

**Bettercoal**

**Bettercoal Member Implementation and Reporting Obligations (MIRO) | Progress and Conformity Review Report**



## About Bettercoal

Bettercoal is a global not-for-profit membership-based organization set up to advance continuous improvement of corporate social responsibility, including social, environmental and ethical practices, in the coal supply chain<sup>1</sup>. Bettercoal's vision is a coal supply chain that protects the environment, respects people's rights and contributes to the livelihoods of employees and communities.

Bettercoal was set up by a group of leading coal buyers as a global initiative striving for continuous performance improvement in the global coal supply chain. Developed as a response to the absence of an international, commonly accepted set of principles and standards in coal mining and other activities throughout its supply chain, it aims for greater assurance that ethical, social and environmental risks and impacts are well managed.

For more information about Bettercoal and its activities: [www.bettercoal.org](http://www.bettercoal.org).

## About this report

The Member Implementation & Reporting Obligations (MIRO) aims to track what Bettercoal Regular members are doing to implement their commitments and to disclose to stakeholders how Bettercoal is progressing in positively impacting the coal supply chain.

All regular members are subject to the MIRO and Bettercoal collects the MIRO key performance indicators (KPIs) from members on an annual basis via a Scorecard and members report on the MIRO KPIs on a comply or explain basis.

On 18 November 2014, the Bettercoal Board of Directors agreed a first set of indicators as measures for monitoring how Regular members are meeting their commitment to implement Bettercoal into their coal purchasing practices (Phase 1 Scorecards). The chosen indicators were consolidated in this report, based on Members responses to the *Phase 1 Scorecards*, and reflecting further interviews by the Secretariat with each member in Q1 and Q2 2015.

This *Members Implementation and Reporting Obligations (MIRO) | Progress and Conformity Review Report* is a public report that:

- provides insight into how members are putting into practice the commitments they made when joining Bettercoal and presents a set of findings and recommendations on how members can progress meeting their commitments
- contains Bettercoal Secretariat's view on how Regular members have undertaken their obligations and whether there is reason to believe the information is not accurate, consistent, relevant or timely.

The report is part of Bettercoal's commitment to disclosure and transparency.

MIRO is phased and progressive and indicators included in the phases aim to reflect maturity of Bettercoal and pace of implementation. In subsequent phases of the MIRO the Phase 1 indicators will be supplemented with additional indicators. For additional details of the indicators, please refer to the template Phase 1 Scorecard in Annex 1 of this document.

## Disclaimer

Bettercoal publishes occasional papers as a disclosure of the progress of its activities or the activities conducted by its members. Bettercoal maintains a policy of not acting as a representative of its membership. This report has been prepared by the Bettercoal Secretariat and the conclusions and views represented therein are those of the Secretariat.

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<sup>1</sup> Coal supply chain refers to business activities in the coal supply chain from extraction over cleaning, warehousing, trading and transportation.



## Introduction

This Conformity Review expresses Bettercoal Secretariat's opinion on how Bettercoal's Regular members meet and implement their reporting obligations. The report consists of two parts, the Conformity Review, and Findings and Recommendations.

## Conformity Review

Upon joining Bettercoal, Regular members make specific commitments defined in the Bettercoal Articles of Association. These commitments include, to publicly endorse Bettercoal and to apply the Bettercoal Code and Bettercoal tools in due diligence processes, which includes engaging and collaborating with coal suppliers. Regular members who own or control coal mines themselves have additional commitments.

The implementation of the commitments is key to the success of Bettercoal. These commitments are designed to help achieve Bettercoal's mission. Furthermore, implementing Bettercoal's commitments is the basis for:

- The credibility of Bettercoal vis-à-vis stakeholders: internal and external stakeholders should be able to understand how Bettercoal members implement the Bettercoal Code and tools and how this influences their business practices to improve the social, environmental and ethical performance of their coal supply chains.
- The legitimacy of Bettercoal vis-à-vis suppliers: The success of Bettercoal relies on the collaboration of suppliers to complete self-assessments, site-assessments, and implement corrective action plans. In the absence of demonstrable progress in member's implementation, suppliers will be less convinced of members' commitment and of the need and value of collaborating with Bettercoal.
- The integrity of Bettercoal: If one member is found not to honor its commitments to implement Bettercoal's Code, this will affect the integrity of Bettercoal as a whole and its individual members. Bettercoal must aim to reduce the risk of "free riders."

