



GLOBAL Economic Justice REPORT

A Periodical on Global Issues of Economic Justice

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Holding Corporations to Account: New Dimensions of a Growing Movement

LARGE CORPORATIONS ARE POWERFUL ACTORS IN CANADA AND INTERNATIONALLY. THEIR ACTIVITIES impact on the well-being of millions of people and on natural environments. Canadian churches have a long tradition of challenging corporate activities which contribute to social injustice, violations of human rights, increased militarism and ecological destruction.

Individual citizens have extensive links to corporations. They are workers and employers, customers, consumers and shareholders. They are part of the communities, countries, and world in which corporations operate. Churches and religious communities, as collective entities, also have a significant relationship with corporations as shareholders through their pension and endowment funds. As investors, faith-based communities have been at the forefront of an ever-growing movement (both nationally and internationally) which is demanding that corporations are called to account.

A Short History of Canadian Church Involvement

Over the past 30 years, Canadian churches have sharpened their awareness of the social, economic and environmental impacts of corporate activity and of their shared responsibilities as investors in these enterprises. During this period, Canadian churches became pioneers in the area of corporate social responsibility and active shareholdership.

The ecumenical Taskforce on the Churches and Corporate Responsibility was formed in 1975, largely in response to the apartheid system in South Africa. Over the years, the work expanded to Canadian military exports, international loans and debt, and questions about corporate governance. In recent years, ecological concerns have frequently been linked with work on corporate responsibility in such areas as acid rain, lead in gasoline, nuclear power, sustainable forestry practices and climate change. At times, as well, environmental concerns have intersected with threats to the rights of indigenous peoples and the churches have worked with local Aboriginal groups to address those as well.

The churches were constrained in their ability to engage in shareholder advocacy by various provisions of the *Canada Business Corporations Act* until changes were made to this legislation in 1980. New provisions permitted minority shareholders to place a resolution for formal debate and vote on the agenda of an Annual General Meeting. Taking advantage of this change, the member churches of the Taskforce were the first investors in Canada to submit a social justice shareholder proposal with Alcan Aluminium Ltd. in 1982.

Over the years, as socially responsible shareholders, the

churches have dialogued with senior corporate management in an effort to persuade management and board directors to change policies or practices of the corporations they govern. When these efforts have proven ineffective, direct shareholder action has been employed. Twenty-five years ago this work was ground-breaking and vigorously resisted by managers and directors, and even by individual church members.

Today, pension funds (private and public sector), mutual funds with social and environmental criteria (usually referred to as socially responsible investing or SRI), unions, charitable foundations and investment funds of public institutions (universities and hospitals) engage in active shareholdership on matters of corporate social responsibility and accountability. This movement represents an estimated \$51.4 billion in socially responsible investment in Canada,¹ a relatively small figure as compared with over US\$2.1 trillion in invested portfolio value under SRI-managed criteria in the United States.²

Through the Corporate Social Responsibility desk of KAIROS, this work continues. In 2003, for example, KAIROS assisted several religious communities in filing a shareholder proposal with Imperial Oil on the issue of climate change risk. This was the first proposal of its kind to be brought in Canada and attracted significant media attention and support by minority shareholders. Given that climate change continues to pose one of the major ecological justice issues of our day, KAIROS CSR work continues to focus on it.

This issue of *Global Economic Justice Report* looks at some of the important developments in the rapidly changing field of area of corporate responsibility and accountability and highlights some of the initiatives KAIROS is undertaking. ❖

Climate Change and Investment Risk

GLOBAL CLIMATE CHANGE HAS BEEN OF CONCERN for the Canadian ecumenical community for more than a decade. The focus of the work on this issue has, and continues to be, an ethical one which looks at the impact that climate change will have on Southern countries and future generations. Another aspect of global climate change is now emerging, however, as it presents risks to be considered both by corporations and institutional investors.

These risks fall into two broad categories:

- 1) the exposure of companies that emit greenhouse gases to an expanding web of governmental restrictions that are being developed around the world;
- 2) the risk that some sectors and businesses face from the direct physical impacts of climate change.

In Canada's North, for example, winters have already warmed at least 8° Fahrenheit since the mid-1960s. This is affecting transportation (roads are collapsing with the melting permafrost); forestry (beetles that no longer die in winter are putting timber assets at risk); and petroleum (oil companies that used to be able to start hauling heavy equipment across the tundra in November now have to wait until January for adequate snow cover).

Global climate change presents a risk to the future profitability of energy-intensive industries. The Organization of Petroleum Exporting Countries, the World Economic Forum, the World Petroleum Congress, the World Energy Council and many energy companies (BP, Shell, for exam-



CSR Staff Nancy Palardy with David Hallman of the United Church of Canada at the Imperial Oil Shareholders Meeting

ple) all recognize the growing importance of climate change risk. Other industries, such as asset managers and insurance firms, are also raising concerns. As climate change continues apace, significant weather events will result in future risks. According to Munich Re (a large re-insurance company), “natural disasters” caused \$55 billion in damages in 2002.

In response to these growing perceived risks, a group of 35 major institutional investors (representing assets in excess of US\$4.5 trillion) released a groundbreaking report entitled the *Carbon Disclosure Project* (CDP), a survey of the 500 biggest global companies. The report, the largest survey ever to assess and provide hard data regarding the financial exposure to climate change, found that while 80% of respondents acknowledge the importance of climate change as a financial risk, only 35% to 40% were taking action to address the risks and opportunities.

Pension funds and other large institutional investors internationally are raising questions as to how climate change will impact their investments. Two years ago, the UK Universities Superannuation Scheme released a significant discussion paper entitled “Climate Change — A Risk Management Challenge for Institutional Investors.”³ In November 2003, 16 major institutional investors in the UK and elsewhere, who have formed the Institutional Investors Group on Climate Change, held a major one-day conference in London entitled “Managing the Risks and Profiting from the Shift to a Lower Carbon Economy”.

In the United States, an increasing number of institutional investors are raising questions regarding the connection between climate risk and fiduciary responsibility. They are concerned that many companies in which their funds are invested have not publicly disclosed, or possibly even considered, the material risk to which they may be exposed. On November 21, 2003, an historic meeting of institutional investors and other leaders was held at the United Nations in New York City to examine the relationship between climate change and long-term portfolio risk.⁴ At this meeting, there was a strong recognition that not only do clean energy alternatives need to receive increased financial investment, but also that governmental actions to limit greenhouse gas emissions must be supported.

