PASSIVE OBSERVERS OR ACTIVE DEFENDERS OF HUMAN RIGHTS?

Corporate challenges in repressive regimes and conflict zones
Swedwatch is a non-profit organization whose task is to critically examine Swedish business relations with developing countries focusing on environmental and social concerns. Swedwatch consists of five member organizations: the Swedish Society for Nature Conservation, the Church of Sweden, Solidarity Sweden – Latin America, Friends of the Earth Sweden and the Fair Trade Center. www.swedwatch.org.

Church of Sweden

The Church of Sweden works for a just world without hunger, poverty or oppression. It works to exert an influence on public opinion in Sweden and with development cooperation and emergency relief together with local partners in about 40 countries. www.svenskakyrkan.se.

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FOREWORD

Businesses contribute to economic growth in any given society, and thus companies’ actions exert considerable effects on people’s lives and livelihoods all over the world. Consequently, the last two decades have seen a growing interest among companies, as well as among other stakeholders such as NGOs, investors, UN agencies etc., to engage in a debate on corporate responsibility that addresses labour standards and human rights issues.

Whereas there is no shortage of corporate social responsibility initiatives, surveys show that many companies request more guidance with regards to doing business in fragile situations, conflict zones and under the rule of repressive regimes and/or weak institutions. These are situations that pose additional human rights challenges.

It is our conclusion that businesses can – and should strive to – be an active force for change when it comes to human rights and sustainable development. However, companies need to be aware of the extreme sensitivity of the situations they are entering into when doing business in conflict zones and under the rule of repressive regimes. They must ensure that they avoid doing harm by conducting due diligence risk analyses and by interacting with local communities. We also argue that it is vital that companies open up for independent monitoring of their effects on the ground.

By commissioning this report, the Church of Sweden wishes to engage in a constructive discussion on how business practices affect human rights in some of the most sensitive situations of the world. As an important, responsible, Swedish investor, and at the same time one of Sweden’s leading development agencies, the Church of Sweden is committed to raising awareness on these issues. Consequently, this report is to be regarded as an invitation to companies to join in a dialogue on doing business in high risk situations as well as a contribution to the general debate on corporate responsibility.

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Church of Sweden, December 2010
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Executive summary

How can companies respect human rights and contribute to peace in countries marked by repressive governments, widespread corruption or conflict? What happens when governments or public authorities require companies to act in contravention of international instruments for human rights through repressive laws or when they are part of a violent conflict? There are no easy answers; nevertheless these questions are relevant to hundreds of Swedish companies operating in repressive regimes and conflict zones. In this report Swedwatch wishes to show that there is room for action even in some of the most difficult parts of the world.

From a human rights perspective, the sole consideration for a company operating in, or trading with, a high risk area is not whether it may make a difference by leaving or staying. The primary issue is rather how and to what extent a company uses its opportunities to act as a defender of human rights, and how well human rights are embedded into its day-to-day and long-term strategic work. This report reflects different company choices and approaches. There are many examples of companies disrespecting human rights, directly or indirectly, when trading with countries marked by repression and conflict. This report also shows that some companies do behave as active defenders of human rights, by taking progressive action that challenges repressive or unsustainable structures, or by finding ways to honour the spirit of international standards when legal limits are in force. Here are a few examples:

- **Equal opportunities:** Saudi Arabia’s political and legal system systematically suppresses the rights of the country’s 14 million female citizens. A few years ago Swedish packaging manufacturer Tetra Pak’s name hit the headlines of the Saudi press after the company had decided to challenge the prevailing view of Saudi women and employed the first female worker within its industry. Other Swedish companies such as ABB and Arla Foods are now planning to do the same, since attitudes in Saudi Arabia are slowly shifting. (Chapter 4.1.1)

- **Freedom of expression & privacy:** China’s government finds endless ways of controlling the country’s 384 million Internet users and extinguishing signs of dissent. But some companies are not just giving in to Beijing’s demands. In 2009, trade associations working on behalf of multinational companies resisted a plan that would have required computer manufacturers to pre-install filtering software on all new computers in China and the government finally retracted its demands. Google’s open protests against censorship one year later further increased the pressure on peer companies within the telecom and IT sector to question governments that are trying to silence dissent and political opposition. (Chapter 4.2.3)
• **Freedom of association:** No genuine trade union rights exist in China since the All-China Federation of Trade Unions (ACFTU) is the only union that the government allows. A few years ago, the HP computer company decided to make efforts to increase worker participation and influence, within the limits of the law. Some 4,000 migrant workers at two of HP’s supplier factories were trained by Hong Kong-based NGOs regarding their legal rights, and communication between management and workers was improved through additional training inputs. Several Swedish companies (Ericsson, Atlas Copco, Sandvik, SKF, Volvo and Tetra Pak) are also trying to strengthen the participation of workers by cooperating with Swedish union federations and the ACFTU with the aim of promoting collective bargaining within their own operations in China. (Chapter 4.1.3)

• **Peace through Commerce:** There are many examples that show how companies have contributed to tension in conflict-prone areas. However, the concept of Peace through Commerce is currently gaining ground and takes the form of microfinance projects, recruitment across ethnic divides and provision of goods that help to reconstruct societies. Several electronics companies have looked into ways of promoting peace in the Eastern Democratic Republic of Congo in the past year, an area ravaged by violence but very rich in the minerals used in electronic products. (Chapter 6.3)

• **Boycotts vs engagement:** The Swedish-Swiss engineering company ABB is another example of a company that tries to “do no harm” when trading with conflict-affected areas of the world. Together with the UN Global Compact it helped establish a local network in Sudan after the civil war in order to determine if it would be possible for companies to operate to the benefit of the Sudanese people rather than its repressive government. The company finally decided to withdraw. As a consequence of its experience from Sudan, ABB now includes human rights aspects in risk assessments of future and ongoing projects. The company has refrained from doing business with certain clients over the past few years when human rights risks have been too high. Contracts have been cancelled and ABB has tried to influence its clients by raising concerns when problems have arisen on the ground, sometimes in cooperation with other suppliers. (Chapter 6.3)

• **Corruption:** All forms of corruption tend to negatively affect human rights, either directly, indirectly or remotely. The Vietnamese Chamber of Commerce and others are currently partnering with multinational companies, such as Ericsson, in order to mobilise local business community and government agencies to act against widespread corruption. This country scores among the lowest in global corruption indexes. (Chapter 5.2)

In this report Swedwatch discusses different types of dilemmas and presents recommendations linked to each one. Through presentations of relevant guidelines, as well as case studies exemplifying both positive and negative impacts of company activities, Swedwatch tries to define some sort of best practice in the
field. Withdrawal, divestments and bans are recommended only as a last resort. The organization believes that businesses can be an active force for change and peace in several of the world’s high-risk areas, but due diligence and sufficient resources are necessary to avoid doing harm. Companies must respect international law. At the end of the day the burden of proof for doing so should lie with the companies themselves who have to present credible evidence that they do not cause harm and also open up for independent monitoring and verification of their effects on the ground.

**SWEDWATCH RECOMMENDS THAT COMPANIES**

- Conduct due diligence when deciding whether they should stay or leave, trade or not, and how they should design their work in order to respect human rights wherever their operations are.¹

- Design due diligence processes that are sensitive to *all* aspects of human rights, as well as to corruption and conflict. They should include clear policies, risk assessments and the integration of human rights issues into activities, strategies and goals. This work should be periodically evaluated, internally and externally, by independent third-party organizations. Reporting should be relevant and include information on how current deficits are to be addressed.

- Try to negotiate exceptions from legal requirements that conflict with international standards for human rights. It is not uncommon that there is room for interpretation, as well as discrepancies between laws or between requirements from public authorities.

- Include local actors, such as the people on the ground, when risks are assessed, policies are implemented and activities evaluated and monitored.

