumers.

Better informed investment decisions thanks to easily available ESG data

Indeed, the NFR Directive will help investors by making more relevant information available from a larger number of European companies. It therefore represents a significant step forward for European an international investors who seek timely, material, comparable and forward-looking information on non-financial risks and opportunities in order to make better informed investment decisions.

According to the Global Sustainable Investing Alliance (GSIA), globally assets of USD 12.9 trillion were actively managed under investment strategies by incorporating ESG information as end of 2013, of which almost two thirds are managed by European investors.[4] In addition, investors managing assets in excess of USD 95 trillion support the disclosure of corporate greenhouse gas emissions and climate change data through organisations such as CDP.[5] This growth in investor interest in non-financial data is in part fuelled by the mounting evidence that there is a link between how well a company manages social and environmental issues and its financial performance or access to lower cost of capital.

Integration of CSR issues into core business management

Going beyond compliance, many companies already recognise the potential relevance and importance of integrated management and reporting on the six capitals, namely financial capital, manufacturing capital, human capital, social and relationship capital, intellectual capital and natural capital.This approach allows companies to have a holistic view of the connections and interdependencies between the different business units and their functions but also the capitals they use or change. Integrating material non-financial issues into business means taking into consideration the links and interdependencies between different factors that impact the creation of value in the short, medium and long term. Once CSR risks and areas of improvement are identified, managing them proactively and realising optimisation potentials, e.g. regarding long-term strategies and everyday business processes or energy consumption, not only enhances the company's reputation and brand value but in many cases saves a lot of money.

As a result, awareness among the business comunity is growing that managing and reporting CSR issues effectively is simply part of good business practice. This is reflected in the fact that 93% of the world's largest 250 companies now publish annual CSR reports – although not all of them include information about business travel activities.[6] However, despite CSR reporting being common practice for many companies, the clarity and level of ambition to reduce negative impacts on society vary strongly. The NFR Directive is an opportunity to forge consensus around measuring, monitoring and reporting on corporate ESG performance. And over time the quality of non-financial reporting and the internal management of these issues will certainly improve.

Several stakeholders benefit from CSR-Reporting:

Internal stakeholders	External stakeholders

[3] http://ec.europa.eu/europe2020/index_en.htm
[4] http://www.gsi-alliance.org/wp-content/uploads/2015/02/GSIA_Review_download.pdf
[5] https://www.cdp.net/en-US/WhatWeDo/Pages/investors.aspx
[6] http://www.oecdobserver.org/news/fullstory.php/aid/4369/Corporate_Social_Responsibility:_Emerging_good_practice_for_a_new_era.html

- Management - Controlling - Procurement - others	- Policy-makers - Customers - Investors - others

Companies experience a wide range of positive outcomes from sustainability investments:

- more efficient business processes
- increased employee loyalty and position as employer of choice
- stronger public image and increased brand recognition
- increased customer/consumer confidence

PART II: IMPLICATIONS FOR BUSINESS TRAVEL REPORTING

7. WHAT DOES THIS MEAN FOR CORPORATE TRAVEL BUYERS AND SUPPLIERS?

Corporate travel buyers: embracing sustainable travel management

As seen above, many companies will be obliged to include information on business travel in the mandatory non-financial statement. This will be the case for information on greenhouse gas emissions, but may also to some extent relate to travel policies such as safety and work-life balance of business travelers.

Carbon footprint as separate compliance report

As for the greenhouse gas emissions, all reporting frameworks explicitly mentioned in the NFR Directive and other leading environmental reporting standards that can be used for the non-financial statement include business travel as part of a company's carbon footprint (see below). The Directive allows for the provision of a separate report which is either published together with the management report of he company or is made publicly available on the company website (article 19a 4). It will thus be a compliance option for travel managers to create a greenhouse gas report for business travel based on the mentioned standards and include it in such a separate statement. TMCs may likewise offer their customers such greenhouse gas reports, based on the travel data of the company and the standards named in the Directive.

