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## Alliance Sud News [No.60,Summer 2009]

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Monbijoustrasse 31 | P.O. Box | CH-3001 Berne  
Phone +41 31 390 93 30 | Fax +41 31 390 93 31  
www.alliancesud.ch | mail@alliancesud.ch

Number 60, Summer 2009

## Global financial and economic crisis: The end of an era



sed developing countries to do likewise. Deregulation and liberalisation were expected to lead to more efficient capital allocation, a balance between North and South and greater welfare for all. Instead, the unexpected side effect of that medicine in the 1990s was a plethora of financial crises in developing countries. Western governments and their court economists blamed them on crony capitalism and the inadequacy of oversight bodies in developing countries. Yet the crises were regarded as growing pains that developing countries could overcome by emulating the exemplary financial market model of the industrialised countries, as well as our matured capitalism free of corruption.

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The present financial and economic crisis marks the end of an era. Not only does it spell economic downturn, but it is shaking the very foundations of the economic and social consensus of the past 30 years. To correct the world economic imbalance, a new sharing of power and responsibility between industrialised and developing countries must now be examined.

Whereas the crises of 1975, 1982, 1991 and 2001 have been blamed on rigid labour markets, inflationary pressures, companies unfit for the world market, or government constrained financial markets, political and economic leaders are approaching the blame game much more cautiously this time. The crisis in fact

started in a place where everything should have been at its best: in the liberalised, deregulated, globalised and highly profitable US financial market. Since 1980, Western governments have removed national financial market restrictions and liberalised cross-border capital flows. They subsequently pres-

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### Wrangling over Atalanta

Since December Switzerland has been discussing whether its own soldiers should join in Operation Atalanta, the EU naval campaign against Somali pirates. A decision will be taken in autumn at the earliest. This unhurried procedure is proof that our merchant fleet faces only a limited degree of emergency and is not dependent on the Swiss contribution to Atalanta. The debate is obviously about something else. First and foremost, it is about the army. Its officers would gain practical operational experience from foreign assignments, which have been legally possible for some years now. For an army that (fortunately) has no experience of war, this would not be insignificant. All the more so considering the intent to make it the «best in the world», to quote the Minister of Defence. And in that army, the special unit being discussed for Atalanta would also need to be ready for immediate deployment – if not, it would be better to dissolve it altogether.

Second, it is about our foreign policy stance. In recent years, EU or NATO members have repeatedly asked Switzerland to make a military contribution – inter alia, for Afghanistan, the Congo or Chad. These countries – our most important partners – regard Switzerland as an economically powerful country that maintains a large army and one that should therefore take part in international peacekeeping operations. The Federal Cabinet can react to this in three ways. It could acquiesce, which it is hardly doing. Or it could explain why it finds those operations debatable and what alternative course of action it may be considering, possibly together with other countries. The Federal Cabinet that would do this is not yet born, however. Or it could make clear that the Swiss Army is no foreign policy tool, but exists for purely domestic policy reasons; that Switzerland's only foreign policy tools are diplomacy, peace brokering, development cooperation and the corresponding budgets.

This could also be done in case of Somalia. Somalia will continue to prod-

uce pirates and the like – Atalanta or not – for as long as it remains mired in civil strife, unable to feed millions of displaced persons, with all economic activity in a state of collapse. Besides, misguided outside interventions (by the USA and its ally Ethiopia) in the Somali civil war are helping to prolong it. Finally, the practice by companies from East Asia to Europe of depleting fish stocks in Somalia's unpatrolled territorial waters and illegally dumping toxic wastes in them has helped spawn the problem of piracy. On balance therefore, smart outside players have their work cut out for them – and so does Switzerland.

Peter Niggli,  
Director



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### Disastrous financial market liberalisations

The current financial crisis, the biggest since 1929, did not break out in Argentina but in the USA, «the most exemplary financial market of all time». Court economists did not see it coming. In their view, financial markets that had been freed from political interference and manipulation should have tended towards equilibrium rather than self-destruction.

Free financial markets were also regarded as guarantors of efficient capital allocation. Instead they wiped out thou-

sands of billions of dollars in a few short months and produced what is historically the greatest misallocation of capital, and one that needs not eschew comparison with the Soviet Union's centrally planned economy.