As a result of the importance of compliance, as well as to provide disclosure and transparency on the performance of Regular members, the Bettercoal Board of Directors asked the Secretariat to undertake an annual Conformity Review as well as to present the findings in a public report. This Review will benefit from input from the Bettercoal Stakeholder Panels, notably the Civil Society Panel. As members progress, they will be required to report on additional indicators, to be further developed for the next phases of MIRO.

## Methodology

The basis of the Conformity Review is the completion of a MIRO Scorecard; refer to Annex 1. Each member completes a MIRO Scorecard, capturing information on progress against each of the indicators developed to measure performance. In addition to providing information in the MIRO Scorecard, each member is requested to provide additional information, including evidence as appropriate to support the reporting.

In March 2015 the Bettercoal Secretariat requested Regular members to complete the MIRO Phase 1 Scorecards.

Once the members shared their completed Scorecards with the Secretariat, interviews were conducted with representatives of each Regular member. The purpose of these interviews was to:

- explain each indicator where needed
- ask questions if greater clarity was needed from members
- ask for relevant evidence (for example, review a copy of the defined procedure, review the public statement endorsing Bettercoal)
- discuss good practices, member needs for support and challenges

Following the interview, the Secretariat and the member agreed on a final version of the individual Scorecards. The indicators of the MIRO Scorecard cover activities in 2014. However, activities at the end of 2013 and during Q1 2015, were also taken into account.

Each MIRO Scorecard was considered finalized once Regular members completed the MIRO Scorecard, the interview had been conducted and follow up aimed at informing the Conformity Review had been done. The Secretariat has not sought confirmation of the information other than what has been communicated by the Regular members' representatives themselves.

The Secretariat gathered information in the following way:

- reviewing the information included in the individual Scorecards to check relevance, accuracy and consistency, in particular for the scope of the commitment, the due diligence procedures and the quantitative indicators
- reviewing the evidence provided by Regular members to check individual processes and performance included in the Scorecards, against the recommended activities to implement the commitments.
- spot checking the information with Bettercoal records (meeting minutes, emails, etc.) and with publicly available information referred to by members, when relevant
- aggregating the above information

The Conformity Review was undertaken on the basis of the following criteria.

1. MIRO Phase 1 Scorecards  
These included detailed sections: Instructions, Definitions of terms used, Recommended Activities and Definition of data entry/Instructions for each specific indicator to guide the completion of the Scorecard.
2. Applicability  
Information provided by Regular members was reviewed only where applicable. This had particular impact in the review process of KPI 7.1. and 7.2 as presented below. For members who own or control coal mines themselves, these indicators are not applicable.
3. Calculation methods.  
To calculate the three quantitative indicators (expressed in % - share of tons of coal) for each individual Scorecard the Secretariat collected the information as follows:
  - a. KPI 5.1 and 7.1 below represent information collected at denominator and nominator level.  
The Secretariat applied the percent to the deriving ratio
  - b. KPI 5.2 below represents information collected at percentage level.

## Opinion of Conformity

Based on the data and information provided by the Regular members and after the Conformity Review process, the Bettercoal Secretariat concludes there is no reason to believe that the MIRO Phase 1 Scorecards assertions are not accurate, consistent, relevant or prepared in accordance with the criteria for the Conformity Review. In general, believe that the information provided is a fair representation of progress made towards implementing the Bettercoal commitments.

Nonetheless, it is worth noting the following.

1. Review of draft procedures of Regular members that are work in progress  
In three cases the Secretariat has not performed a review of draft procedures of Regular members that are work in progress. This has impacted the following Indicators: KPI 4.1, KPI 4.2 and KPI 7.2 in the Scorecards of the Regular members where there is a plan or process to implement the actions described under these KPIs.
2. Overall data accuracy  
In two cases the Bettercoal Secretariat has found minor errors in the information provided due to scope limitation or incomplete data communicated to the Bettercoal Secretariat. This impacted the following Indicators: KPI 5.1, KPI 5.2 in the Scorecards of the Regular members.

## Findings and recommendations

### Overall Findings

All Regular members of Bettercoal have taken actions towards implementing the Bettercoal commitments. There are many examples of good practice, and members can benefit from sharing these experiences.