- Collaborate with peer companies, local stakeholders, home governments and others to amass strength and influence since these are problems that may be difficult for one single company to address on its own.

More issue-specific recommendations are presented at the end of each chapter in this report.

¹ The UN framework, presented by the Special Representative of the UN Secretary General on business and human rights (John Ruggie), describes due diligence as a process where companies not only ensure compliance with national laws but also manage the actual risk of disrespecting human rights. The scope of this due diligence process is determined by the context in which a company is operating, its activities, and the relationships associated with those activities.
SWEDWATCH RECOMMENDS THAT INVESTORS

- Use their influence and require companies they hold shares in to set up robust due diligence processes in order to control their human rights impact.

- Apply due diligence when deciding on investments and divestments in companies operating in countries with repressive regimes and in conflict zones.

SWEDWATCH RECOMMENDS THAT THE SWEDISH GOVERNMENT

- Proposes preventive legislation that requires companies operating in, or trading with, high-risk areas to conduct proper due diligence. Some UN treaty bodies explicitly encourage governments to take steps to prevent abuses by companies operating abroad. Voluntary mechanisms are a good place to start, however this approach is obviously only embraced by the willing.

- Promotes a strengthened version of the OECD Guidelines for Multinational Enterprises so that it firmly stresses companies’ responsibility to respect human rights and includes clear guidance regarding dilemmas related to repressive regimes and conflict zones.

- Secures access to effective remedy for people whose rights have been disrespected by Swedish companies.

- Ensures that its trade, development and foreign policy agendas do not conflict.

- Aligns its work with other domestic actors such as export credit agencies, public pension funds etc. in order to ensure that they use their influence and require companies to set up robust due diligence processes in order to control their human rights impact.
1. Introduction

Corporate Responsibility (CR) is increasingly under discussion within companies and in public arenas. How can companies best contribute to sustainable development in developing countries? And where should the line be drawn between corporate and state responsibility? These are two important questions that underlie the current debate, intensified by recent reports published by the UN Secretary-General’s Special Representative on business and human rights, Professor John Ruggie.

Through this report, Swedwatch aims to contribute to the ongoing discussions by analyzing situations when national law or requirements by public authorities conflict with international standards of human rights. States bear the primary responsibility of protecting their citizens’ human rights, but what happens when the state refrains from doing so and even requires or expects companies to, directly or indirectly, disrespect human rights or engage in unsustainable business practices? This type of dilemma often faces companies that operate in countries with repressive regimes and in conflict zones. There is, however, quite often a lack of guidance for companies that aim to respect human rights even in the most problematic areas of the world. As will be shown in this report, some issues are not covered, or only vaguely touched upon, in existing guidelines.

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2  In this context sustainable development is defined as the simultaneous pursuit of economic prosperity, environmental quality and social equity.
3  John Ruggie’s reports to the UN Human Rights Council are found on www.business-humanrights.org/SpecialRepPortal/Home.
Trade and investments do not automatically generate poverty reduction and respect for human rights. Instead, sustainable and well-thought-through governmental and business strategies are needed to make sure that the communities and workers affected actually benefit from business activities. While facing immense global challenges, multinational companies (MNCs) are currently choosing different paths. Some tend to hold on to a more defensive approach, only reacting to problems as they occur mostly in order to handle reputational risks. Others choose a more proactive and interactive manner, by engaging with stakeholders at an early stage to address the root causes of complex societal problems and thereby contributing to change.

This report argues for increased proactivity amongst multinational companies and interaction with people and communities affected by corporate activities. Swedwatch is, in principle, in favour of trade and investment in all parts of the world and we acknowledge the potential that trade and investment have for poverty reduction and the realization of human rights. However, a presence in countries with repressive regimes or in areas of conflict entails increased risks and the responsibility to be not merely a passive bystander. The following chapters discuss how this responsibility could be translated into concrete action.

2. Methodology

This report is a result of desk research conducted in 2010, based on a review of literature and online sources, as well as conventions and other instruments that are relevant to the issues discussed. Interviews have been conducted with company representatives and people with insight into business operations in the countries described. Issue-specific recommendations are presented at the end of each chapter and concluding remarks in Chapter 7. The UN framework (presented in Chapter 4) and Swedwatch’s guidelines for companies are used as starting points for the analysis.

The intent is not to be comprehensive on the topics discussed in this report, but rather to present dilemmas and suggestions for best practice and further reading. Neither does the report include a full evaluation of any company mentioned in this text. Instead it discusses special issues facing companies in countries with repressive regimes or marked by other conflicts, and how different companies have chosen to deal with them. The companies mentioned have been given the opportunity to read and comment on these findings before publication.

Warm thanks to Henrik Alffram, specializing in human rights law and human rights-based approaches to development at Rightshouse, a Swedish-based consultancy firm. He has reviewed this report before publication and contributed valuable comments. Swedwatch bears, however, the full responsibility for the final text.

3. Background

The modern version of Corporate Responsibility (CR) was born partly as a result of decreased state regulation of MNC activities in the 1980s and 1990s. Codes of Conduct and CR became voluntary responses to address the regulatory gaps that existed at both the national and the international levels. A lack of legislation, or a lack of will or ability to enforce laws, is however not the only problem. Difficult situations also occur, for example, when existing laws conflict with international standards on human rights or when government orders or requirements from public authorities mean that MNCs, directly or indirectly, disrespect human rights. Such situations often occur in states marked by repression or conflict. Over the last decade, Swedish trade with several of these countries, such as China, Saudi Arabia, Russia, Kazakhstan, Libya, Iraq and Vietnam, has increased. Swedish exports (not imports) have also increased to Iran, Colombia, the DR Congo, Zimbabwe, Azerbaijan and Uzbekistan. All these countries are classified as “not free” or only “partly free” by Freedom House.

3.1 Companies’ responsibility to respect human rights

The UN Declaration on Human Rights (1948) states that “every individual and every organ of society”, i.e. also companies, has some kind of responsibility for upholding international standards for human rights. In a comprehensive effort to distinguish the boundaries between state and corporate responsibilities, the UN Secretary-General’s Special Representative on business and human rights, John Ruggie, has developed a new framework that is widely referred to as “the UN framework for business and human rights”. It distinguishes between states’ duty to protect against human rights abuses by third parties, including businesses, and companies’ responsibility to respect human rights. Finally, the UN framework stresses the need for greater access to remedies for victims when violations occur.

But what does corporate responsibility to respect human rights mean in practice? The Special Representative defines it as “avoiding the infringement of the rights of others and addressing adverse impacts that may occur”. This responsibility applies to all companies, in all situations and is independent of the duties of states. According to the Special Representative, the firm’s size, influence and profit margins are not factors that define the scope of the company’s responsibility to respect human rights. Instead impacts do, direct as well as indirect

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5 Jenkins R., 2001. Other drivers for CR include values of CEOs and other employees, stakeholder pressure and the need for improved risk management and a social license to operate (see further in Chapter 6.2).
6 Trade statistics from Statistics Sweden (SCB) and information from Freedom House, 2010.
7 UN Declaration on Human Rights (1948), preamble.
8 John Ruggie’s reports to the UN Human Rights Council are found on www.business-humanrights.org/SpecialRepPortal/Home. He has been mandated to translate the UN framework into guiding principles that are to be presented in June 2011.
impacts through the firm’s relationships with other actors. Moreover, John Ruggie states that the responsibility to respect applies to all human rights, although some rights may be more relevant to a particular company depending on the local context and sector activity. It is a baseline responsibility and a company cannot compensate for human rights harm by doing good deeds elsewhere or by engaging in philanthropic activities unrelated to its impacts.9

Ongoing due diligence is what the Special Representative recommends companies to carry out in order to become aware of, prevent and address its human rights impacts. The UN framework describes due diligence as a process where companies not only ensure compliance with national laws but also manage the actual risk of disrespecting human rights. The scope of this due diligence process is determined by the context in which a company is operating, its activities, and the relationships associated with those activities. The process should include the development of human rights policies and assessments of both actual and possible future human rights impacts. Moreover, control systems and activities aimed at tracking and reporting performance need to be set up. Grievance mechanisms should be added to provide remedy for victims and identify risks and concerns at an early stage.10

The Special Representative’s discussions lie close to the concept of ‘do no harm’, widely adopted in the humanitarian and development communities. Even when intentions are good, actors may do harm when applying “normal” approaches without taking local complexities sufficiently into account. This goes for both international organizations and companies, particularly in areas marked by war or other strong unresolved tensions (see further in Chapter 6).