### Shaken self-confidence

It is this clash between unexpected reality and «scientifically» founded ideology that has shaken the self-confidence of officialdom in the Western world and makes this crisis different. One indicator of this is that governments – to their surprise as well as ours – reacted to last autumn's collapse with a kind of «spontaneous» vulgar Keynesianism, which contrasted starkly with all the economic policy tenets they have been preaching

since the 1980s. The election of Barack Obama underlined the change of mood. Since then, the emphasis has been mainly on re-stabilising the banks, slowing the economic downturn and preserving some level of demand. The detailed discussions of what will have to change are only just beginning, however.

### Towards «boring banking»

The banking sector is where the brunt of the restructuring is needed. For months now, US economist and Nobel laureate Paul Krugman has been advocating a reduction of the role of the financial sector in the economy. That sector had expanded twofold since the 1960s, and at its peak it was earning over 40 per cent of profits in the economy. «There is no

Photo cover page: Keystone (montage).

reason to believe that anything productive happened as a result of all of that. These extremely highly compensated bankers were essentially just finding new ways to offload risks on to other people».<sup>1</sup> Krugman advocates a return to the «boring banking» of the 1960s and an economy in which physicists and engineers work in industry rather than on deceptive mathematical models for «hedging» transactions in a system of casino capitalism.

The new financial market regulations now under discussion in the G20 and the UN are leaning towards «boring banking»: 1. Higher capital cover requirements and a much lower leverage ratio. 2. The inclusion of all credit transactions in the balance sheet and the prohibition of all off-balance sheet special purpose entities. 3. Making all financial companies and instruments subject to the regulatory authorities, and instituting procedures for the approval and banning of new types of financial companies and «innovative» financial products. 4. New remuneration systems free of fraudulent



*Billions down the drain – a return to «boring banking» would be in order. (Photo: Keystone)*

*«It is this clash between unexpected reality and ‘scientifically’ founded ideology that has shaken the self-confidence of officialdom in the Western world and makes this crisis different».*

incentives. 5. Discontinuation of overly hasty financial market liberalisations, and the reintroduction of smart capital controls in developing countries.

The finance industry can be expected to offer resistance. Since November for example, Wall Street's nine biggest derivatives traders have been fighting stricter disclosure regulations regarding the new derivatives involved in the crisis, such as credit default swaps.<sup>2</sup> Here in Switzerland it is being said indirectly: re-regulation should not hamper «innovations». What innovations? Do subprime securities, the securitisation of subprime securities, securitisation of insurances on securitised subprime securities and the like constitute economically useful «innovations» or «financial weapons of mass destruction», as the new derivatives have been described by Warren Buffett, quite an expert on the subject?

### **Financial bubbles instead of higher wages**

Deregulation may well account for the absurd instruments that were used to build up untenable credit pyramids. And the liberalisation of capital markets accounts for the spread of a crisis from within the US mortgage market to the rest of the world. But these factors do not explain the proliferation of financial bubbles.

Over the past 30 years, the share of capital in national income has risen in most of the old industrialised countries whilst that of wages has fallen. Besides, only wages in the uppermost income brackets have risen, those of the «lower-middle-class» have stagnated, whilst those of the lowest income brackets have fallen.

This gave rise to an excess of capital in pursuit of gains, in the face of stagnating consumer demand. The «golden age» following the Second World War brought strong growth in real wages, and the world economy tended to over-consume, with inflationary repercussions. Contrastingly, the neo-liberal era since 1980 has been dominated by over-production and over-investment and deflationary trends, in the face of constant pressure on wages. At the same time, returns on equity of 15-20 per cent have become the order of the day. But because the economy is growing by a mere two to three per cent, such generous returns on equity mean siphoning off profits from other weaker economic sectors, compressing wages and payrolls, and building up credit pyramids even further.

In recent years, core countries such as the USA and the UK that embody the best – in other words the most liberal capitalism – have financed expanded consumer demand only from financial bubbles, from returns on assets that have grown thanks to speculation. They compensated for stagnating wage income. Without financial bubbles, the USA and UK would have recorded no economic growth since the end of the 1990s.

### **Speculation supported from the South**

The speculative boom received a helping hand from unexpected quarters. Many developing countries drew their own lessons from the financial crises of the

<sup>1</sup> The New York Review of Books, June 11 – July 1, 2009.

<sup>2</sup> Gretchen Morgenson: Bank lobby resists regulation. International Herald Tribune, 2.6.09.