The Secretariat has found that some members have made more progress than others towards implementing their commitments. The Secretariat has also found that members may interpret the commitments laid out in the Articles of Association in different ways, and there are areas for improvement where members can further implement their commitments.

The Secretariat recommends that Bettercoal clarifies minimum requirements for abiding with member commitments.

### *Secretariat Recommendations for members*

The Secretariat identified recommendations for improving compliance. These recommendations are:

- Members that implement the Bettercoal Code in only part of their coal supply chain should clarify the scope of their commitment in the public statement.
- Members should continue frequent and active attendance and make constructive contributions to Board meetings, working groups and taskforces.
- Members should define and implement a process for assessing/screening suppliers on their ethical, environmental and social performance, integrating the results thereof in their coal purchasing due diligence process.
  - This due diligence process should be formalized in a written procedure;
  - Information provided in the Bettercoal Assessment Database and other Bettercoal tools (e.g. dashboard) should be considered in the due diligence process;
  - Members should define clear roles and responsibilities for implementation of the due diligence process;
- Members should continue to actively engage suppliers to adopt and implement the Bettercoal Code, including:
  - Follow-up with mines that have non-completed self- and site assessments to request that they complete such assessments;
  - Communicate to all new suppliers the requirements of Bettercoal and the Bettercoal Code through a written communication, including requesting suppliers to complete a self-assessment and be available for a site assessment if requested;
  - Present Bettercoal in supplier engagement events (e.g. supplier days, visits, etc.).
- Members that have majority participation in coal mines should consider carrying out self-assessments, site assessments for mines, and develop continuous improvement plans based on the Bettercoal Code.

Bettercoal also invites members to implement the following actions:

- Strengthen the public statement by explicitly stating that they “embrace the Bettercoal Principles,” and that they will implement Bettercoal in their coal supply chain management and coal purchasing due diligence.
- Take a leadership role to drive specific Bettercoal workstreams or taskforces, thereby increasing ownership and providing additional resources.
- Proactively promote Bettercoal and the Bettercoal Code with key stakeholders.
- With regards to the members individual due diligence processes, Bettercoal also invites members to consider:
  - Establishing a procedure to review existing suppliers on a regular basis, thus accounting for changes in suppliers’ performance and/or presentation of new information available in the Bettercoal Database;
  - Defining a clear escalation procedure in case critical information arises on a supplier;
  - Separating the roles of those conducting the due diligence and those purchasing the coal;
  - Regularly reviewing the effectiveness of the due diligence process;
  - Establishing mechanisms including through performance Scorecards that promote the effective and efficient implementation of the Bettercoal Code and tools.
- Members that have minority participation in coal mines can consider establishing a dialogue with joint venture partners to promote the Bettercoal Code and tools.

## Detailed findings

### **Commitment 1 | To publicly endorse Bettercoal including its vision, mission and standards upon admission to membership and thereafter as appropriate**

#### *KPI 1.1 | Public statement endorsing Bettercoal*

All Regular members have issued a public statement endorsing Bettercoal. The public statement features on the member's website or annual publication such as the annual report or the corporate responsibility report. In general, in their public statement, members state that they are members of Bettercoal and explain the mission and objectives of Bettercoal. Three members explicitly state their commitment to implement Bettercoal into their coal supply chain management or coal purchasing due diligence.

In 2014, eight out of eleven members made a commitment to implement Bettercoal in all their coal operations, while three members made a commitment to implement Bettercoal in some of their coal operations. For those members that made a limited commitment, focus is on European imports of coal, excluding coal that is sourced and burnt outside of Europe, or on hard coal, excluding lignite coal.

#### *Recommendations for improvement*

Members can strengthen their public statement by explicitly stating that they "embrace the Bettercoal Principles," and that they commit to implement Bettercoal in their coal supply chain management and coal purchasing due diligence.

Members that implement Bettercoal in part of their operations should clarify the scope of their commitment in a public statement.

### **Commitment 2 | To participate and contribute to the collective action of Bettercoal**

#### *KPI 2.1 | Attendance at Bettercoal meetings (in %)*

In 2014, the Board of Directors had eight members and held seven meetings. The average rate of attendance at Board meeting stood at 95 percent. This rate takes into account the participation of a representative of the Board Director in observer status if the Board Director or the Alternate Director were unavailable.