MNCs often state in their Codes of Conduct that they should abide by national laws. Swedwatch does not suggest differently but will, in the following sections, describe risks for adverse direct or indirect human rights impacts associated with legal compliance or compliance with other requirements from public officials in countries with repressive regimes. We will also discuss possible strategies when the “normal” business approaches or a company’s standard CR format is not sufficient to avoid doing harm, for instance in conflict areas or in countries where corruption is rife. The aim is both to show how different firms have dealt with such dilemmas and to suggest possible ways to become a proactive force contributing to peace and respect for human rights even in these risky areas of the world.

Beyond respect?

At the same time as companies are increasingly asked to take on responsibilities regarding human rights, a parallel discussion is underway on the limitations of corporate-focused strategies as concerns creating development and advancing human rights. The UN Secretary-General’s Special Representative on business and human rights stresses that voluntary practices by companies should not be regarded as substitutes for adequate government action. However in several fragile states, companies share or even take over the functions of protecting, facilitating or enabling citizens’ rights when the state is absent. The boundaries between the public and the private sphere are blurring and consequently the expectations of people affected are shifting. A few examples:

- While the Indonesian state has refrained from providing the province of Papua with sufficient social services over the past few years, the mining company Freeport McMoRan (mentioned in Chapter 6 in this report) has spent around USD 100 million on healthcare for local communities in the province in the past decade.

- Local Chinese governments refrain from granting rural migrant workers social rights in Chinese cities. Instead companies are expected to provide housing and medical care within factory campuses.

- In the Democratic Republic of Congo, mining companies are obliged by law to engage in socio-economic activities that are not related to mining, such as building schools, hospitals and roads.

Local organizations highlight that there is an imminent risk of corrupt states trying to make companies shoulder basic state obligations, instead of letting democratic processes shape content and taxing companies sufficiently to help finance the work. As Swedwatch sees it, different countries will require different solutions. It is of utmost importance that employees, relevant communities and their representatives are involved when companies decide on corporate strategies.


FURTHER READING:

SWEDWATCH's GENERAL RECOMMENDATIONS TO COMPANIES ON HOW TO APPLY DUE DILIGENCE

1. Conduct assessments of risks and opportunities
Since the world is constantly changing, assessments should be conducted periodically. The local context, impacts of business activities and the company’s relationships with other actors should be thoroughly analyzed from a human rights perspective. Engaging with stakeholders, not least local people whose situation is affected, enables a company to obtain information about the opportunities, concerns, priorities and values of those affected by company activities. Engagement also makes it possible to address issues proactively as they emerge, instead of being forced to manage them when they have escalated and might be more difficult to solve.

2. Adopt a Code of Conduct and other policies
Codes and policies declare the company’s commitment and express what the firm expects from its employees and others they work with. These documents should cover the issues identified in the assessment above and refer to relevant international conventions and principles. Preventive effects are most likely to occur if these documents are attached to contracts and agreements with business partners and thereby gain binding status.

3. Implement and integrate the values of the codes
Effective implementation requires effective management systems and the integration of the values of the codes into daily operations, tools, strategies and goals. This work includes training inputs and the establishment of incentives for employees and business partners such as suppliers. Sufficient resources and human rights expertise are needed in key functions of the firm to accomplish this and human rights should be a permanent item on the Board agenda. Collaboration with peer companies, trade unions and other civil society groups as well as home and host state actors is recommended in order to exchange knowledge and achieve more.

4. Monitor
The activities should be periodically evaluated internally and externally by independent, third-party organizations to make adjustments of policies and strategies possible. Grievance mechanisms for employees and outsiders are important tools for discovering deficits and identifying concerns. Audits should include off-site interviews with workers, preferably conducted by a neutral party who workers have confidence in.

5. Report
Transparency gives birth to credibility and opportunities for outsider input and feedback. Reporting should reflect the assessment of risks and opportunities, describe the processes and concrete activities that have been set up and present clear goals and timeframes. Swedwatch encourages the independent assurance of sustainability reports.
4. When national legislation & public requirements contradict human rights

4.1 Women & migrant workers in the Middle East

Saudi Arabia’s political and legal system systematically suppresses the rights of the country’s 14 million female citizens and eight million foreign workers. Women are treated as legal minors as male guardians determine their right to work, study or travel. Systems set up by the rulers give employers disproportionate power over foreign workers.11

As of today, some 40 Swedish companies run operations in Saudi Arabia and hundreds of Swedish companies work through local partners. During the first six months of 2009, in the midst of the global recession, Swedish exports to Saudi Arabia increased by 35%. Exports to other countries in the Middle East have also increased sharply. Countries such as Iran, Oman and Bahrain experienced the highest growth rates in 2008.12 These are all countries that should be regarded as high-risk countries with regard to human rights.

4.1.1 Tetra Pak: grasping an opportunity to act

Swedish packaging manufacturer Tetra Pak has operated in Saudi Arabia since the 1950s. In 2005, the company decided to challenge the prevailing view of Saudi women. While many other companies perceived it to be impossible to employ women within a manufacturing industry dominated by men, Tetra Pak applied for a permit to employ the first woman to work at the company’s marketing department. Due to the fact that the Saudi regime forbids men and women to mix in the workplace and in public areas, Tetra Pak had to arrange a separate infrastructure for the new employee (separate office room, toilet and entry). The company aimed at implementing its Code of Conduct and argued that, from a business perspective, it was silly not to employ women and utilise the best possible competence for the job.13

More women have entered the private sector in Saudi Arabia since 2005. When contacted in 2010, several Swedish companies with manufacturing or assembly plants in the country stated that attitudes are slowly shifting.14

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12 Swedish Trade Council, 2010 and undated.
13 See further in Swedwatch, 2005.
14 Information from AVI, Arla Foods and ABB in June 2010.
“Clearly views are changing in the Kingdom of Saudi Arabia as more households become dependent upon a second income. A large university for women is currently being built by the Government in Riyadh and will, in the fullness of time, produce highly qualified women graduates who will look for gainful employment in Saudi Arabia”, writes Mark Farrell, Director Legal Services of AVI, a joint venture between Volvo Tucks and the Saudi Zahid Group.

AVI currently employs no women in Saudi Arabia, but other companies within the Zahid Group have hired women to work with IT, finance, administration etc. Tetra Pak currently employs three women who work with marketing and human resources. ABB informs Swedwatch that they are in the process of hiring women for their communication department and other support functions in Saudi Arabia as soon as they manage to attract women; however they perceive that this group has so far been more interested in government jobs. Arla Food’s joint venture Danya Foods planned to hire women for their dairy production plant in Riyadh in 2006, but the company’s expansion and hiring plans were put on hold when the recession started two years later.

**SWEDWATCH’S RECOMMENDATIONS**

- Companies that operate in countries where women are discriminated against through legislation or public requirements are encouraged to question these structures when they interact with state representatives.

- Companies operating in Saudi Arabia are recommended to promote the attitude shift towards women that is currently taking place on the country’s labour market.