1990s. Foreign capital inflows had proved a doubled-edged sword for them: during financial crises, foreign capital flowed out again as quickly as it had come in, leaving behind a trail of bankrupt companies and concrete skeletons. The emergency assistance extended to them by industrialised countries through the International Monetary Fund (IMF) was tied to policy conditions that exacerbated the crisis. The social and economic costs of the medicine were commensurately high.

This was what prompted them in the wake of the 1997/98 Asian crisis – China first and foremost – to build up massive foreign currency reserves, which to a great extent helped finance the USA's growing foreign trade and budget deficit. In so doing they helped fuel the speculative boom, while at the same time securing an export market for their products. Other «world export champions» such as Japan, China, Germany (and Switzerland) also benefited from the US double deficit and the role of the USA as global consumer of last resort.

The task in the years ahead will be to eliminate this economic imbalance by «soft» means without triggering the next

financial crisis. There are no magic bullets. Banks, companies and private individuals in the USA will be paying down debts for years to come, and this will put pressure on the economy. US imports as well as its balance-of-payments deficit will contract, and the world will lose its consumer of last resort.

### Opportunities for a new power dispensation

With their huge internal markets, China and India have the opportunity to promote their internal growth and become less export-dependent. As one of the biggest in the world, China's stimulus package points in this direction. South-South trade could be stepped up, and special development financing and currency co-operation instruments such as the Banco del Sur in Latin America or the Chiang Mai<sup>3</sup> mechanism in East Asia further developed.

A new power dispensation or sharing of responsibility between industrialised and developing countries is on the agenda for the years ahead. Gone are the days when the G7 directed world economic

affairs from around a fireplace. Today, Asia's capital exporters as well as the major emerging countries in Latin America and Africa must be taken on board. It is significant that in the crisis-ridden autumn of 2008, what the USA convened was not a G7 meeting but a G20 crisis summit. Asia's capital exporting countries are clearly not about to play any substantial role in the IMF (although this would be highly desirable at present) unless the voting majority of the industrialised countries in that body is broken up. Yet this is still facing strong resistance chiefly from Europe, including from Switzerland. Lastly, the outcome of endeavours to give the UN an enhanced economic policy role – for which NGOs have long been pressing and what a UN commission headed by economist and Nobel laureate Joseph Stiglitz has recently recommended – remains to be seen.

### Pending environmental issues

In parallel, environmental issues are coming powerfully to the fore. Gone is the age of cheap and ever more abundant fossil fuels, which constituted the backbone of industrial production methods as we know them. At the same time, global warming is threatening to spiral out of control between 2010 and 2020 unless we begin seriously to move away from fossil fuels in the immediate future.

Unfortunately, we do have the impression that our Heads of State and economic leaders, buffeted as they are by crisis, would prefer to leave the matter to their successors rather than tackle it themselves. The crisis programmes could be a good possibility to invest in renewable energies and less energy-intensive infrastructure. Yet most of the stimulus programmes are still disappointing in this regard. For commendable exceptions we have to look to countries like South Korea with a strong tradition of industrial policies.



*New distribution of power and responsibility in the offing: Barack Obama meets Chinese Head of State Hu Jintao at G20 Summit in London. (Photo: Keystone)*

<sup>3</sup> In the year 2000, 13 Asian countries agreed in Chiang Mai, Thailand to provide reciprocal assistance during financial crises through bilateral foreign currency loans.

Mark Herkenrath

## UN conference on the economic crisis in New York Clear analysis, but (still) no concrete actions

The United Nations conference on the global economic crisis and its impact on developing countries ended on 26 June in New York. In analysing the causes of the crisis, the outcome document uses clear language. Yet the industrialized countries neither allowed the necessary conclusions to be drawn nor any decisions to be taken on concrete measures at this stage.

The 15-page outcome document uses plain language in its analysis. It points to fundamental problems in the global financial and monetary architecture. It attributes the crisis not only to mismanagement and greed, but also to structural problems such as global imbalances and national and international regulatory failures. The joint declaration by the 192 UN members (G192) thus definitively marks the end of the neo-liberal credo of liberalization and deregulation. It even states that in times of external crisis developing countries have the right to impose temporary capital restrictions to protect themselves against further contagion. What therefore emerged after tough negotiations was a final document with rhetoric quite different from that of last April's G20.