The Members Working Group<sup>2</sup> had eleven members and held five meetings in 2014. The average rate of attendance stood at 82 percent.

#### *KPI 2.2 | Number of working groups in which the members participate*

There were five working groups and taskforces in 2014. On average, members participated in 3.2 working groups or taskforces.

#### *Recommendations for improvement*

Members should continue strong attendance and constructive contributions at Board meetings, working groups and taskforces.

Members are reminded that they have the opportunity to take a leadership role to drive specific Bettercoal workstreams or taskforces, thereby increasing ownership and providing Bettercoal with additional resources.

### **Commitment 3 | To recognize and promote the Bettercoal Code as a standard for social, environmental and ethical performance in the coal supply chain**

#### *KPI 3.1 | Support Bettercoal and promote the Bettercoal Code in public debate*

In 2014, nine of the eleven members promoted Bettercoal in the public debate. The level of effort to support and promote Bettercoal in public debate was often linked to specific local public debate on

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<sup>2</sup> The Members Working Group is made up of Bettercoal members the leads the implementation of the member commitments and any other matter related to Regular members.

corporate responsibility in the coal supply chain. When members had the opportunity to participate in dialogue with stakeholders such as governments, advocacy NGOs and journalists on ethical, social, and environmental conditions in the coal supply chain, members highlighted Bettercoal as the solution to advance corporate responsibility in the coal supply chain.

### ***Recommendations for improvement***

Members can promote Bettercoal and the Bettercoal Code on a proactive basis with their key stakeholders.

## **Commitment 4 | To implement the Bettercoal Code and Bettercoal tools in the due diligence processes in the coal supply chain**

### ***KPI 4.1 | Bettercoal Code and tools are included in coal supplier due diligence written procedure***

Of the eleven members, six included the Bettercoal Code and tools in a relevant due diligence written procedure, three members are in the process of doing so, and two members have not.

Of the nine members that have included or are in the process of including the Bettercoal Code and tools in their relevant due diligence procedure, six members are including it in their overall due diligence procedure such as their *Know Your Customer* or *Counterparty Risk Assessment Procedure*, and three members are including it in a standalone procedure focused on social, environmental and ethical due diligence.

### ***KPI 4.2 | Process for assessing/screening direct suppliers of coal on environmental, social and ethical performance, is established with relevant procedures, roles, responsibilities, and training***

#### **Process to assess and screen direct suppliers of coal**

Of the eleven members, five established a process, with defined procedures, roles and responsibilities, to assess and screen direct suppliers of coal on their environmental, social and ethical performance, and integrate the results of Bettercoal assessments in this process. In addition, three members are currently defining such a process; and three members have not defined such a process.

Out of the five members that have a defined process for assessing and screening direct suppliers of coal using the Bettercoal tools, three members have included Bettercoal in their overall due diligence procedure such as their *Know Your Customer* or *Counterparty Risk Assessment Procedure*. In this case, the environmental, social and ethical performance of the supplier is assessed alongside other information such as financial and credit information. In addition, two members have included Bettercoal in a standalone procedure focused on social, environmental and ethical due diligence.

In their due diligence process, members may consider information in the Bettercoal Assessment Database in addition to other sources of information, such as other informational databases, websites or general web searches.

Of the members that have not established a process integrating Bettercoal in their coal purchasing due diligence:

- One member has established a process but it is not formalized in a procedure;
- Two members have not established a process but commit to use the available information during their coal purchasing process.

#### **Defining clear roles and responsibilities for implementing the process**

The responsibility for assessing suppliers on their ethical, social and environmental performance and reviewing the results of the Bettercoal assessments may lie with the sustainability or corporate responsibility team, the compliance office, or the coal trading team. In some cases, the coal trading team only receives the final decision of approval/rejection of the supplier, but is not involved in the assessment phase. In other cases, the coal trading team is responsible for assessing the ethical, social and environmental performance of the supplier.

Three members have established a multi-disciplinary or high level committee tasked to review any critical information or 'red flag' that may emerge from the initial supplier due diligence and provide a final decision on the course of action that the company will take with the supplier. These members have defined a clear 'escalation' process, escalating the decision on the course of action that the member will take with the supplier to the committee.