Furthermore, sustainable business travel management allows travel managers to identify cost and emission saving potentials. By analysing travel data from the economic, social and environmental perspective, by adjusting travel policies accordingly and by introducing appropriate measures, cost reductions of 20% are frequently feasible without affecting the quality of business relationships and communication.

Experiences in France and the UK, where mandatory CSR reporting already applies, show that changes in business practices occur as a result. Indeed, **what get's measured gets managed**. Some examples of sustainability driven changes to travel practices include:

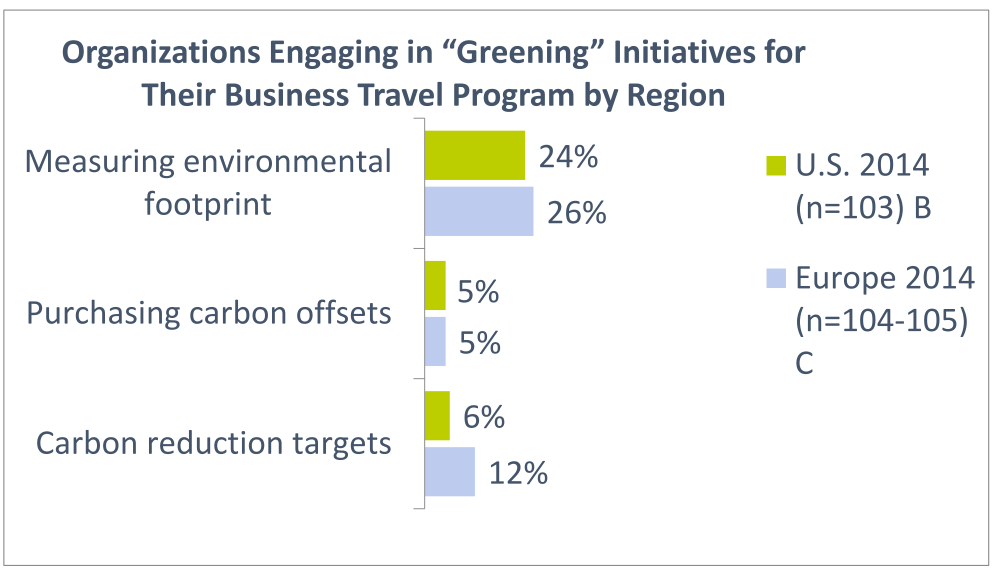
- Better reporting, targeting and accountability
- Introduction of green travel policies, including e.g. incentive programmes for video conferencing
- Embracing electric vehicles and car sharing

Corporate travel suppliers: broadening the scope of their products and sercives

Corporate travel suppliers should expect an increase in the number of stakeholders wanting to know the carbon emissions caused by the different components of a business trip. This covers CO_2 emissions from flight, rail, rental car and accomodation. Travel suppliers and travel management companies have a great opportunity to provide **green products and services** that support travel buyers in their effort to reduce their company's carbon footprint from travel while maintainting the quality of business relationships and safety of their travelling colleagues.

8. HOW PREPARED IS THE TRAVEL INDUSTRY?

A GBTA Foundation survey on the state of sustainable travel and ground transportation programs shows that sustainability issues are becoming increasingly important for travel managers. In 2014, 52% of European respondents indicated that the importance of sustainability had increased compared to two years ago. This assessment is reflected in a growing number of European travel managers (57%) who implemented specific sustianability initiatives in travel policy. However, only 26% of European travel managers measure the environmental footprint, only 12% have carbon reduction targets and only 5% offset their CO2 emissions .



These figures reveal that while some companies are accustomed to sustainability reporting and are actively managing their environmental footprint from business travel, the vast majority is not. Recent conversations between atmosfair and various actors in the business travel sector further indicate that it is not just **travel buyers who are not prepared for any mandatory non-financial reporting requirements. Most travel suppliers have not yet seized the opportunity to offer their customers high-quality green products and services** such as CO_2-reports covering all business travel activities, sustainable business travel consulting or offsetting solutions.