In Canada, with the ratification of the Kyoto Protocol, energy-intensive industries are becoming aware of the need to disclose climate change risk. But awareness of the issue is still at a very nascent stage in the institutional investment community. In 2003, shareholder resolutions on climate change risk were filed with four Canadian companies (IPSCO, Petro-Canada, EnCana and Imperial Oil).⁵ These were the first such proposals brought in Canada and very few institutional investors provided support for these calls for increased climate change risk disclosure. None of the 35 institutions supporting the Carbon Disclosure Project in 2002 were Canadian.⁶ ❖

The Global Reporting Initiative⁷

OVER THE YEARS, INVESTORS IN CORPORATIONS have come to depend upon the financial information provided in company annual reports. While recent accounting scandals in the United States (such as Enron and Worldcom) have led to serious questions regarding the accuracy of such information, there does exist generally accepted accounting and reporting frameworks which allow for increased uniformity and comparability.

The same cannot be said when investors (and other stakeholders) peruse the environmental and sustainability reports produced by corporations. Sustainability reports lack the features that could make them broadly useful: credibility, consistency, and comparability. Although more than 2,000 companies have voluntarily published environmental, social, or sustainability reports, they are not comparable and many fail to address the full spectrum of stakeholder interests and concerns. The Global Reporting Initiative (GRI) was developed to address this gap.

What Is the GRI?

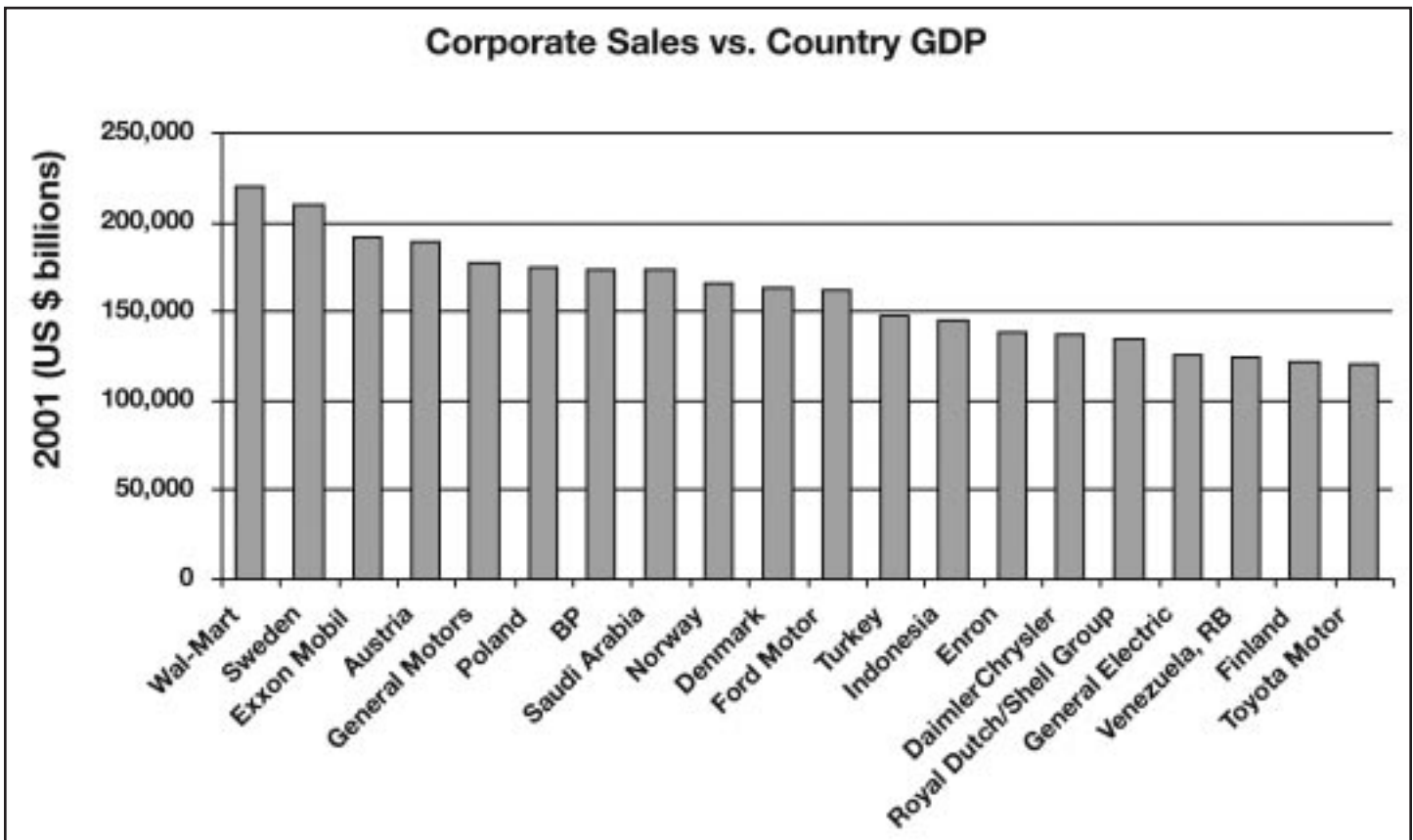
Jointly launched in 1997 by the Coalition for Environmentally Responsible Economies (CERES), a U.S. non-governmental group, and the United Nations Environment Programme, the GRI undertook the development of globally applicable guidelines for reporting on the economic, environmental and social

performance of corporations. The plan was to then expand these guidelines so they would be applicable to any business, governmental or non-governmental organization. It was believed that the development of such guidelines would enhance the quality, rigour, and utility of sustainability reporting.

The GRI's Sustainability Reporting Guidelines, initially released in draft form in March 1999, were revised and re-released in June 2000 after a period of intensive pilot testing, comments, and revisions. The most recent version was released in mid-2002, following two years of further testing and refinement by hundreds of companies, civil society organizations and others. Over 10,000 stakeholders have been engaged and workshops have been held in numerous countries around the world.

Although the guidelines are not mandatory, organizations can use them to report on the economic, environmental, and social dimensions of their activities, products, and services. The GRI incorporates the participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organizations from around the world.