### Poor countries the most affected

The joint declaration also leaves no doubt that the current global recession is hurting the poor developing countries even more than its originators in the North. By UN estimates, the crisis will drive as many as 90 million people into poverty. This is mainly affecting the countries in Africa, and women and children in particular.

*«The poor countries currently lack not just the funds to combat poverty. Neither can they afford economic stimulus packages – unlike the rich countries. The crisis is therefore likely to last longer in the South than in the North».*

It is all the more scandalous that no immediate measures were adopted at the conference. Proposals by the poor countries for a multilateral crisis fund and an immediate debt moratorium did not succeed. Poor countries must continue to hope that the rich countries will voluntarily provide them with bilateral assistance in managing the crisis. The poor countries currently lack not just the funds to combat poverty. Neither can they afford economic stimulus packages – unlike the rich countries. The crisis is therefore likely to last longer in the South than in the North.

### Some taboos broken

The outcome document identifies a number of measures for making the world economy fairer and more secure

over the long term – beginning with the introduction of a new global reserve currency, and ranging to the creation of an insolvency procedure for countries facing the prospect of bankruptcy. Such proposals were still taboo up to a few months ago. They are not being implemented, however. A General Assembly working group and a UN panel of experts on economic issues are to be established to examine and further develop these measures. This is a step that virtually no one still expected on the eve of the conference. In the present crisis, however, it is still the exclusive G20 that is setting the tone. Its next meeting is set for September.

*Mark Herkenrath, responsible for financial politics at Alliance Sud, participated in the conference as a member of the Swiss negotiating delegation.*

Mark Herkenrath and Rosmarie Bär

## Multilateral funds for tackling climate damage Too much World Bank, too little money

The climate summit set for December in Copenhagen is expected to get a new world climate agreement back on the rails. Along with new CO<sub>2</sub> reduction obligations, one central question is how poor countries will pay for billion-dollar climate change adaptation measures, and who has the say in the funds concerned.



*Ill-suited as climate bank: World Bank promotes oil mining and finances coal-fired power plants in many countries. In the picture: Pipeline in Nigeria. (Photo: Jean-Claude Moschetti / REA).*

Between droughts, hurricanes and coastal flooding, the developing countries are suffering much more from global warming than its originators, the industrialised countries. In the case of Bangladesh, for example, the International Panel on Climate Change (IPCC) has calculated that by 2050 the expected rise in the sea level will cover more than one-tenth of the country's surface area, forcing more

than 5 million people to flee. The United Nations Development Programme (UNDP) estimates that the country's harvests will decline some 40 per cent by that time. Drinking water will be in short supply before 2050 – and all this, despite the fact that Bangladesh's own per capita CO<sub>2</sub> emission (0.25 tonnes in 2004) is less than one-twentieth of Switzerland's (5.47 tonnes in 2004).

The changed climatic conditions are posing enormous adaptation problems for poor countries. They now have to re-orient food cultivation radically, open up new areas for settlement, build dams and install early warning systems. The Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC) estimates that these adaptation measures will cost developing countries between 28 and 67 billion dollars per year. The NGO Oxfam makes a minimum estimate of 50 billion dollars, and the United Nations Development Programme (UNDP) 86 billion.

### Numerous funds, little money

Where are these funds to come from and who should distribute them? For some time now these issues have been the subject of heated political debate. The developing world is not prepared to subscribe to a climate agreement that fails to regulate the funding of adaptation costs in a fair and binding manner. There has been no such regulation to date. Numerous multilateral climate funds do already exist, but voluntary contributions from industrialised countries are thin on the ground. Besides, there is considerable competition between the funds: industrialised countries prefer those in which developing countries have little or no say.

The Climate Convention's funding programme, the Global Environment Facility (GEF), set up two multilateral funds in 2001, namely the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF). Their purpose is to help developing countries cope with

costly adaptation. Both funds were placed under the World Bank, a move that developing countries criticised as undemocratic, given their very limited scope for co-determination. After tough negotiations they managed to convince the Board to accept a double majority voting system for donor countries and recipient countries. Yet both funds cover only a fraction of actual funding needs. Between 2001 and early March 2008, the SCCF received payments of no more than 74 million US dollars, and the LDCF 92 million.