Among travel suppliers, airlines are most likely to provide European companies with CO_2 emissions data, which correlates with the fact that companies are most likely to measure their environmental footprint from flights. Travel Managers are rarely informed about the carbon footprint of other business travel activities such as rail, car rentals, hotels and meetings.

9. HOW TO GET STARTED?

1) Check whether you are affected by the EU NFR Directive

With the exception of a few countries that already introduced mandatory CSR-reporting in the past and are therefore likely to maintain their current legislation with slight modifications only, it largely remains to be seen how the vast majority of EU member states will implement the EU NFR Diretive. Some countries such as Poland will probably take a restrictive approach and only adopt the bare essentials into national law, while others will use their flexibility to go beyond the minimum requirements. The latter can mean that a broader definition of “public interest companies“ is adopted to include more companies. This already occured in Denmark and Sweden who implemented the EU NFR Directive in 2015 and broadened the scope to all large companies regardless of their capital market orientation.

In any case, non-financial reporting will be mandatory for your company with operations in the EU if any of the following applies to your situation:

• stock market-listed *OR* • credit institution or insurance company *OR* • member state of operation declared your sector, activity or size as publicy relevant	*AND*	• > 500 employees *OR* • €40 million turnover *OR* • €20 million on balance sheet

As the NFR Directive specifically mentions the environmental impact along the entire value chain, suppliers of large corporations have an interest to be prepared if their customers start asking them questions related to their own carbon footprint, climate strategies and management approaches.

2) Evaluate whether business travel is a material issue for your company

The recommended first step is to identify the most relevant sustainability issues for your business.

Business travel is most likely a relevant issue for your business and needs to be reported in your non-financial statement if you are in the **service sector**. In fact, for most companies in the tertiary sector business travel emissions represent the lion‘s share of their corporate carbon footprint.

Furthermore, GBTA and atmosfair recommend that companies in other industries keep track of their carbon emissions from business travel if they have a highly international employee and/or customer base and therefore frequently travel for business. To give a rough indication, the climate impact of business travel ought to be considered relevant if your carbon footprint from business travel is in the order of magnitude of **10.000 tons of CO_2** (including CO_2 equivalents for high altitude flight emissions).

3) Decide on a calculation standard

Business travel emissions should cover the areas flight, car, rail and hotel. There are several carbon accounting methods to calculate the carbon footprint of business travel acitivities. Some cover all areas of business travel, others focus on flight emissions.

Here is an overview of the most relevant calculation standards.

VDR standard (German Business Travel Association)

The VDR standard for the CO_2 calculation of corporate travel is a standardised method to determine CO_2 emissions created by business travel worldwide. It was specifically developed for the business travel sector.

The VDR standard covers the full span of business travel (flights, hotel, rental cars, rail, meetings) and fulfills all requirements for worldwide application, accuracy, comparability and independence. The standard is detailed and exact enough to highlight the potential for CO_2 reductions and can therefore be used as the basis for policy decisions and reduction measures.

In the area of flight emissions the following factors are considered:

- City pair specific calculation considering both distance and route
- Flight profile and cruising altitude
- Type of aircraft
- Booking class
- Available seating and load factors
- Climate impact of all pollutants (CO_2 and non-CO_2)

The VDR Standard achieves detailed results with the input data readily available to TMCs, travel agencies and corporate travel managers. Therefore it can be produced without any additional data processing or manual data entry.

GHG Protocol / DEFRA

The UK Department for Environment, Food and Rural Affairs (DEFRA) developed a tool for calculating the CO_2 emissions of travel activities such as flight, train journeys and car rides, among others. DEFRA's approach is based on the calculation method of the GHG Protocol which simplifies the calculation of specific CO_2 per passenger.

In the area of flight, the following factors are considered:

- Flight distance (great circle distance between the airports, multiplied by a blanket uplift factor for detours).
- Flight class: domestic, short-haul international, long-haul international.
- Booking class: A distinction is made between economy, business and first class.

This method requires users to convert travel data before proceeding with the actual calculation.