The 2002 Sustainability Reporting Guidelines provide a general framework for use by organizations of all sizes and types, operating in any location. Recognizing that a 'one-size-fits-all' approach may be limited, the GRI is now developing guidelines to be applied on an industry-by-industry



Source: Updated from Sarah Anderson and John Cavanagh, Field Guide to the Global Economy (New Press, 2000).

basis. This 'industry approach' to reporting is seen by many as the most effective means of setting a measure against which individual companies can gauge their progress and set targets to strive toward.

Why Was the GRI Necessary?

Increased demands for corporate transparency and accountability, particularly within our increasingly globalized world, are a key driver towards the development of more comprehensive disclosure frameworks.

Non-governmental organizations are one of the significant groups which monitors corporate social responsibility reports of corporations. A recent survey revealed that the majority of such organizations are skeptical about the contents of these reports. Factors that boost confidence in CSR reporting include comprehensive performance metrics, third-party certification, and standardization of reporting.⁸ It is with regard to this final component that the GRI is primarily focused.

The GRI is now a permanent, independent organization with a Board of Directors and global headquarters in Amsterdam, Netherlands. Broadly representative advisory groups on policy and technical issues ensure that the GRI's core values of inclusiveness and transparency are sustained. The Secretariat coordinates and implements the Board's plans and advisory groups' work.

Who Participates in the GRI?

The GRI is open to all individuals and organizations with an interest in sustainability reporting. More than 3,800 individuals from 77 countries, representing corporations, governments, non-governmental organizations, consultancies, accountancy organizations, business associations, rating organizations, universities, and research institutes are in the

Fact File on Corporations

% of total global economic activity of largest 200 corporations:	28
% of total global workforce employed by largest 200 corporations:	<1
% of profit increase of 200 largest corporations 1983-1999:	362.4
Number of 100 largest economies which are corporations:	52
% of control of industry of ten largest corporations	
Telecommunications	86
Pesticides	85
Computer	70

(Sources: Institute for Policy Studies, UN Human Development Report, CCPA Monitor May 2002)

GRI network. They contribute to the ongoing development of the Guidelines and related materials.

While these numbers may sound impressive, they need to be put in perspective. Of the 50,000-odd multinationals and millions of smaller companies in operation globally today, a mere 340 organizations adhere to the Guidelines. Of the millions of companies that are in operation, approximately 2,000 are producing sustainability reports — an increase of 1,000 over the last six years.⁹

Critiques of the GRI

A key assumption underpinning the GRI is that increased disclosure of corporate environmental and social performance will strengthen the call for improved conduct and practices by companies 'on the ground'. While increased disclosure is a key element in changing corporate conduct, it alone is insufficient. Changes in corporate policies and codes of conduct that bring about actual 'on-the-ground' compliance with international human rights and labour standards¹⁰, global environmental expectations, and so on, are essential. This requires both internal monitoring of corporate compliance with such codes, as well as external audits and third-party, independent monitoring of company claims.

A further critique relates to the reliability of third-party auditors that provide assurance on sustainability reports. Clearly their role is pivotal to the validity of any reports that are published. While there has been a marked growth in the number of individuals and organizations providing assurance on reports, the level of credibility attached to each varies widely.

In a recent GlobeScan survey, it was reported that 75% of experts felt that third-party verification adds the most credibility to corporate environmental and social performance reports. Fifty-five per cent of experts and 48% of environmental and social justice organizations said that verification by (1) independent experts and (2) university scientists added the most credibility to such reports. Financial auditing firms (i.e., certified public and chartered accountants) — which have been increasingly taking on this role — were ranked third in terms of adding credibility to such reports. ❖

GLOBAL Economic Justice REPORT

The Global Economic Justice Report is a publication of KAIROS: Canadian Ecumenical Justice Initiatives. KAIROS is a coalition of Canadian churches, church based agencies and religious organizations dedicated to promoting human rights, economic justice, peace and viable human development.

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UN Human Rights Norms for Transnational Corporations

AT ITS FIFTY-FIFTH SESSION HELD IN AUGUST 2003, the UN Sub-Commission on the Promotion and Protection of Human Rights unanimously approved a set of Norms outlining the Responsibilities of Transnational Corporations (TNCs) and other business enterprises in relation to the respect and protection of human rights.

Non-governmental organizations, such as Amnesty International and Christian Aid, have expressed their public support for these Norms and see them as a useful tool in their continuing work on corporate social responsibility. The hope of some activists is that the UN document can become the basis of an enforceable code of conduct that will protect individuals and communities from rights violations by private businesses.

Historically, international human rights law has focused on state responsibilities. While international law does place some obligations on businesses, there has been a growing sense that the scope of such obligations needs to be clarified. As transnational corporations have expanded their power and reach in the world, many actors have been calling for increased responsibilities to be placed on them. Such clarification has been provided by these Norms (along with a Commentary on the Norms) as they pull together into one document the key international human rights laws, standards, and best practices which are applicable to all businesses.

The Norms set out a range of obligations of business in relation to the respect and protection of human rights as well as measures on how they should implement them. While the Norms recognize that states have the primary responsibility to promote and ensure respect for, and the protection of, human rights, TNCs and other business enterprises as 'organs of society' are also responsible for promoting and securing the human rights set forth in the Universal Declaration of Human Rights. In addition to the Universal Declaration and the key human rights treaties, the Norms draw from and restate the relevant principles from a wide range of labour, environmental, consumer protection, anti-corruption treaties, as well as from other international instruments.

The Norms take note of the fact that while corporations have the capacity to "foster economic well-being, development, technological improvement and wealth", they also have the "capacity to cause harmful impacts on the human rights and lives of individuals through their core business practices and operations, including employment practices, environmental policies, relationships with suppliers and consumers, interactions with Governments and other activities."

Many multinational corporations, because of the extent of their impact on communities and the environment, have come under pressure to abide by voluntary codes of conduct,

such as those promoted by the UN Global Compact or groups like the Fair Labor Association in the United States. Voluntary codes, however, have not always proved satisfactory. The Norms attempt to address this by stating that all companies should be required to abide by basic human rights principles codified in treaties and conventions. In that respect, therefore, they provide the basis for a binding international instrument on corporate responsibility.