One major reason for the paucity of contributions to the GEF funds lies with the World Bank itself. Since developing countries secured a greater say there, it has created a series of special funds that are competing with the GEF. Cases in point are the Strategic Climate Fund (SCF) created in 2008 and the Pilot Program for Climate Resilience being financed by it. The fund and programme are steered by bodies in which developing and industrial countries are equally represented. But developing countries and civil society organisations have voiced the criticism that the statutes of these World Bank funds treat the hard-won provisions of the Framework Con-

*«The World Bank is unsuited for the role of global climate bank. That would be like setting a fox to keep the geese».*

vention on Climate Change as mere guidelines, not as binding undertakings, and that the funds disregard important aspects of them. For example, fund resources are being partly disbursed in the form of interest-bearing loans, and donor countries are at liberty to charge non-reimbursable funding to existing development aid budgets.

### The Bali Fund

Given developing countries' discontent with the World Bank funds, it was decided at the 2007 UN Climate Conference in Bali to set up another multilateral fund, the Kyoto Protocol Adaptation Fund. Unlike the funds existing hitherto, this new adaptation fund can count on relatively certain income, which is expected to come from a tax on emissions trading. Latest calculations are, however, that this will enable the fund to

cover just about 1 per cent of actual needs. Many developing countries have therefore been pressing for additional funding sources – so far unsuccessfully. Contrastingly, the developing countries were successful in negotiating the composition of the board: they make up the majority.

### The Swiss suggestion

For once, Switzerland put forward one of the most sensible suggestions regarding possible ways of replenishing the adaptation fund. In 2006 it tabled the idea of a global CO<sub>2</sub> tax, which could bring in as much as 50 billion dollars in the coming year alone. Yet Switzerland has still made no firm commitment that the entire CO<sub>2</sub> tax take should go to the Bali Fund. At the climate talks in Bonn in early April, Switzerland announced that all existing options were being studied and that the distribution centre could even be a World Bank fund.

Developing countries and non-governmental organisations take a different view on this point. They are in no doubt that the World Bank is unsuited for the role of global climate bank. That would be like setting a fox to keep the geese. After all, the World Bank is using its regular budget to bankroll a growing number of coal-fired power station projects detrimental to the climate, and to fund oil production. The criticism levelled at the GEF Fund is that so far it has financed a markedly smaller number of projects in countries with high poverty levels than in countries with less poverty. This is why only the Bali Fund or a new institution under the UNFCCC Secretariat should be entrusted with climate adaptation funding.

### Alliance Sud demands

For decades the industrialised countries have been warming up the atmosphere, giving rise to climate change. They should therefore also pay for the consequences and extend financial and technical support to developing countries for adaptation purposes. The funding must be continuous and predictable and must not come at the expense of development cooperation or poverty reduction.

Alliance Sud therefore endorses the Swiss suggestion of a global CO<sub>2</sub> tax. Implementing this suggestion will be no easy matter, however. It is facing political resistance, and counter-proposals have been formulated. Switzerland must now resolutely and skilfully counter the resistance to its cause. In addition, it must state clearly that the monies should be channelled through the «Bali Fund» (Kyoto Protocol Adaptation Fund) and not through World Bank funds. Developmentally meaningful adaptation projects call for significant co-determination by developing countries and their people as well as possibilities for independent monitoring and evaluation.

Ways and means should be found at the domestic policy level to finance Switzerland's contribution to the Bali Fund.

*Mark Herkenrath / Rosmarie Bär*

**Bastienne Joerchel**

## Bilateral trade agreements Linking trade and human rights

**The House of Representatives discussed the free trade agreement of the European Free Trade Association (Efta) with Colombia in late May. A substantial minority called for a stronger link with human rights and environmental standards. European Union (EU) experience bears out the wisdom of such requirements.**

Since 1995 the EU has recognized the principle of incorporating provisions for the advancement of human rights and democracy in trade agreements with third countries. Implementation of the principle does vary, however.

The most extensive provisions are to be found in the Cotonou Agreement signed in 2000 between the EU and 79 former African, Caribbean and Pacific colonies. Respect for human rights as well as constitutional and democratic principles are essential components. To encourage their observance, the agreement provides for regular political dialogue and an institutionalised consultation and arbitration procedure.