ICAO

The International Civil Aviation Organization (ICAO) developed an online calculator for its website which calculates the CO_2 emissions of a flight. The associated method is detailed, uses flight profiles with ascend and descend, distinguishes between different types of aircrafts and also considers factors such as passenger load and co-loaded freight. Nonetheless, the ICAO calculator also has disadvantages:

- If a city pair for which a user would like to calculate the flight CO_2 is not in the data sources of the ICAO calculator, then it yields no result.
- The ICAO calculator considers only CO_2 emissions, not CO_2 equivalents for the other emissions.
- There are only two seat classes: economy and premium.

4) Plan ahead for the 2017 deadline

While CSR-reporting becomes mandatory in 2017, it is highly recommended that companies in the business travel sector, both travel buyers and travel suppliers, plan ahead in order to be prepared and confident when it gets serious. By getting a head start you will **be carbon literate** when your investors, customers or other stakeholders start asking questions about your company's environmental impact.

Depending on your individual booking processes, data availability and data reliability can be a big challenge. Planning ahead allows you to try out several approaches, to **learn from early mistakes and to establish internal best practices**. Where appropriate, specialised service providers can greatly reduce the data collection and carbon accounting effort as well as the error-proneness.

Furthermore, the ealier you start measuring your carbon footprint, the earlier you can **start managing your impact** by choosing an appropriate management approach, developing a sustainability strategy and defining targets and specific measures. Indeed. carbon emission figures do not provide any value in themselves. They become useful for both your internal and external stakeholders once you put them into context and when they are the starting point for positive change.

APPENDIX 1

DETAILS ON NATIONAL IMPLEMENTATION AND CASE STUDIES

Here is a more detailed overview of the points that are left up to the member states to decide and specify in their national implementation:

issue	clarification
Definition of "public interest entities"	According to art. 2 of the amended Directive 2013/34/EU, member states can define organisations as "public interest entitites" e.g. because they are of significant public relevance due to the nature of their business, size or number of employees.
Safe harbour clause	Member states may allow companies to hold back the disclosure of information relating to impending developments or matters in the course of negotiation if such disclosure would be seriously prejudicial to the entity's commercial interest. Companies' directors would have collective responsibility to ensure that such omission is not misleading.
Reporting according to existing standards	It is up to the member states to specify what exactly needs to be reported. In providing CSR information companies may rely on national, EU-based and international frameworks. When making

	use of this possibility, companies should indicate on which reporting framework they based their non-financial statement.
Separate report	Member states may allow companies to provide a separate report, rather than integrating the non-financial statement in the management report, as long as the separate report is either published together with the management report or is made public on the company's website within 6 months after the balance sheet date and is referred to in the management report.
External verification	Member states may require that the information included in the non-financial statement or in the separate report is verified by an independent assurance service provider.

When implementing the NFR Directive into national law, member states will have the opportunity to strengthen the EU requirements by not making use of the proposed exemptions and by supporting the development of guidelines by the European Commission, which should clarify the responsibilities and expectations of companies under the NFR Directive.

Given the flexibility of member states and different reporting requirements currently in place at the national level, there is a risk of ending up with 28 different interpretations and thus implementations of the NFR Directive. To limit this risk, the European Commission will work out a non-binding guidance document for the disclosure of the non-financial statement, amongst other things regarding the topic of greenhouse gas emissions.

Case study 1: Denmark

On May 21, 2015, the Danish Parliament adopted an amendment to the Danish Financial Statements Act that implements the EU NFR Directive. This makes Denmark the first EU country to implement the new EU Directive by adopting a more ambitious model widening the scope to all large companies. The implementation process is twofold: the implementation will be effective from 2016 for the largest listed companies and state owned companies (around 50 companies), and from 2018 for all large companies (around 1050 companies).

According to the Danish government this will be less burdensome and bureaucratic for companies operating in Denmark because several disclosure requirements have been removed from the previous Financial Statements Act, which in turn creates a competitive advantage.[7] Denmark already introduced mandatory CSR-reporting in annual reports for listed companies, state-owned companies and institutional investors in 2008.