There have been some criticisms of the Norms. In particular, it has been pointed out that the Norms fail to mention how responsibility for violations would be apportioned among multinationals, their affiliates, sub-contractors and suppliers. As well, some feel that the civil and penal responsibilities of executives, whether they are managers, board members of or administrators, should be spelled out. For the business community, it is felt to be problematic that a UN body should be able to sanction non-complying companies.

At its meeting in August 2003, the Sub-Commission forwarded the proposed Norms for consideration and adoption at the next Commission on Human Rights (CHR) meeting which will be held in the spring of 2004. At this meeting, states will be able to comment on the proposed Norms and take appropriate action, such as establishing an open-ended working group to study (and possibly negotiate) the Norms.

The Sub-Commission is a body of the UN Commission on Human Rights (CHR) and is comprised of 26 experts who act in their personal capacity. The Sub-Commission's function is to undertake research studies and its members, while nominated by governments and elected by the CHR, serve in their personal capacities. At meetings of the Sub-Commission, states (along with intergovernmental organizations and NGOs) are merely observers and most simply listen to what the experts have to say on a particular topic. Canada has limited its role at the Sub-Commission to that of an observer and has not commented on the draft Norms. Accordingly, the Canadian government has not taken a position on the proposed Norms. While an analysis of them has begun, the government will be consulting prior to the next meeting of the Commission on Human Rights.

For More Information

"New guidelines on TNC responsibilities adopted," *Third World Economics* 16 - 31 August 2003, pp.16-17.

Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights E/CN.4/Sub.2/2003/12/Rev.2
[www.unhchr.ch/Huridocda/Huridoca.nsf/\(Symbol\)/E.CN.4.Sub.2.2003.12.Rev.2.En?Opendocument](http://www.unhchr.ch/Huridocda/Huridoca.nsf/(Symbol)/E.CN.4.Sub.2.2003.12.Rev.2.En?Opendocument) ❖

Spotlight on a Canadian Company: Gildan Activewear

GILDAN ACTIVEWEAR IS A MONTREAL-BASED T-shirt manufacturer which, although perhaps not a household name, is “a rapidly growing manufacturer and marketer of high quality activewear for sale in the wholesale channel of the Canadian, United States and European imprinted sportswear markets.”¹⁵

The Maquila Solidarity Network (MSN) is a Canadian network which works in solidarity with groups in Mexico, Central America, and Asia who are organizing in maquiladora factories and export processing zones to improve conditions and win a living wage for workers. In a global economy, it is essential that groups in the North and South work together for employment with dignity, fair wages and working conditions, and healthy workplaces and communities.

The Ethical Trading Action Group (ETAG) is a national coalition of faith, labour, teacher, student and non-governmental organizations advocating for government policies, voluntary codes of conduct and ethical purchasing policies that promote humane labour practices based on accepted international labour standards. The MSN serves as the secretariat for this coalition and KAIROS is an active member of it.

Why is the MSN concerned with Gildan?

In 2000 and 2001, the Maquila Solidarity Network began hearing about concerns raised by groups in Central America and the Caribbean about Gildan Activewear. Over the course of two years, MSN conducted research and produced a report entitled *A Canadian Success Story? Gildan Activewear: T-shirts, Free Trade and Worker Rights*. In May 2003, the MSN released the 57-page report which focused on working conditions in Gildan wholly-owned and contract factories in Central America and Mexico.

Based on offsite interviews with workers at Gildan's wholly-owned and subcontract facilities in Honduras, El Salvador and Mexico, the report documents mass firings of union members, health and child care issues related to long workdays and the intensive pace of production, inadequate wages and high production targets, and workers' perceptions that urine and blood tests were used to exclude pregnant women. The bulk of the interviews were conducted by the

Honduran Independent Monitoring Team (EMIH), a respected, non-profit, independent monitoring organization that was started by the Honduran Jesuits and a local women's organization with a long history of support for women *maquila* workers' rights.

Two months after the release of the report, Gildan threatened legal action against MSN if it continued to distribute it or information from it. MSN informed Gildan that it stands by the findings and recommendations in the report, and will continue to distribute the publication.

Despite Gildan's claim that it is committed to promoting

and implementing fair workplace standards, recent developments have brought these assertions into question. In early November 2003, the New York-based National Labor Committee (NLC) released a new report on worker rights violations in the AAA Honduras/Alejandro Apparel factory in Choloma, Honduras. According to the NLC, 75% of all production in the factory is for Gildan. According to

this report, 42 workers at the AAA factory have been fired because they were suspected of organizing a union. Workplace problems identified in the report include long workdays, pressure to meet excessively high production quotas, repetitive motion wrist and back injuries, body searches when workers enter and leave the factory, monitoring of bathroom visits, and contaminated drinking water.

In a letter dated November 7, 2003, and addressed to the Chairman and CEO of Gildan, the NLC called on the company to “clearly instruct AAA management that Gildan demands strict compliance with all of Honduras's labor laws, including the right to organize, and to put an end to the atmosphere of fear and intimidation at the AAA factory.”

FTQ Solidarity Fund Withdraws from Gildan

A key organization which has been following the Gildan discussions has been the Quebec Federation of Labour (FTQ) Solidarity Fund. In order to verify the information themselves, the Fund sent two representatives to Honduras to investigate the findings of the MSN/EMIH report. Based on a review of factory records and interviews with factory management and local human rights and labour organizations, they confirmed MSN's and EMIH's findings that 38 workers



were fired for union activity at a Gildan sewing factory in El Progreso, Honduras. The Fund subsequently called upon the company to reinstate the fired workers. The company refused and continues to deny that the findings in the MSN/EMIH report are based on facts.

Due to the company's refusal to reinstate the 38 workers, the Fund announced its intention on November 12 to sell its Gildan shares. The Fund had a representative on Gildan's Board of Directors who will be resigning in protest as well. The Fund, which manages Quebec union members' pension investments, currently owns 2.5 million shares worth approximately \$90 million.

Immediately following the Fund's announcement, Gildan attempted to downplay the sale, and in a November 12 public statement described the firings as "an isolated event involving a small group of workers"

Gildan makes application to the Fair Labor Association

Clearly the attention being paid to Gildan is having an impact. In response to growing pressure from institutional shareholders and customers for verifiable assurances that Gildan workers' rights are being respected, Gildan applied, in October 2003, for membership in the Fair Labor Association (FLA). A U.S. multi-stakeholder labour standards monitoring organization, the FLA involves major U.S. brands, prominent NGOs and faith organizations. On October 22, Gildan was formally accepted as an FLA "Participating Company."