- Swedish companies should take a contextualized approach and integrate a gender perspective into their policies and programs. Several studies describe lost opportunities for respecting and realizing human rights when this is neglected.\(^{15}\)

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17 Much of the global economic growth the past decades has taken place thanks to the work of migrant workers. They manufacture our food, shoes, toys, clothes and electronic items and send back much needed income to poor regions and countries. Millions of migrant workers are found in the Middle East where sponsorship (kafala) systems tie the migrant worker’s immigration status to their employers who become their sponsors. Without the employer’s consent the worker cannot change jobs or leave the country. In combination with major obstacles to freedom of association, this old-fashioned system awards disproportionate powers to the employer.

Swedwatch recommends that companies operating in states where the kafala system exists question these rules and regulate issues related to migrant workers’ rights in their Codes of Conduct. Authorities often argue that the aim of the kafala system is to protect companies from scenarios where workers suddenly quit or run away. Providing good working conditions, respect and trust are better alternatives that should be marketed abroad by foreign companies aiming to respect and promote human rights.

In September 2010, the government of Kuwait announced that it would abolish its kafala system, a shift that hopefully will be replicated in neighbouring countries of the Middle East. Pressure from the international community is much needed.

READ MORE about what companies, governments, investors and auditors could do in order to protect migrant workers’ rights and well-being across the globe at Verité’s website (www.verite.org/WellMade).

Source: Human Rights Watch, 2010a-c.

4.2 Helping repressive regimes to control the opposition

The products and services of IT and telecom companies have the potential to support processes for democratization and economic development by increasing exchange of ideas and access to information. Unfortunately, the same products may be used against such goals when applied to the censure of content and control of citizens.

4.2.1 The case of Yahoo (China), TeliaSonera (Azerbaijan) & Nokia Siemens Networks (Iran)

In 2004, journalist Shi Tao was sentenced to ten years in prison in China. Internet company Yahoo! Inc. had provided Chinese authorities with his email correspondence, which contributed to the verdict.16 A similar incident took place in Azerbaijan in 2004 when telecom operator Azercell, where Swedish-Finnish TeliaSonera is the majority owner, reportedly let the regime monitor mobile phone calls of customers.17 In both cases, while referring to the need to adhere to government demands and national legislation, the consequences for those

involved were severe. One dissident in Azerbaijan was sentenced to five years in prison, but was released after one year due to pressure from the EU and others. Three years later he still suffered from the after-effects of torture.\(^{18}\) When contacted by Swedwatch in 2010, TeliaSonera stated that they could not comment on details regarding these events.

“Normally the authorities need to be able to show a court order before monitoring calls or receiving phone call lists. This is the procedure in Sweden and from what I understand it is also what applies in Azerbaijan. We have policies in place for these issues but cannot urge employees to act in violation of national laws,” says Patrik Hiselius, legal expert at TeliaSonera’s Department for Group Communication.\(^{19}\)

Another case related to the same topic involved Nokia Siemens Networks in Iran, where dissidents and journalists were monitored and arrested during last year’s protests. In June 2010, during a hearing in the European Parliament, a company representative of Nokia Siemens Networks confirmed that a “monitoring centre” had been part of their larger contract with one of Iran’s leading mobile network operators. “We believe that we should have understood the issues in Iran better in advance and addressed them more proactively,” said an executive board member of Nokia Siemens Networks during the hearing. He stressed that the company was in the process of strengthening its policies and

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18  Seko-tidningen, 6 Sept 2006.
19  Interview, 19 May 2010.
procedures and that the division that used to sell the monitoring centres had been sold off in March 2009. Moreover, the company decided in 2010 not to take on new customers and limit its activities with current customers in Iran.20

4.2.2 Global Network Initiative

Is it possible for IT and telecom companies to operate in repressive regimes without becoming complicit in human rights abuses? Is it possible for companies in these countries to be active defenders of privacy and free speech? The Global Network Initiative, a multi-stakeholder initiative launched in October 2008, is trying to set up a system that deals with these issues.21 It includes principles and useful guidelines regarding freedom of expression and privacy. Participating companies agree to “respect and protect the freedom of expression of their users by seeking to avoid or minimize the impact of government restrictions”. Furthermore, they agree to lobby, individually or together, to promote internationally recognized standards. The initiative was launched after a long period of talks. Finally, Human Rights Watch decided to participate in the initiative, while Amnesty International found its statements too vague and withdrew before the launching.

Although the effects of the initiative remain to be proved22, the fact that its member companies must be transparent and allow independent assessments of how they implement agreed principles are very welcome. Google, Microsoft and Yahoo! Inc. are members of the initiative, while, for example, Swedish operators are not. TeliaSonera participated in the talks that preceded the launching of the initiative but decided not to join in the end, partly due to the requirement to allow independent assessments.23

20 Nokia Siemens Network explained during the hearings that they had provided so called Lawful Interception (LI) capabilities to two operators in Iran, as well as a related monitoring centre to one of them. LI is an internationally recognized agreed approach for law enforcement authorities to intercept communications running over networks within their jurisdiction. It is present in the majority of the world’s networks, may be used for the purpose of combating terrorism, child pornography and other criminal activities carried out online but also to violate human rights. The monitoring centre, on the other hand, instructs the LI capability on what to intercept and where to send intercepted information. Nokia Siemens Networks finds the monitoring centres to be more “active” and most problematic from a human rights perspective. This explains why the division of the company that used to sell these centres was sold off at the end of March 2009. The company does, however, not intend to stop providing customers with LI capabilities, since governments in almost all nations require operators to deploy LI. Nokia Siemens Networks, 2 June 2010; Nokia Siemens Networks, 4 Sept 2010 and Nokia Siemens, 2009 (section on Privacy and human rights).


22 Monitoring will start in 2011. Interview with Arvind Ganesan, Director for Business and Human Rights at Human Rights Watch, 7 June 2010.

23 Interview with Patrik Hiselius, 19 May 2010. TeliaSonera also felt that the Global Network Initiative suited Internet companies better than telecom operators.
4.2.3 Google increases the pressure

According to Human Rights Watch, Global Network Initiative has already affected its members’ ways of thinking about human rights issues. One much highlighted example is Google which agreed to restrict access to information for Chinese users in order to get a license to operate in China in 2006. The company assumed that its presence would lead to reduced control of Chinese citizens. However, as the contrary became reality and the company became exposed to unprecedented cyber attacks that targeted Gmail users who were human rights defenders, the company announced in early 2010 that it would stop censuring its Chinese search engine google.cn and was prepare to withdraw from China if needed. After two months of fruitless talks with the Chinese government, the company redirected searches to its uncensored Hong Kong-based site. By doing so the act of censorship shifted from Google to the Chinese government. Chinese surfers could, however, still not access many links that were blocked by the government’s filtering system, the so called Great Firewall of China.24

By publically standing up to the Chinese government’s efforts to deprive the country’s citizen of their rights, Google set an important example. The company’s protest, as well as the debate that followed, also increased the pressure on other IT and telecom companies to do more in order to gain credibility when claiming that they are forces for democracy even in repressive states. And Google is not the only company that has refused to give in to government demands in China lately. In 2009, trade associations working on behalf of multinational companies resisted a plan that would have required computer manufacturers to pre-install filtering software (Green Dam) on all new computers in China. They were supported by US trade officials who threatened to bring the issue to the World Trade Organization and Beijing finally retracted its demands. Shortly afterwards, however, the government struck back. One ministry required all network providers (not manufacturers) to install filtering software on their servers instead, and individuals are urged to install Green Dam on their PCs. Moreover, many Internet cafes now require users to log on with new IDs containing an implanted chip.25

The Chinese government seems to find endless ways to control any sign of political opposition. Single company actions, such as Google’s, may shed light on the state’s abuses against China’s 384 million Internet users, but larger joint efforts by numerous companies and whole industries, supported by home country governments, are required to gain more ground.