## Awareness raising & training

To raise awareness of staff accountable for implementing Bettercoal, members generally rely on internal meetings and periodic activity reports. One member has conducted a formal training of staff involved through a workshop series.

Needs for formal training delivered by the Secretariat on the Bettercoal Code and tools vary between members. Regular members that have established procedures that involve staff from various departments (e.g. compliance, trading, legal, communications, etc.) have expressed a stronger need for training.

## Other activities to implement the Bettercoal Code and tools in their due diligence processes

Some members include the Bettercoal clause in contracts with direct suppliers. The Bettercoal clause requires suppliers to acknowledge the Bettercoal Code and to carry out a self-assessment. While some members report their suppliers have not accepted to include the Bettercoal clause in the contracts, three members report that they have successfully achieved this for some contracts. Including the Bettercoal clause in contracts does not prevent members from including other clauses laying out their own ethical requirements. These "ethics" clauses may for example define the specific minimum requirement for suppliers or clear expectations around continuous improvement.

## Recommendations for improvement

All members should define and implement a process for assessing/screening suppliers on their ethical, environmental and social performance, integrating the results thereof in their coal purchasing due diligence processes.

- This due diligence process should be formalized in a written procedure.
- Information provided in the Bettercoal Assessment Database and other Bettercoal tools (e.g. dashboard) should be considered in the due diligence process.
- Members should define clear roles and responsibilities for staff accountable to implement the due diligence process.

Members should also consider to:

- Establish a way to review existing suppliers on a regular basis, thus regularly checking for new information available in the Bettercoal Database;
- Define a clear escalation procedure in case critical information arises on a supplier;
- Separate the roles of those conducting the due diligence and those purchasing the coal;
- Review the effectiveness of the process after a defined period of time;
- Include a specific target in personal scorecards of staff accountable for implementing Bettercoal.

## Commitment 5 | To implement the Bettercoal Code in the coal supply chain through engagement and collaboration with coal suppliers and the use of Bettercoal tools;

### KPI 5.1 | Share of total coal purchased covered by formal engagement on Bettercoal

Share of total coal purchased covered by formal engagement on Bettercoal	%  - Average of individual Regular members data	56%
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In 2014, on average 56% of the total coal purchased by Bettercoal members was covered by members' formal engagement. KPI 5.3 below defines 'formal engagement' and describes the way it was conducted during the reporting period.

For the purpose of this indicator, total coal purchased is defined as coal that is supplied for end-use by the member, during the reporting period.

### KPI 5.2 | Share of directly purchased coal covered by formal engagement on Bettercoal

Share of directly purchased coal covered by formal engagement on Bettercoal	%  - Average of individual Regular members data	63%
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In 2014, on average 63% of the directly purchased coal was covered by members' formal engagement. KPI 5.3 below defines 'formal engagement' and describes the way it was conducted during the reporting period.

For the purpose of this indicator, directly purchased coal is defined as coal that is supplied for end-use of the member through direct contracts with mine operators or the sales arm/trading department of the mine operator. Direct contracts are contracts with mine operators or the sales/trading department of the mine operator; when signing the contract the mining area that will deliver coal as specified.

### ***KPI 5.3 | Ways of formal engagement with suppliers***

Formal engagement on Bettercoal is defined as engagement with suppliers that is verifiable and traceable (i.e. an electronic or paper written communication, meeting records, etc.). Formal engagement with the suppliers is aimed to promote awareness and the suppliers' participation in the Bettercoal Assessment program.

In 2014, almost all members had led a formal engagement with their suppliers on Bettercoal. Ten of the eleven Regular members of Bettercoal sent a letter introducing Bettercoal. Some members engaged with suppliers identified by the Secretariat as non-responsive suppliers<sup>3</sup>. Members also promoted Bettercoal and asked suppliers to join the Bettercoal Assessment Program during meetings with suppliers, coal contract negotiations and at coal conferences. Although these meetings are not considered as "formal engagement" as there is no verifiable track record, they remain very important to promote Bettercoal among suppliers.

Some members promote Bettercoal among their domestic suppliers, and request their domestic suppliers complete self-assessments.

### ***Recommendations for improvement***

Members should:

- Follow-up with mines that have not completed self and site assessments to request that they complete these;
- Communicate to all new suppliers the requirements of Bettercoal and the Bettercoal Code through written communication, including request to complete a self-assessment and be available for a site assessment if requested;
- Present Bettercoal in supplier engagement events (e.g. supplier days, visits, etc.).