Effectively what the membership means is that Gildan must submit an internal monitoring plan to the FLA for its approval and cooperate with one external audit of one factory per year. Under the FLA, internal monitoring can be carried out by Gildan management personnel; the only auditors that are chosen by the FLA are those that carry out the one-factory-per-year audit.

While the MSN and its coalition partners in the Ethical Trading Action Group view Gildan's decision to join the FLA as a step forward, they are concerned at the length of time it might take before there is a FLA audit of even one Gildan facility. For that reason, MSN is urging the Fair Labor Association to immediately launch, and Gildan to cooperate with, an independent investigation of the alleged worker rights violations at the El Progreso factory, and if the violations are verified, to pressure Gildan to immediately reinstate all workers fired for union activity.

For more information

The Maquila Solidarity Network at www.maquilasolidarity.org

The National Labor Committee report on AAA Factory, at www.nlcnet.org/campaigns/ca03/aaa/aaa.pdf. ❖

KAIROS Workshop on Ethical Investment for the Religious Sector

On October 10, 2003, KAIROS convened a workshop in Toronto designed for church finance officials to explore the concept of ethical (or socially responsible) investment and to provide some tools and guidance as to how to move their organizations forward in this often complicated area. Fifty people attended this informative, and often challenging, workshop which attempted to tease out the complexities inherent in attempting to balance the mission of an organization with its financial activities.

Covered during this workshop were topics such as:

- screened investments (looking at where to invest according to an ethical 'screen'; whether such screens impact on financial returns, etc.);
- shareholder activism;
- proxy voting guidelines (guidelines which direct how an organization's shares are to be voted), and
- fiduciary obligations of pension and charitable fund trustees.

A final report, with resources from this workshop, is available on the KAIROS website under the Corporate Issues section.

KAIROS RESOURCES AND CONTACTS

KAIROS Network

KAIROS has a network of one hundred local "communities", organised into five regions. We also have a francophone partnership with the Montreal-based Réseau Océanique justice et paix. For information on starting or joining a group, or to learn more about the Fall 2004 Regional Meetings, contact Adele Halliday, Communications/Networking Specialist, 1.877.403.8922 x236 or ahalliday@kairoscanada.org

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The Multi-Fiber Agreement Phase Out: A Win for the Multinationals

SINCE 1974, WORLD TRADE IN TEXTILES AND apparel has been governed by the Multi-Fibre Arrangement (MFA). Under this multilateral agreement, quotas have been negotiated every year, on a country-by-country basis, which specify the volume of items which can be traded between trading partners. Quotas for developing countries restricted the volume of goods that they could export to industrialized countries. The MFA was initially designed as a short-term measure to allow industrialized countries time to restructure and adapt to competition from cheaper imports from developing countries. Due to the labour intensive nature of the industries, it was relatively easy for developing countries to compete in a global market and many have developed their markets accordingly.

The textiles and clothing industry accounts for some 20% of export earnings for developing countries and, for some, is a major part of the economy. In 2000, for example, this industry accounted for over 72% of Pakistan's total merchandise export earnings.

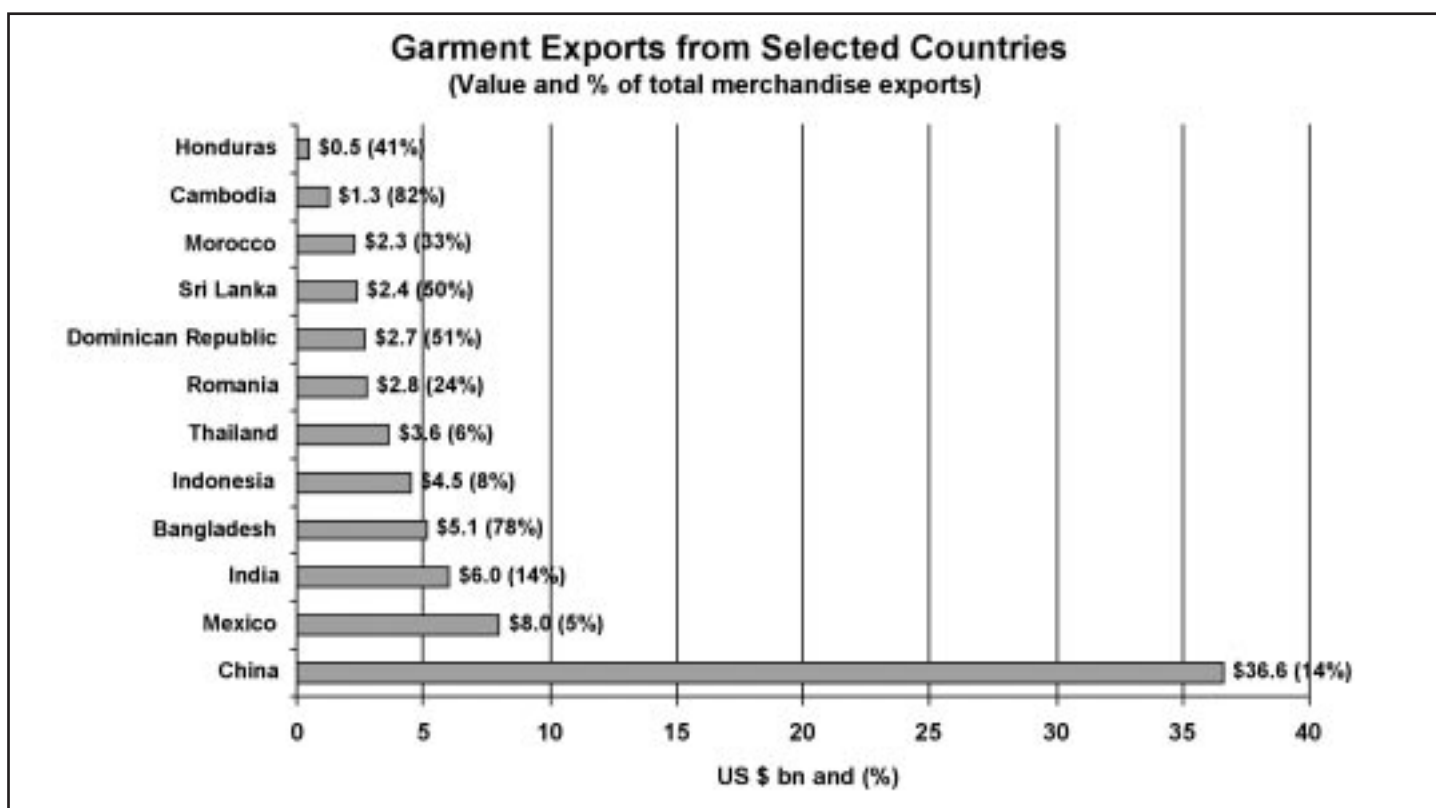
The MFA has remained in place for almost 30 years. Over this period, apparel factories have relocated to developing countries in order to benefit both from the quotas, as well as from lower labour costs. Several countries such as Bangladesh, Sri Lanka, Thailand, as well as a number of countries in Africa, have benefited from the quotas and have expanded their apparel export industries. The largest