**SWEDWATCH’S RECOMMENDATIONS**

Apart from publically committing to honour freedom of expression and the right to privacy, as well as joining the Global Network Initiative, Swedwatch recommends that companies:

- Make known to the government the company’s principled opposition to implementing any request which breaches international human rights norms and try to negotiate an exception with the state.

- Exhaust all judicial remedies and appeals when state directives have human rights implications. It is not uncommon that there is room for interpretation, as well as discrepancies between laws or between requirements from public authorities.

- Publicly make available information about agreements between the company and the government with implications for suppression of dissent and censorship of information.

- Publicly report on human rights considerations with regards to decision making in repressive regimes and how the company’s values and reputation will be compromised if it assists governments to violate human rights.26

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26 These are based on Amnesty International’s recommendations for IT and telecom companies in China, Amnesty, 2006, p 28.
Google’s Transparency Report

Google has decided to disclose the number of requests that the company receives from government agencies to remove content and provide user information. The tool is incomplete but in the process of further development. Figures are presented by country and with regard to content removals Google has published data about the percentage they have complied with, fully or partially. The figures show that Google has challenged government demands, not only in China. During the first half of 2010, most requests were received in the US, Brazil, India, Libya, Germany and the UK. No information is available for China, however, since China considers this type of information to be a state secret.

Source: www.google.com/transparencyreport/

4.3 Ways to increase workers’ participation in China

China has not ratified the ILO conventions on the right to organize and bargain collectively (nos. 87 and 98). The All-China Federation of Trade Unions (ACFTU) is the only union that the government in Beijing allows to operate in China. It is subordinate to the Communist Party and representatives are not elected in a genuinely democratic manner. Moreover, the right to strike was removed from the Constitution in 1982 on the assumption that the Communist Party had “eradicated problems between the proletariat and enterprise owners”. Even though local police and authorities have tended to mediate rather than to violently suppress labour unrest over the last few years, workers risk being detained or imprisoned if they participate in collective protest actions.

4.3.1 Workers no longer ‘easy to manage’ – the case of Honda

In June 2010, young migrant workers outside one of Honda’s component factories in Foshan, China, clashed with the people who claimed to be representing them. Representatives of ACFTU urged workers to go back to their work stations at once but the workers refused, expressing their demand for higher wages. As a consequence, Honda’s car assembly plants in China stood idle seve-
ral times in mid-2010 due to strikes at this component factory in Foshan as well as at other places of the country.27

“[So called] 'democratic' elections of trade union chairs in Chinese enterprises are not uncommon. The problem is that workers don’t get to choose the candidates. They are usually selected by management and the higher level union federation. Very often the “election” is a pro forma exercise and the workers have no trust in the ability of their “elected” official to actually represent their interests”, comments Geoff Crothall, Director of Communication at China Labour Bulletin (CLB).28

China’s migrant workers are often described as the backbone of the Chinese economic miracle. They used to be famous for being ‘easy to handle’ but strikes, sit-ins and slowdowns have become an increasing feature of Chinese industrial life. The events at Honda are only one example of thousands of open protest that are taking place in China each year and labour disputes have become one of the single most important causes of social unrest in the country.29 The second generation of migrant workers is demanding more than their parents did and wage level is an issue of highest priority for many of them. The minimum wage that many workers earn for full-time work is still far below what is considered to be a living wage.30

Given the lack of genuine trade union rights in China, many foreign companies that are operating in, or sourcing from, the country tend to skip the part of their Codes of Conduct that express these rights. However, without participation workers become passive beneficiaries of good intent through top-down approaches instead of getting the chance to define problems and have a say in how buyers or owners should prioritize between issues in their CR work. A few frontrunners are, however, acknowledging this deficit and are looking into ways of increasing workers’ participation. Such efforts could never replace genuine union rights, but if they are well designed they could lead to much-needed participation in decision-making processes for workers at factories in China.

27  Financial Times, 2010a-e.
28  Interview in Hong Kong, 1 June 2010 and follow-up interview by e-mail, 25 June 2010. CLB publishes in-depth studies on workers’ rights in China. The organization cooperates with labour groups and law firms both within and outside China. It supports the development of democratic trade unions as well as respect for and enforcement of the country’s labor laws. Website: http://www.china-labour.org.hk/en/.
29  For an overview of workers’ rights, the role of the ACFTU and recent protests and legal changes, please refer to China Labour Bulletin, 2007.
30  Recent wage increases have failed to keep up with inflation and soaring prices of food and housing and the old-fashioned residential registration system, the hukou, discriminates against rural citizens who are insufficiently covered by the social security system. To save money and provide for family members back home on the countryside is of great importance. In mid-2010 the minimum wage was increased in Shenzhen to CYN 1,100 but an often mentioned estimate for a living wage is roughly CYN 2,000. Honda’s workers in Foshan, where the minimum wage is CYN 920, used to earn CYN 1,000 to 1,500 as basic wage. In the end Honda’s management agreed to raise their wages by 24%, to about CYN 1,300–1,900. (IHT, 29–30 June 2010).
4.3.2 Hewlett-Packard: educating workers about their rights

HP is one company that is trying to develop best practice within this area. A couple of years ago they initiated a pilot project aimed at raising awareness among more than 4,000 workers concerning their legal rights and at promoting better communication systems at two supplier factories. Hong Kong-based labour NGOs carried out the training inputs. In addition to this, workers’ committee members at one of the factories where trained in how to represent their colleagues. An independent hotline was established and run by the same NGO, which communicated the grievances and concerns of workers to management while safeguarding anonymity. After the project ended, the workers’ committee took over the operation of the hotline. In the second factory a booklet was produced by the NGO, containing information about the workers’ rights according to HP’s Code of Conduct and Chinese legislation. The idea of the booklet was to make it possible for the participants to also pass on information to other colleagues and workers in future work places. HP and the suppliers split the costs; HP financed the training programs while the suppliers paid wages to workers during the training inputs. At the end of the project trust between workers and management had been built up and improvements regarding working conditions had been made at both factories.31

“Workers’ rights training and efforts to improve communication between management and employees at our suppliers’ factories in China will remain an area of highest priority for us the coming years in order to make sure that our Code can be followed and that high turnover rates are reduced”, says Ernest Wong, HP’s Supply Chain Program Manager for Asia, Pacific and Japan.32

In total, HP became involved in four training projects in 2009 and five are scheduled for 2010. They encourage suppliers in China to hold refresher training and to form workers committees that may also function as communication channels. In addition, HP’s factory audits include checking how suppliers train workers on the content of HP’s Code of Conduct.

4.3.3 Room for action

The multi-stakeholder initiative Ethical Trading Initiative (ETI), with corporate members such as Gap, Marks & Spencer and the Body Shop, confirms that there is currently room for buyers and factory owners to promote increased workers’ participation and influence over workplace conditions in China. ETI’s China representative, Dimitri Kessler, says that different levels of the Chinese government and the ACFTU allow some experiments and intervene only if they feel that something poses a risk to their authority or public order. He is aware of companies that support ‘democratic’ elections of workers representatives and efforts to work through workers’ committees to give workers a stronger

31  Fair Trade Center, 2009 and Sacom 2009a & b.
32  Interview in Hong Kong, 26 May 2010.
role in resolving problems with employment conditions. There is a growing trend of suppliers setting up these committees.