EU bilateral agreements with Mediterranean countries as well as with Mexico, Chile and South Africa place more emphasis on «classical» sanctions. A somewhat vague formulation is used, to the effect that infringements of fundamental human rights and the relevant conventions should be met with «appropriate

measures». Lastly, under the Generalised System of Preferences (GSP), the EU imposes a degree of social and environmental conditionality even on countries to which it accords unilateral trade preferences. It ties this to the ratification of certain agreements and their transposition into national law. These include some of the core conventions of the International Labour Organisation (ILO),<sup>1</sup> the Tropical Timber Agreement,<sup>2</sup> or action to promote alternatives to drug cultivation.<sup>3</sup> Serious infringements could lead to the withholding of trade preferences.

The various mechanisms have a mixed record. They are least effective when it comes to the observance of human rights, where their impact is as good as zero. In practice, sanctions have been imposed just twice: on Myanmar (1997) and Byelorussia (2007). In both cases, the EU was reacting to serious human rights violations and the sanctions targeted the Government directly.

### Positive experiences

In contrast, linking trade benefits and social and environmental requirements under the Generalised System of Preferences seems to be having some impact. It has prompted most countries to ratify the relevant international conventions.

Trade agreement provisions can positively impact respect for labour rights: demonstration for decent jobs in Manila, October 2008. (Photo: Keystone)



«Bilateral trade agreements could be a suitable field of experimentation for opening the way for fair trade».

A study by the International Institute of Sustainable Development (IISD) shows that social and environmental requirements also have a positive effect under bilateral agreements, even when no sanctions have been imposed. Chile, for example, has strongly aligned its national legislation with international law after concluding free trade agreements with the USA and the EU.

The IISD study further shows that soft pressure for a more sustainable policy is also impacting individual economic players, prompting them to anticipate their trading partners' expectations. Brazilian manufacturing and food companies, for example, have adopted environmental and other standards so as to retain market share. In short, much more than actual sanctions, it is the technical

and legal stipulations incorporated in the agreements (and labelling requirements in industrialised countries) that do exert leverage.

### Dialogue rather than sanctions

Besides, many developing countries, chiefly some Latin American emerging countries, are today much less averse to social and environmental provisions in trade agreements than previously. The discussions (and pressures) surrounding climate change have sensitised governments to environmental issues.

In its agreements with the USA and Canada, Colombia thus accepted additional provisions on environmental protection and safeguarding workers' rights.

It committed itself to observing international agreements and improving national legislation. To ensure this, the agreements provide for institutional mechanisms as well as an arbitration procedure. They too rely less on traditional social clauses with sanctions than on information sharing and political dialogue.

It therefore makes sense for trade agreements to include environmental and social standards. Yet in the future, it will take tighter provisions to enforce tough environmental and social standards in goods manufacturing, for example. An international labelling system could even be considered. The World Trade Organisation (WTO) has so far consistently refrained from linking trade with social and environmental criteria, for reasons of «non-discrimination». Bilateral trade agreements would be a suitable field of experimentation for opening the way for fair trade.

### Rebellion in the House of Representatives

To date, Switzerland has refused to link trade issues with social and environmental concerns. None of its agreements with developing countries has any such provisions. The only exception is the Efta agreement with Colombia, which includes a chapter on biodiversity. For the rest, unlike Colombia's agreements with the USA and Canada (see lead article), it contains neither environmental nor social stipulations.

This sparked a lively debate in the House of Representatives – a new departure, considering that Parliament would previously waive through such trade agreements mostly without comment. During the summer session, 73 of 176 members of the House of Representatives came out in favour of making improvements to the Efta agreement with Colombia and linking it more closely with human rights and environmental regulations. It is now for the Senate to make a pronouncement – it will be discussing the agreement in the autumn.

*Bastienne Joerchel*

Further reading:

Pedro da Motta Veiga, Sandra P. Rios: Trade and Development – The rising importance of sustainable development in the South American trade agenda. IISD 2009. [www.iisd.org/publications](http://www.iisd.org/publications)

<sup>1</sup> For example with Sri Lanka, Moldova, Georgia, Mongolia, Russia, Ukraine and Uzbekistan.

<sup>2</sup> As with China.

<sup>3</sup> As with several Latin American countries and Pakistan.

## Michel Egger

# OECD guidelines for multinational enterprises Little bite and commitment

The OECD's social and environmental standards for multinational enterprises would be a useful tool if they had more bite. But national contact points would first need to be reformed and strengthened – not least of all in Switzerland.

The OECD guidelines for multinational enterprises are the most comprehensive social and environmental recommendations so far decided by governments for firms operating internationally. They are also of significance to Switzerland, which after all holds the world record for per capita foreign investment: Swiss firms have invested altogether 740 billion francs abroad.