increase, however, has taken place in Asia. Initially production was concentrated in countries such as Korea, Hong Kong, Singapore and Taiwan, but by the mid-1980s other Asian countries were becoming major producers. Clothing exports from Thailand, for example, increased five-fold between 1980 and 1989.

In January 2005, the quotas will be fully phased out. During the Uruguay Round negotiations, an agreement was reached to phase out the MFA through the implementation of the Agreement on Textiles and Clothing (ATC). The aim of the ATC is to bring global trade in textiles and clothing into line with the rules of the World Trade Organization. Under the ATC, a phase out plan was negotiated after which the textile and apparel sectors will no longer be subject to quotas.

While the ATC is seen by some as operating in the interests of Southern countries (since it increases their access to the previously protected markets of industrialized countries), concerns are now being raised that the removal of quotas will result in significant relocations of the textile and apparel industry factories accompanied by a severe impact on jobs in those countries. Although Mexico and Central America have a geographic advantage in terms of proximity to the US market, increased competition with Asia on labour and other production costs is of serious concern.

Since January 2001, for example, 325 of Mexico's 1,122 garment *maquilas* have closed. While some of these closures



Source: Oxfam International, "Trading Away Our Rights," 2004, http://www.oxfam.org/eng/pdfs/report_042008_labor.pdf from WTO Reports.

can be attributed to the slowdown in the US economy, a dramatic increase in US garment imports from China (while imports from Mexico declined by 5.6%) indicates that future factory locations will be in China. Some observers predict that by 2005-2006 major textile and clothing buyers will reduce by half the number of countries they source from. By 2010, this number is expected to be reduced by a further one third. According to a recent US Commerce Department survey, companies that currently source from 40 to 50 countries have indicated that they will likely consolidate their sourcing in the future to 12 to 15 countries.

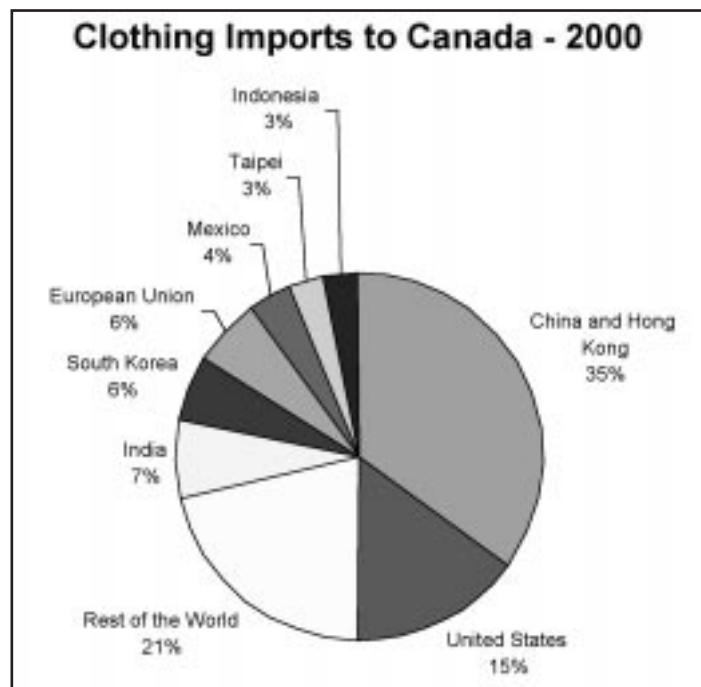
The implications for specific countries, and the factory workers within those countries, could be enormous. Countries such as Bangladesh which have a low wage, low productivity and low value-added clothing sector, along with a poorly developed infrastructure, are anticipating a loss in their export markets and a flight of capital to more productive areas. It is estimated that this flight could cost Bangladesh up to a fifth of its textile exports.

On the other hand, China, given its large, low-cost labour force, its own textile industry, along with the financial and marketing expertise of firms based in Hong Kong, may well emerge as the 'winner' with many supplier factories relocating there from other developing countries. According to *Women's Wear Daily*, "China accounted for 96% of the textile and apparel import growth [to the US market] during July, with Vietnam posting the second-largest growth of 22.4% ..." (Sept. 12, 2003).

With the shift of factories there will be a significant loss of employment for workers based in several Southern countries, as well as Europe and North America. While the overall number of jobs for garment workers in the South will most likely increase, the transition could be wrenching for certain countries. If countries are not able to compete in an open market, supplier factories will be closed down and moved overseas. This shift in production locations will have significant consequences for workers with respect to jobs, wages, working conditions, as well as their ability to exercise and defend their rights. For women, who comprise the majority of apparel workers, the impacts could be severe. Again in Bangladesh, 90% of the approximately one million workers in the country's textile and garment factories are women, poorly paid but often providing the bulk of the family's income.

From a corporate perspective, the impact of the MFA phase out could be significant as well. The garment industry, contrary to the situation which existed when the MFA was negotiated, is now controlled by US and European based multinational companies which own no production facilities themselves but manage an international network of suppliers. This includes big retailers such as Wal-Mart and brand name companies like Nike and Adidas.

With the phase out of the quota system, multinationals will benefit from an increasingly open market. As poorer countries compete to become major suppliers, companies will source more extensively from the most profitable loca-



tions. Countries which have cheap raw materials, low wages, lack of trade union rights and provide government subsidies will be the most attractive to these global purchasers. Furthermore, poorer countries will likely invest public money to attract overseas investment, while the main profits will go back overseas to the multinationals.