“But getting from there to genuine and effective collective bargaining is ambitious and difficult, and I don’t think Codes of Conduct will deliver this without more government support”, says Dimitri Kessler.33

At the same time the number of strikes is increasing, risking not only stability but also production halts and delivery delays for businesses, which the Honda case clearly demonstrates. The number of open protests in the streets in 2008, released by the Communist Party, was up almost 50 percent from the figure in 2005.34 There are calls for reformation of the ACFTU, also from within its own ranks, so that workers do not continue to see ACFTU as “irrelevant to their needs” as the China Labour Bulletin describes it. The government acknowledges the need for improved grievance channels for workers in order to ease tension. It has, for example, become easier for workers to file cases in public arbitration committees. In Guangdong Province, a revision of regulations regarding collective wage consultations is currently under discussion which, if passed, would strengthen workers’ rights and their role in the collective consultation processes. The Chair of the Standing Committee of the Guangdong People’s Congress commented on the draft regulations by saying that “the main objective of this legislation is to resolve the problem of inhumane conditions and excessively low wages at enterprises. The enterprise is a cell in the body of

33 Interview conducted in Hong Kong, 31 May 2010, and follow-up e­mail correspondence 30 July, 2010.
society. For the stable development of that society, it is essential to ensure that enterprises establish democratic management, normal mechanisms for wage increases and harmonious industrial relations”. 35 China Labour Bulletin has welcomed the content of the proposed revision and stressed that it would benefit workers, as well as employers and the local government, however intense lobbying from the Hong Kong-based business community has led to a delay which might increase the number of open protests even further.36

SWEDWATCH’S RECOMMENDATIONS

It is not the role of companies to form unions but Swedwatch urges all companies, wherever they operate, to promote and declare its support for workers’ right to organize and bargain collectively in line with ILO conventions nos. 87 and 98. This could, for instance, take the form of encouraging management at supplier factories to develop relationships with trade unions and communicate clear business cases for doing so. Despite the lack of genuine trade union rights in China, companies are recommended to:

- Seize the current opportunity and engage in efforts to increase workers’ opportunities to participate in decision-making and channel their views and concerns. Unlike the initial union at Honda’s Foshan factory, some ‘democratically’ elected factory unions are functioning quite well. Workers’ committees on health and safety and other issues might also be used as platforms for inclusion of workers. Interviews with workers outside the factory premises can help establish how well the factory union or the committee works.

- Educate workers about their rights. It is, however, important to stress that such efforts need to be combined with management training about human rights, as well as the development of human resources skills and processes, so that increased awareness among workers can be translated into effective communication and concrete results.

China has a long way to travel before true trade union rights will be acknowledged, but as the HP case shows, there is room for action now. Audits should never replace effort to create a sound relationship between employees and management. Rather the opposite is true: unions and other channels for communication and participation in decision-making regarding workplace issues could reduce the need for auditing and external control. Swedwatch sees a great need for combining efforts for social compliance (through auditing) with efforts for social engagement (through capacity building and the involvement of the people affected) in order to achieve more substantial and lasting results.

Some food for thought

- An estimated 92% of workers in the garment industry globally do not belong to a trade union. Source: Oxfam, 2010.

- 24% of 400 garments workers interviewed in four Chinese cities in 2009 stated that they would reserve money for savings if they had a wage increase. About 13% stated that they would use the money for child education and other important family-related expenditures. Source: Fair Wear Foundation, 2009.

- Codes of conduct have had positive impacts on issues such as health and safety, child labour, working hours and for ensuring payment of the minimum wages and provision of insurance. Much less impact has been observed in relation to freedom of association, discrimination, harsh treatment and ensuring migrant workers’ rights. Source: Barrientos & Smith, 2006.

- In a collaborative project in 2009, Marks & Spencer supported three factories in their supply of worker training on their rights, as well as management training on productivity and human resource management. Seven months later productivity had increased between 20% and 61%. Average wages had increased while absenteeism and worker turnover had decreased by 85% and 65% respectively. Source: Oxfam, 2010.

FURTHER READING:

Some Swedish companies are promoting collective bargaining at their Chinese operations in cooperation with ACFTU and Swedish unions. Read more about the efforts of Ericsson, Atlas Copco, Sandvik, SKF, Tetra Pak and Volvo in a report from Fair Trade Center (www.fairtradecenter.se/node/1297).

Corruption is a major obstacle to poverty reduction and sustainable development, or as the World Bank President Robert Zoellick puts it: corruption is “a cancer that steals from the poor”.\textsuperscript{37} It distorts markets, stifles growth and undermines democracy as well as the rule of law. Consequently, corruption is recognized as one of the biggest obstacles to development. A study conducted by the International Council on Human Rights Policy shows that all forms of corruption tend to negatively affect human rights eventually, either directly, indirectly or remotely. Several UN bodies have concluded that states cannot comply with their human rights obligations when corruption is widespread. In the following sections extortive demands by public officials and bribes during public contracting are discussed – two forms of corruption which affect society in different ways.\textsuperscript{38}

5.1 Ikea: giving in to bribes in Russia

Swedish trade with the so called BRIC countries (Brazil, Russia, India and China) has increased rapidly over the last few years.\textsuperscript{39} At the same time business life in these countries is extensively ridden with corruption. In 2009, PricewaterhouseCoopers selected Russia as “the world’s most fraudulent economy”.\textsuperscript{40}

In February 2010, the Swedish furniture giant Ikea caught media’s attention when it was revealed that senior managers had approved bribes in order to solve a long-running dispute regarding electricity supplies to its mall in Saint Petersburg.\textsuperscript{41} Needless to say the incident was a great loss of prestige for Ikea since the company’s founder, Ingvar Kamprad, had stressed the importance of not giving in to corruption when the company launched its massive investments in Russia in 2000. Nine years later – after having invested some USD 4 billion in the country – the company announced that the expansion had been put on hold “due to the unpredictability of the administrative processes in some regions”. The statement was much highlighted in international media and interpreted as a polite description of Russia’s rampant corruption.\textsuperscript{42}

Companies operating in countries ravaged by corruption may end up in situations similar to extortion by public officials. Russian officials issuing permits usually present different artificial obstacles, such as coming up with last-minute allegations on safety problems before an opening or requiring buildings to be able to withstand hurricanes in areas not noted for high winds. In the

\textsuperscript{38} ICHR, 2009.
\textsuperscript{39} SCB trade statistics (2000–2009). Brazil: exports +7%, imports +48%; Russia: exports +180%, imports +417%; India: exports +388%, imports +121% and China: exports +82%, imports +280%.
\textsuperscript{50} 550 Swedish companies have operations in China and two companies are added each week.
\textsuperscript{40} Reuters, 20 Nov 2009.
\textsuperscript{41} Ikea, 13 Feb 2010.
\textsuperscript{42} Business Week, 2 July 2009.
former case, IKEA appealed up to the level of President Putin only to face similar problems later on again.\textsuperscript{43} There is no total estimate of how much the delays and disputes have cost IKEA in Russia over the last decade, but in 2009 Ingvar Kamprad estimated that the dispute over electricity supplies had cost the company some SEK 1.5 billion.\textsuperscript{44}

IKEA takes a clear stance against corruption in policies which have been further developed within different parts of the organization over the past few years. These policies are disseminated through annual development dialogues with each employee and through training inputs when local departments assess them as necessary. IKEA informs Swedwatch that they receive information about cases and concerns channelled through operational and risk managers each year. The cases mainly concern suppliers trying to secure orders by bribing IKEA’s purchasers and extortive demands from public authorities.\textsuperscript{45} In October 2010, the company informed Swedwatch that they had appointed a new country manager and adopted a new strategy for Russia. Expansion in the country will continue but the company will focus on consolidation and development of existing malls and projects rather than rapid expansion. They do not want to give further details about the conclusions of the company’s ongoing corruption investigation in Russia, but state that corrective action plans are taking shape. The company does, however, still believe that it is possible to do ethical business in all parts of the world, even in Russia.\textsuperscript{46}

\textit{“Russia is an important market for IKEA; we’ve been very successful in the country and are there to stay. But evidently we have had problems with several areas which are being dealt with. It won’t be fixed from one day to another but internal investigations are proceeding at different levels of}

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\textsuperscript{43} Business Week, 2009.

\textsuperscript{44} Swedish Broadcasting Service, \textit{Sommar}, 20 June 2009.

\textsuperscript{45} Interview with Kent-Åke Ahlgren, Trading and Operations Manager at IKEA, 11 June 2010.