«The guidelines are an important means of exerting pressure on multinational corporations», says Jacqueline Baroncini of the International Union of Food Workers (IUF). Since 2002 the Union has filed six complaints with the State Secretariat for the Economy (Seco), which operates as the Swiss contact point for compliance with the guidelines. All six complaints concerned Nestlé, and three of them regarding problems in South Korea, Indonesia and India are still pending.

It has not been possible so far to harness the inherent regulatory potential of these guidelines fully. Both the NGO network OECD Watch and John Ruggie, UN Special Representative on human rights and transnational corporations and other business enterprises, ascribe this to a series of weaknesses – which also apply to Seco.

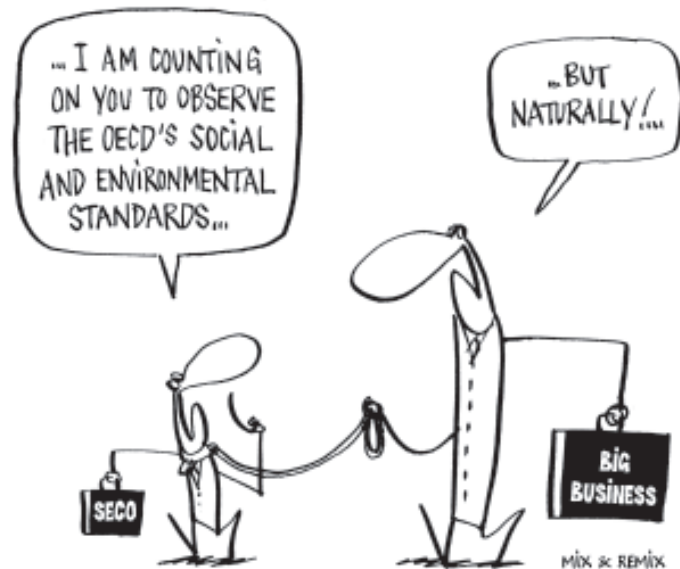
The guidelines were drawn up in 1976 and last updated in 2000. Their wording is very general, vague and incomplete. They do not encompass subcontracting firms and cannot easily be applied to the

financial sector. The guidelines are voluntary, legally non-binding recommendations. «Seco repeatedly points to this fact in order to justify its indulgent approach to companies», says IUF trade unionist Jacqueline Baroncini. «But like Nestlé, many companies too are themselves not very cooperative».

The second weak point is that most national contact points report to government departments that are responsible for investment promotion. This gives rise to conflicts of interests – which are all the more acute when there is no independent control mechanism. The Seco contact point, for example, is not accountable to Parliament. At the suggestion of OECD Watch, the UK and the Netherlands have reinforced their contact point by creating an independent committee of experts. To date, Seco has not been very inclined to follow suit, on the pretext that the small number of cases would render such a move «disproportionate».

Third, the contact points lack the resources required to follow up complaints seriously, to study cases and undertake mediation. The procedures are often long and drawn-out, and the outcomes meagre. A case in point is the complaint filed by the *Arbeitsgruppe Schweiz-Kolumbien ASK* (Switzerland-Columbia working group) against Correjón/Xstrata (Glencore) for violations of the rights of indigenous peoples and farmers. «That was a year and a half ago, but very little has changed up to now», says ASK Coordinator Stephan Suhner. «Switzerland has done next to nothing; there was no on-the-spot mediation, and Seco communication and feedback in response to our proposals have been absolutely minimal».

The fourth weak point is that most decisions are not published. Seco has indeed made some progress, and did in fact publish the final communiqué on the industrial dispute at Nestlé Russia in September 2008. Yet its content was



## Bastienne Joerchel leaves Alliance Sud Trade expert and all-rounder



Bastienne Joerchel, member of our management team and Head of the Lausanne office, left us to take up new responsibilities. We could call on Bastienne to handle any matter – be it the public debate, spearheading major campaigns

or preparing policy studies. No wonder we are so reluctant to let Bastienne go. We will miss her energy and dynamism very much.