From a corporate accountability perspective, questions are being asked of companies that source internationally. Parent companies are coming under pressure to accept responsibility for working conditions wherever production is based. Some garment companies are responding by committing themselves to codes of conduct on labour conditions. Turning these commitments into something meaningful is often difficult, pointing to the need for additional regulatory measures.

For More Information

Codes memo, Maquila Solidarity Network, Number 15, September 2003.

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The United Nations Global Compact¹¹

IN AN ADDRESS TO THE WORLD ECONOMIC FORUM on January 31, 1999, United Nations Secretary-General Kofi Annan argued that the globalization of markets over the previous 10 years had been unsustainable. He predicted that a backlash would likely result given that the benefits of globalization are being very unequally distributed, both within and among countries. Without an adequate social foundation wherein there are shared values and practices, the secretary-general argued that competitive markets would be unlikely to survive and thrive.

To address this state of affairs, he challenged the top leadership of the global business community to enact a Global Compact between the United Nations and the private sector to promote human rights, improve labour conditions, and protect the environment. Formally launched in July 2000, the Global Compact is aimed at mobilizing collective and individual leadership in the business community to take steps towards addressing pressing societal concerns.

As an international initiative, the Global Compact seeks to bring companies together with UN agencies, labour and civil society to support nine principles for corporate social responsibility in the areas of human rights, labour and the environment. Drawn from the Universal Declaration of Human Rights, the International Labour Organization's Fundamental Principles on Rights at Work, and the Rio Principles on Environment and Development, the stated goal of the Global Compact is "to advance responsible corporate citizenship so that business can be part of the solution to the challenges of globalization."¹²

Companies join this voluntary program through a letter of commitment from their Chief Executive Officer. Having declared their intention to participate, companies are then expected to incorporate the nine Principles into their corporate policies and operations, and to report annually on concrete steps they have taken to act on them. As a voluntary initiative, the Global Compact relies on public accountability, transparency, and the enlightened self-interest of companies, labour and civil society to initiate and share substantive action in pursuing the principles upon which the Compact is based.

To date, there are 1,164 participants, with only nine from Canada (including The Hudson's Bay Company, Petro-Canada, Placer Dome, and Nexen).

While some NGOs have supported the initiative for its role in awareness-raising and as a forum for dialogue and learning, others raise valid questions as to whether it will result in actual 'on the ground' improvement or merely serve as a corporate public relations exercise. As a purely voluntary program, with no provisions in place to ensure independent monitoring or enforcement, many question whether the Global Compact will result in any real change in corporate behaviour.

Furthermore, strong concerns have been expressed that the companies who join the Global Compact will be those

Global Compact Nine Principles

Human Rights

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights within their sphere of influence;
Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards

Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment

Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies.

facing public scrutiny for their activities who will endeavour to use it to proclaim that their practices have changed. In a letter sent to the UN Secretary-General in July 2000, several prominent international scholars in law, economics, and political science, along with leaders of major international human rights organizations, expressed their strong concerns with regard to several companies which were seeking to become members of the Global Compact. Companies such as Nike and Shell are named as being wholly inappropriate members given their records on sweatshop and human rights abuses.

Finally, grave concerns have been raised that the Global Compact is premised on the faulty assumption that open markets are the primary force for development. Given recent studies showing how harmful free trade and market liberalization have been for low-income people, this underlying assumption cannot be sustained. For example, a report on *NAFTA's Promise and Reality* by the Carnegie Endowment for International Peace chronicles how the North American Free Trade Agreement took away the livelihood of 1.3 million Mexican campesinos (subsistence farmers) while contributing to lower real wages for other Mexican workers.¹³ Similarly, a study on *Lessons from NAFTA: The High Cost of 'Free Trade'* (co-written by KAIROS staff) found that NAFTA had destroyed more jobs than it created, depressed incomes, eroded social programs and contributed to greater inequality in all three member countries.¹⁴

Many remain skeptical as to whether the Global Compact will result in any significant change in global corporate practices. The real need is for regulation and enforcement mechanisms at the country level. Why should one

Campaign Updates

Iraq's Odious Debt Must be Eliminated, Not Rescheduled

Canada announced that it will write off "the vast majority" of the C\$750 million that Iraq owes to federal agencies. But this will only occur after Iraq agrees to implement economic policies approved by the International Monetary Fund.

Canada is collaborating with a Bush Administration plan to reduce debts owed mostly to opponents of the invasion of Iraq freeing up oil revenues for reconstruction projects led by US firms. This debt reduction will occur through the Paris Club of creditor governments once the IMF approves the economic policies of a new government in Baghdad. The US is counting on the IMF to insist on continued privatization of state companies and foreign ownership of Iraqi banks, mines and factories.

The estimated US\$120 billion in debts built up by the Saddam Hussein dictatorship without the consent of the Iraqi people and with the full knowledge of the creditors are clearly "odious debts" that ought to be cancelled outright. Instead of collaborating with these US plans Canada should support the unconditional cancellation of Iraqi debts in order to set a precedent for wiping out the odious debts burdening peoples throughout Africa, Asia and Latin America who suffered under brutal dictatorships. For the full report see: www.kairoscanada.org/e/economic/debt/debtiraq.asp

KAIROS launches campaign for Just Peace

On December 10, 2003, International Human Rights Day, KAIROS launched the Cultivating Just Peace campaign near Parliament Hill and across the country. Launches were held in Parksville, Victoria, Kelowna, Edmonton, Grenfell, North Bay, Ottawa, St. Stephen, Saint John, and St. John's.

The national launch in Ottawa led off with a roundtable lunch that included compelling speakers who condemned human rights abuses and pointed to the many places where communities are resisting the security agenda of the War on Terror. Speakers included the two recipients of this year's Rights and Democracy John Humphrey Freedom Award. Martha Cecilia Domicó spoke on behalf of her father Kimy Pernia Domicó, a respected leader of the Embera



Dr. Monia Mazigh, wife of Maher Arar, addresses participants at the KAIROS campaign launch as KAIROS Executive Director Mary Corkery looks on.