\textsuperscript{46} Interview with Charlotte Lindgren, Global Chief Press Secretary at IKEA, 7 Oct 2010.
the organization and we will correct the deficits that appear,” says Charlotte Lindgren, Global Chief Press Secretary at Ikea.

Swedwatch has spoken to several people with insight into Russian business life. They all describe societal structures where corruption can thrive. Refraining from giving in to bribes causes costly delays, but one businessman says that the long-term costs of bribery may become even more costly since the demands tend to escalate and security costs caused by interaction with elements of the local mafia are hard to anticipate. There is no such thing as bribing just a little, says another source. If you give in to one official, everyone soon knows about it and will come asking for more. The construction sector, which Ikea enters when building new malls, is regarded as a high-risk sector. The law requires that companies engage a kind of agent, a zakaschik, who purchases all the services needed and secures all the permits. No zakaschik, no building. How the agent goes about when securing permits is difficult to control.

Regardless of sector, corruptive practices are largely regarded as extremely difficult to challenge if you do not have plenty of time, resources and established contacts within the administration. Business in Russia is done through favours and favours in return, and the definition of a bribe quickly tends to blur. While some Russians try to form alliances against corruption47, others see bribes as an extra tax or tip. Some types of corruption are considered to be consequence of greed while others are widely regarded as strategies for survival (see the box below).

“When the state does not offer much of a social security net, people tend to watch their own backs. The whole salary system for lower civil servants depends on bribes, since they earn far too little. Many people in Russia see bribing as a way of living, interacting and supporting yourself. And if even Putin does it, why shouldn’t I, they argue,” says one lawyer with seven years of experience in Russia.

Small bribes at high costs
Facilitation payments are a type of bribe that is often neglected in corporate policies. They constitute payments of smaller sums to speed up or grease the execution of a service, a kind of extortion demand from low-paid, low-level officials trying to make ends meet. Swedwatch supports Transparency International’s and the Swedish Anti-Corruption Institute’s stand of zero tolerance. A one-time payment often leads to several more, and sometimes also to demands for larger amounts. Essentially the practice reflects the state’s unwillingness to pay wages that officials and civil servants can live on. As for all types of corruption, it is easier to change local practices if several companies apply zero tolerance policies, and also if they approach state actors jointly to demand that they pay proper wages and adopt strict and clearly-stated legislation regarding facility payments. In 2010, Russia’s President Medvedev announced that salary levels within the country’s police force should be tripled to decrease the occurrence of bribes.

5.2 Collective action needed

The global civil society organization Transparency International (TI)\(^{48}\) is currently trying to challenge corruption in Russia through a joint project with small and medium-sized companies in Moscow. A hotline has been set up and companies may phone in for support when approached by authorities and others with extortionate demands. A team consisting of one ex-KGB official and one lawyer is immediately sent to the spot, to scare off or argue away the offender.

“This is an interesting project but for practical reasons it is impossible to roll it out over the entire country. Russia is extremely difficult. Corruption is sometimes supported by the state and sometimes not. It involves networks of very powerful people, and these networks are extremely difficult to break down. Some companies choose not to operate in the country for these reasons, others do. If you do and you are big, you should take a long-term view on this problem, engage in collective action with other companies and build ‘clean’ connections with government officials,” says Peter Wilkinson, member of Transparency International’s private sector team.\(^{49}\)

Another example of collective action is currently taking shape in Vietnam, a country scoring almost as low as Russia and Azerbaijan in TI’s corruption index. Several MNCs, in partnership with TI, the Vietnamese Chamber of Commerce and the International Business Leaders’ Forum, are actively trying to mobilize the local business community and governmental agencies to act against corruption. Tools have been translated and training inputs implemented. The Swedish Embassy in Hanoi is participating in the project through financing and input. In September 2010, the Swedish telecom company Ericsson and Baker & McKenzie had joined.\(^{50}\)

Other local projects include Transparency International’s Advocacy and Legal Advice Centres (ALACs) that offer free legal advice and assistance to victims and witnesses of corruption. About 50 ALACs are currently operating in 38 countries around the globe, dealing with cases reported both by citizens and companies. Based on this data, TI sets up advocacy strategies to bring about systemic changes in partnership with public authorities and actors from the private sector. These efforts have generated important impacts in countries where corruption is rife, ranging from the introduction of whistle-blower laws to the re-tendering of large infrastructure projects.\(^{51}\)

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\(^{48}\) www.transparency.org (international) and www.transparency-se.org (Sweden).

\(^{49}\) Interview, 18 May 2010.

\(^{50}\) The official name of the project is "The Integrity and Transparency in Business Initiative for Vietnam". Information from Chris Leung of IBLF, 19 and 23 May 2010, and from the Swedish Embassy in Hanoi, 14 Sept 2010.

\(^{51}\) www.transparency.org/global_priorities/other_thematic_issues/alacs.
SWEDWATCH’S RECOMMENDATIONS

The corruption issue is addressed in several conventions and guidelines for businesses, but the most elaborated stand is presented by Transparency International which has presented valuable guidelines and a Six Step Process chart to advise companies in more detail on how to deal with corruption. The overall recommendations are in line with Swedwatch’s general ones, presented in this report on p 14. In addition to these Swedwatch would like to highlight the need for:

- Clear policies and regular training of employees, as well as secure and accessible mechanisms to channel concerns and report violations without fear of reprisal.
- Due diligence approaches with regard to new business partners, including suppliers, agents and other intermediaries.
- Anti-corruption clauses in contracts to signal risk of termination if they are violated.
- Job rotation in order to avoid one single employee controlling one function within a company for several years and therefore being able to be involved in bribery without anyone else noticing.
- Clearance and transparency to several employees before major business deals are settled.
- The presence of CR officers when important transactions are discussed and settled.
- Collection of input from employees during training sessions and records of reported cases that can serve as guidance on how the work should be adjusted.
- Robust reporting which describes corruption risks related to the company’s activities, the program that has been set up to manage these risks, as well as information about the number and character of reported cases and how they were dealt with.

Swedwatch recommends that Ikea include information about its anti-corruption work in its next sustainability report. Furthermore, Ikea and other companies should look into opportunities to become involved in collective action in countries where corruption is widespread.

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52 See for example The UN Convention against Corruption, The OECD Convention on Combating Bribery of Foreign Public Officials in International Transaction, the Global Compact’s 10th Principle and the OECD Guidelines for Multinational Enterprises, Chapter VI.

FURTHER READING:

Transparency International provides useful principles (www.transparency.org/global_priorities/private_sector/business_principles) and implementation tools (www.transparency.org/global_priorities/private_sector/business_principles/six_step_implementation_process) as well as annual perception indexes (http://media.transparency.org/imaps/cpi2009/) showing where corruption is most widespread.

The Business Anti-Corruption Portal, created by several European ministries, provides information about risks, legislation and valuable tools regarding corruption. It is free of charge and includes contact information for potential local partners: www.business-anticorruption.com.

Guidance material is also available on the websites of the UN Global Compact (www.unglobalcompact.org/Issues/transparency_anticorruption/Anti-Corruption_Guidance_Material.html) and the International Chamber of Commerce (www.iccwbo.org/policy/anticorruption/id13018/index.html).