Bastienne Joerchel joined Alliance Sud in 1999 and worked on the world trade/WTO desk. And she did so at an interesting time. It was in 1999 that the WTO Seattle Ministerial Conference broke down – after which began the interminable Doha Round of negotiations in which the developing world successfully parried the market access offensive by the industrialised countries. In recent years Bastienne worked on the area of bilateral free trade agreements being pursued by Switzerland to make up for the scant liberalisation successes in the WTO. In this year's summer session, a Parliamentary minority has spoken out

against such free-trade agreements (Colombia) for the first time. Together with her colleague, Bastienne also spearheaded our public relations work in the French speaking part of Switzerland as well as our involvement in referendums in this region, such as the one on Switzerland's entry into the UN. Bastienne played a leading role in organising the second Alternative Water Forum in Geneva in 2005 and headed the «0.7% – Together against Poverty» campaign in western Switzerland.

This summer Bastienne Joerchel takes over the helm of the Secretariat of the «Lire et Ecrire» (Read and Write) federation in western Switzerland, which assists the functionally illiterate. We wish her the best of luck!

*Peter Niggli*

... continuation of page 10

rather scant by comparison with the substantial reports provided by some other contact points. Switzerland too – unlike the United Kingdom – refuses to identify infringements of OECD rules and regulations clearly.

The guidelines are to be reviewed in 2010. It would be a good opportunity to give them more teeth and strengthen the contact points.

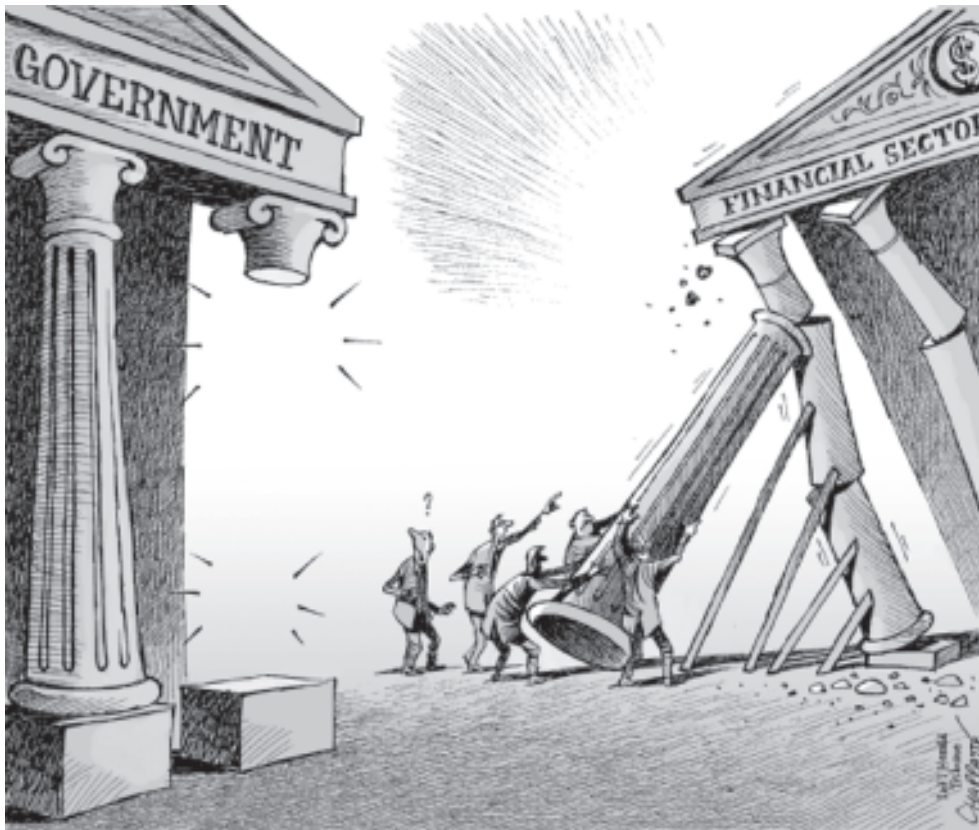
> [www.oecdwatch.org](http://www.oecdwatch.org)  
> <http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf>

### Homework for Seco

The OECD Watch NGO network keeps a critical eye on the OECD Investment Committee. It has worked out proposals for a reform of the OECD Guidelines for Multinational Enterprises. Alliance Sud supports the proposals and urges Switzerland to do the following:

- proactively support a substantial revision of the guidelines and carry out a broad-based consultation on the matter;
- strengthen the national contact point and set up a multi-party monitoring committee consisting of independent experts;
- publish more detailed final reports and clearly identify infringements of the rules and regulations.

*Michel Egger*



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