Case study 2: France

France introduced mandatory CSR-reporting in 2012 with the Grenelle II laws[8]. All private and public companies and organisations with more than 500 employees are required to report on the social and ecological consequences of their activities. This non-financial information is subject to independenf third-party verification and has to be published in the annual report at least every three years. There is no sanction mechanism for not complying with the reporting obligation but stakeholders can go to court to demand the fulfillment of the legal requirement. The current law does not specify explicit indicators but describes general topics instead. Under the topic "climate change" general information regarding the

[7] http://www.evm.dk/nyheder/2015/15-05-21-aarsregnskabslov

[8] The Grenelle II legislation can be found at http://bit.ly/1fMHj8F

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organisation's greenhouse gas emissions is required. In addition, the French Transport Code already requires operators of transport services (e.g. companies that transport travellers or goods, removal companies, taxis, forwarding companies, travel agents) to inform their customers at each service of the CO_2 emissions caused.

In light of the fact that the current CSR reporting laws in France already go far beyond the provisions in the EU NFR Directive, only minor changes to the Grenelle II laws are to be expected. National legislation to transpose the EU NFR Directive will be prepared after the UN Conference on Climate Change (COP 21), which is held in Paris this December.

Case study 3: United Kingdom

Since 2013 the largest companies in Great Britain are obliged to report on CSR issues including greenhouse gas (GHG) emissions in their strategic report. The legislation, which is part of the UK Companies Act[9], primarily applies to stock-exchange listed companies, in total approximately 1,100 companies. All listed companies, including foreign companies traded at UK stock exchanges, are subject to mandatory GHG reporting. Apart from GHG emissions, companies have to report KPIs on emissions intensity, the methodology used as well as the annual evolution of their GHG emissions. In case companies fail to comply with the reporting requirements, the disciplinary committe of the Financial Reporting Council can investigate and go to court.

Therefore, the majority of disclosure provisions in the NFR Directive are already reflected in the strategic report requirements in the Companies Act. The main change for UK companies will be the introduction of disclosures on anti-corruption and bribery issues. In the UK the Department of Business Innovation and Skills (BIS) will be consulting on how they are going to implement the NFR Directive in the near future.

Case study 4: Germany

Contrary to the countries in the previous three case studies, there has not been any mandatory sustainability reporting requirement in Germany in the past. The minimum definition of "public interest entities" according to the NFR Directive includes listed companies, credit institutions and insurance companies. If Germany adopts this strict definition, approximately 1,000-1,500 companies in Germany with more than 500 employees will be affected by the new legislation, which corresponds to roughly 10% of German large enterprises.

The Federal Ministry of Justice and Consumer Protection is leading the transposition of the NFR Directive into German law. It is likely that the implementation will occur within the existing legal framework on status reports regulated in the German Commercial Code ("Handelsgesetzbuch") §289 and §315 (groups). End of April 2015, the Ministry of Justice sent affected associations a first concept for the implementation of the NFR Directive with the possibility to comment by July 10, 2015. The first consultation hearing took place end of June with 80 representatives of associations, covering industry, finance, civil society, investors, reporting standard setters, auditors and consultants. The Federal Ministry of Justice is expected to produce a first Ministerial Draft of the law by end of 2015.

About atmosfair

[9] http://www.legislation.gov.uk/ukdsi/2013/9780111540169/pdfs/ukdsi_9780111540169_en.pdf

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atmosfair is a non-profit climate protection organisation with a focus on travel. With the VDR-standard atmosfair established an accurate and praticable methodology to calculate CO_2-emissions from business travel and MICE. atmosfair's approach to sustainable business travel management aims at achieving CO_2, cost and time savings. To offset carbon emissions, atmosfair develops its own renrewable energy and energy efficiency projects in developing countries – certified by the CDM Gold Standard, the strictest standard available for climate protection projects. atmosfair's outstanding quality has been confirmed by numerous international comparative studies.