### **Commitment 6 | To provide information for the purposes of the Bettercoal's annual report**

There is no KPI defined for this commitment.

### **Commitment 7 | For members who own or control coal mines themselves**

- **Recognize the importance of maintaining standards that align with the Bettercoal Code in owned or controlled coal mining operations;**
- **Recognize the importance of using the Bettercoal Code and tools in the process of continuously improving the social, environmental, and ethical performance of owned or controlled coal mining operations;**
- **Recognize the importance to the overall success of Bettercoal of maintaining social, environmental and ethical performance in owned or controlled coal mining operations aligned with the Bettercoal Code.**

### ***KPI 7.1 | Share of hard coal produced in mines owned or controlled that have undergone a Bettercoal assessment.***

Share of hard coal produced in mines owned or controlled that have undergone a Bettercoal assessment	%	100%
	- Average of individual Regular members data	

There is only one Regular member that owns and controls a hard coal mine and the member has completed a Bettercoal self-assessment of its hard coal mine.

<sup>3</sup> Non responsive suppliers are suppliers that do not engage with Bettercoal, despite significant efforts by the Bettercoal Secretariat.

***KPI 7.2 | The member is in the process of implementing the Bettercoal Code and tools in its owned and controlled lignite mines.***

Three out of four members are in the process of implementing the Bettercoal Code and tools in owned and controlled lignite mines. Some members are conducting self-assessments in their owned and operated mines, while others plan to conduct site assessments.

***Recommendations for improvement***

Members that have majority participation in coal mines should consider:

- carrying out self-assessments and site assessments (where needed) for mines;
- develop continuous improvement plans based on the Bettercoal Code.

Members that have minority participation in coal mines can consider establishing a dialogue with joint venture partners to promote the Bettercoal Code and tools.

## ANNEX 1 | Phase 1 Scorecard

Bettercoal   Member Implementation & Reporting Obligations Scorecard		bettercoal defining standards.refining practice	
Phase 1   YTD 2014			
<b>Scorecard</b>			
Key Performance Indicator	Metric	Result	
To publicly endorse Bettercoal including its vision, mission and standards upon admission to membership and thereafter as appropriate			
Public statement on endorsing Bettercoal	Y/N		
	free text	Scope of the commitment	
To participate and contribute to the collective action of Bettercoal;			
Attendance at Bettercoal Board of Directors meetings	%		
Attendance at Bettercoal Members Working Group meetings	%		
Number of working groups in which the member participates	#		
To recognize and promote the Bettercoal Code as a standard for social, environmental and ethical performance in the coal supply chain;			
Support to Bettercoal and promotion of the Bettercoal Code in the public debate	free text		
To implement the Bettercoal Code and Bettercoal tools in the due diligence processes in the coal supply chain;			
Bettercoal Code and tools is included in relevant due diligence written procedure	Y/N		
Process for assessing/screening direct suppliers of coal on environmental, social and ethical performance, is established with relevant procedures, roles, responsibilities, and training	free text	Process to assess/screen direct suppliers of coal	
	free text	Roles and responsibilities	
	free text	Awareness raising and training	
	free text	Others	
To implement the Bettercoal Code in its coal supply chain through engagement and collaboration with coal suppliers and the use of Bettercoal tools;			
Share of total coal purchased covered by formal engagement on Bettercoal	%		
Share of directly purchased coal covered by formal engagement on Bettercoal	%		
Ways of formal engagement with suppliers	free text		
To provide information for the purposes of the Bettercoal's annual report			
No KPI			
<p>For members who own or control coal mines themselves</p> <p>Recognize the importance of maintaining standards in owned or controlled coal mining operations that align with the Bettercoal Code</p> <p>Recognize the importance of using the Bettercoal Code and tools in the process of continuously improving the social, environmental, and ethical performance of owned or controlled coal mining operations</p> <p>Recognize the importance to the overall success of Bettercoal of maintaining social, environmental and ethical performance in owned or controlled coal mining operations aligned with the Bettercoal Code</p>			

Share of hard coal produced in mines owned or controlled that have undergone a Bettercoal assessment	%	
The member is in the process of implementing the Bettercoal Code and tools in its lignite mines owned and controlled.	Y/N	