Katio of Colombia, who was disappeared in June Of 2001. Angélica Mendoza de Ascarza, has spent the last 20 years fighting for truth and justice in Peru and helped inspire the creation of Peru's Truth and Reconciliation Commission. She spoke to the need to continue naming the truth about the human rights violations faced by people who are caught up in conflict.

Maher Arar's case is the story of how the post 9-11 erosion of civil liberties was brought home to one Canadian citizen. His wife, Dr. Monia Mazigh, explained why what happened to her husband puts the rights of all Canadians at risk. As she said to the gathering: "Injustice never leads to justice."

Thousands of people have already sent in Agenda for Just Peace action cards, which are available in French and English, and in both print and PDF electronic formats. For more information on the campaign, see <http://www.kairoscanada.org/e/action/campaign.asp>

Watch for local events and get ready to talk to federal candidates once an election is called! For more information on the Just Peace campaign, contact the Animation team at info@kairoscanada.org or 1.877.403.8933 x233.

United Nations continued from page 10

expect that the Global Compact would, somehow, make a major difference in the status quo? After all, human rights, worker rights, and protection of the environment require regulations and enforcement mechanisms at the country level, which have been lacking in large parts of the world where these problems are particularly acute. How would the Global Compact change that?" ❖

FOOTNOTES

1 "Canadian Social Investment Review 2002: A comprehensive survey of socially responsible investment in Canada", published by the Social Investment Organization. www.socialinvestment.ca/CSIR2002.pdf

2 The Proxy Resolutions Book - January 2003, a publication of the Interfaith Center on Corporate Responsibility (ICCR), New York. www.iccr.org

3 Mark Mansley and Andrew Dlugolecki, Climate Change: A Risk Management Challenge for Institutional Investors, University Superannuation Scheme, London, England, 2001. http://www.usshq.co.uk/downloads/pdf/climate_change_paper.pdf

4 Investor Network on Climate Change <http://www.incr.com>

5 KAIROS coordinated the filing of the shareholder proposal with Imperial Oil in April 2003. The filers of the proposal were The Trustee Board of the

Presbyterian Church in Canada, Fonds Élisabeth Bergeron (Sisters of Saint-Joseph of Saint-Hyacinthe), and Congregation of the Sisters of Saint Anne.

6 Carbon Disclosure Project, Carbon Finance and Global Equity Markets, London, England, February 2003, prepared by Innovest Strategic Value Advisors. <http://www.cdproject.net>

7 www.globalreporting.org

8 William Baue "Survey Says: NGOs Believe Corporate Social Responsibility Reports That Reveal Faults" November 14, 2003.

9 Analysis: Corporate characters growing up within the Guidelines, 20 June 2003, Rikki Stancich, Ethical Corporation www.ethicalcorp.com/content_print.asp?ContentID=748

10 See the companion article in this edition on the United Nations Norms.

11 www.globalcompact.org

12 The Global Compact — Corporate Citizenship in the World Economy, United Nations

13 Audley, John et. al. (2003) NAFTA's Promise and Reality, Washington: Carnegie Endowment for International Peace

14 Hemispheric Social Alliance Analysis Team, (2003) *Lessons from NAFTA: The High Cost of "Free Trade"*, Ottawa: Canadian Centre for Policy Alternatives, available from KAIROS for \$17 (includes postage and handling) by contacting orders@kairoscanada.org

15 Gildan Activewear web site www.gildan.com

People's Movement Grows as FTAA Sputters & Stalls

LAST NOVEMBER TRADE MINISTERS FROM ACROSS the Americas came together in Miami to continue negotiations on the FTAA (Free Trade Area of the Americas), the all-encompassing trade and investment agreement to be signed by 34 of the hemisphere's 35 countries by the year 2005.

In Miami, it became clear that the US and Canada were losing ground in advancing the comprehensive FTAA trade liberalization model. Scheduled for two days, the Ministerial ended on the first day with the publication of a vague and ambiguous 'Declaration.' It states that there will now be two levels of commitments: A core level (Tier 1) which all countries are still required to sign onto and an optional level (Tier 2) where governments will be able to pick and choose commitments.

This change in course may be seen as evidence of mounting social pressure across the Americas and also growing resistance of key Southern countries, particularly in Mercosur (Brazil, Argentina, Paraguay and Uruguay), who are unwilling to sign onto a deal which opens Southern countries up to unfettered transnational corporate access in exchange for minimal gains in access to US/Canadian markets.

The Hemispheric Social Alliance (HSA), in which KAIROS participates, is a broad-based group of concerned citizens and organisations from across the Americas. Since 1994 when the FTAA project was first announced the HSA has monitored, resisted and proposed alternatives to the FTAA. In Miami the HSA was quick to signal its concern about the new developments: "This 'agreement' in Miami may turn out to be more dangerous than the original FTAA formulation." At the same time, the HSA restated its belief that the FTAA, no matter what form it takes, is an undemocratic, unjust model that will only serve to widen the gap between rich and poor and facilitate corporate expansion and power.

FTAA: Not the Only Danger

Even before the FTAA negotiations began running out of gas, Canada and the US had begun quietly negotiating bilateral and plurilateral trade and investment agreements throughout the Americas. In other words, the FTAA agenda could be cobbled together either as a series of individual pieces or as one big mega-deal. Canada is already involved in

a series of negotiations with a number of Central American countries known as Canada-CA4. This deal, which is close to being signed, is also based on the flawed NAFTA model. Yet for over two years, our government has kept these negotiations far from public scrutiny despite repeated demands for transparency and accountability. Through NAFTA, we have seen how this model of free trade is about much more than commercial agreements and how it has far-reaching impacts on our right to health, to an adequate standard of living and safe environment.



Demonstrators from across the Americas gather in Miami to protest the FTAA

Resistance Grows

Recently over 1200 people from across the Americas gathered in Havana to discuss and debate 'where to' in our struggles against the profoundly unjust FTAA project. We reiterated our opposition to the FTAA no matter what shape or form it takes. We committed ourselves to joining together to struggle against bilateral and plurilateral trade and investment deals with the same force we use to say No to the FTAA! We recognized the connections between illegitimate debt, militarization, and trade, committing ourselves to work on a common agenda.

Finally, in representation of millions and millions of peoples across our great hemisphere, we pledged to lift up our alternative, our vision that respects human rights, national sovereignty, sustainable development and ecological justice and to accept nothing less than that vision for our continent. ❖