5.3 Bidding for contracts in fragile states

In 1996 the founder of the Lundin Group, Adolf Lundin, offered a financial contribution to President Mobutu, the former leader of Zaire (today the Democratic Republic of Congo, DRC). The money was offered as a donation to the dictator’s upcoming ‘election campaign’. The offer was presented during negotiations on one of the country’s most mineral-rich mining concessions, Tenke Fungurume, which in the end was granted to Lundin. The choice of Lundin’s company as operator of the mining project, and the circumstances surrounding this decision, has been much criticized over the years by both civil society groups and consultants engaged by the World Bank. Adolf Lundin claimed that in the end no money was actually paid as Mobutu never reminded him of his offer.54

Despite its vast mineral wealth, the DRC is one of the world’s poorest countries. There are many explanations for this but one contributing factor is widespread corruption. Close relationships between companies and politicians are common in the DRC. Two different Congolese reviews of mining contracts have reached the same conclusion: that most of the contracts concluded with foreign mining companies over the last few decades have been to the disadvantage of the Congolese people.55

54 IPIS & Swedwatch, 2008. Adolf Lundin talked about his offer to Mobutu in an interview with Swedish journalist Robert Eriksson (No Guts, No Glory, p 263–266). In 2008, representatives of Lundin Mining, the company that holds a 24% share in the Tenke Fungurume project today, informed Swedwatch that the Lundin Group denies having paid any sum of money to political parties, election campaigns or candidates over the years.

55 IPIS & Swedwatch, 2008. The Tenke Fungurume contract was amended in 2005. After a three year long review process (2007–2010), the deal was changed again to the effect that the shares of the current project operator (Freeport McMoRan) and Lundin Mining were slightly watered down, while the state mining company increased its stake in the project. New clauses were added regarding an additional royalty and new fees. Mining Weekly, 22 Oct 2010.
The issue of political donations is insufficiently addressed by the OECD Guidelines for Multinational Enterprises that do not forbid contributions unless national laws prohibit them. Transparency International (TI) is more specific in its recommendations and states that “the enterprise, its employees or agents should not make direct or indirect contributions to political parties, organisations or individuals engaged in politics, as a way of obtaining advantage in business transactions”. TI also requires that companies report publicly on all contributions that they have made. The organization has, however, decided not to propose an outright prohibition since donations may support democratic processes by providing funds for political parties that are under development or are struggling to survive. There are, however, companies that have adopted policies that forbid all political donations. One example is Anglo American, one of the world’s biggest mining companies.

The case of ABB

In September 2010, the U.S. Department of Justice and Securities and Exchange Commission accused Swedish-Swiss engineering company ABB and three of its subsidiaries of having violated the US Foreign Corrupt Practices Act, which prohibits companies from paying foreign officials to gain a business advantage. The allegations included corrupt payments to win lucrative business deals in Mexico and Iraq, the latter under the UN Oil for Food program.

In Mexico, payments were made between 1997 and 2005 to public officials in relation to an upgrade of Mexico’s electrical network. This contract generated USD 44 million in revenue for ABB’s US subsidiary. In 2000, ABB Ltd. Jordan paid more than USD 300,000 in kickbacks to the Iraqi government to secure orders from regional companies of the Iraqi Electricity Commission worth a total of USD 5.9 million. The investigation process started in 2005 when ABB voluntarily disclosed its misconduct to the US Department of Justice. In Sept 2010, in response to the final allegations, ABB agreed to pay USD 58.3 million to settle these cases.

Other Swedish companies accused of having engaged in corruptive practice when trading with Iraq under the Oil for Food programme include Volvo and Scania.


56 The OECD Guidelines, Chapter 6:6, state that enterprises should “not make illegal contributions to candidates for public office or to political parties or to other political organizations. Contributions should fully comply with public disclosure requirements and should be reported to senior management”. Chapter 2:11 states that companies should abstain from any improper involvement in local political activities. Whether or not that would include financial support remains unclear.
57 Transparency International, Business Principles for Countering Bribery, Article 4.2.
58 Anglo American reports that they made a one-off exception in 2004, in South Africa when a contribution to the campaign funds of all the major parties was made. This was considered to be an investment in supporting the democratic process in a country where democracy remained relatively young at the time. Edward Bickham, Group Head of External Affairs at Anglo American, e-mail to SwedWatch dated December 19, 2007.
Swedwatch’s Recommendations

A number of important initiatives have been created to increase transparency and decrease the risk for corruptive practices involving businesses. One example is the Extractive Industries Transparency Initiative (EITI) which aims at increasing transparency of payments by companies to governments and entities linked to them. Other examples include Integrity Pacts which are processes developed by Transparency International to prevent corruption in public contracting. All members of the pact agree not to pay, offer, demand or accept any bribes. Bidders must disclose all expenses paid in connection with the contract. If violations against these rules occur, sanctions range from exclusion from the bidding process to criminal action or blacklisting for future contracts. Civil society representatives or an appointed independent inspector oversee and monitor the pact.

Swedwatch recommends that companies promote and support important integrity and transparency initiatives, such as the EITI and the Integrity Pacts. With regards to political donations, Swedwatch welcomes the stance taken by Anglo American and encourages companies, including the Lundin Group of companies, to follow its example.

59 http://eiti.org
60 www.transparency.org/global_priorities/public_contracting/integrity_pacts.
61 In 2008, Lundin Mining’s Code of Conduct prohibited illegal payments but it did not include any outright prohibition against political donations when such contributions are legal in the country in question. The Code stated that "the direct or indirect use of Corporation funds, goods or services as contributions to political parties, campaigns or candidates for election to any level of government requires the approval of the Board of Directors or a committee authorized by the Board" (Lundin Mining, Code of Conduct and Ethical Values Policy, D2 and 4). In Oct 2010, Lundin Mining’s Code of Conduct was not available on the company website. Swedwatch has requested a clarification regarding the company’s current stance regarding political donations but had not received any reply when this report was finalized.
6. Trading for peace or contributing to conflict?

Many companies working with extraction of natural resources are operating in areas of violence or severe tension. There are plenty examples of how businesses have exacerbated or prolonged conflict, but also examples of how companies are trying to break vicious circles. However, conflict-sensitive approaches are not only needed within the extractive industries. Most value chains of the world pass through areas of some sort of conflict. Moreover, conflict may arise in less expected areas of the world, as a consequence of a “good” goal – economic and social development – when benefits are unevenly distributed.

6.1 Freeport McMoRan on Papua

In the easternmost part of the Indonesian island state lays the province of Papua. Conflicts have been ongoing here since the 1960s between the Indonesian military and Papuans who strive for independence or some sort of autonomy. In the midst of this unstable environment, the US mining company Freeport McMoRan is extracting copper and gold from one of the world’s most mineral-rich mines. Swedish Sandvik is an important supplier of machinery and services to the mine, with some 350 employees present in the mining area. Swedish public pension funds hold shares in Freeport McMoRan worth SEK 261 million.

By concluding its first contract with the Indonesian government in 1967, when the ownership of the land was disputed, and by cutting off the top of the indigenous people’s holy mountain, Freeport was soon perceived as an active part in the fight against the Papuans and the Papuan culture. Freeport’s payments to the Indonesian military for protection added to this view. For a long period of time the company denied its economic ties to the military and the police, but a few years ago it admitted that payments had been made since the 1970s in order to gain protection against separatist groups and hostile local communities. Furthermore, in 2005, the non-governmental organization Global Witness released figures indicating that substantial amounts of money had been transferred not only to military institutions but also to the bank accounts of individual officers with poor human rights records. The company states that the Indonesian government has classified the mine as a vital national object and requires them to pay for police and military protection. According to Freeport,
the money goes to costs related to food, housing, fuel, travel, vehicle repairs, administrative costs etc.\textsuperscript{67}

For outside observers it has been difficult to see a dividing line over the years between Freeport on the one hand, and the military and the police on the other. An audit in 2004 showed that employees helped out with transport of military personnel. In mid-1990s the Catholic Church and an Australian aid organization claimed that Papuans had been detained, tortured and killed on company premises and in Freeport’s containers and vehicles.\textsuperscript{68}

\textbf{6.1.1 The Voluntary Principles on Security and Human Rights}

Governments have the primary responsibility for maintaining security and protecting human rights, but there are plenty of examples in resource-rich countries where governments are doing the opposite or failing in their mission. Ethical guidelines have been set up to guide companies in such contexts. \textit{The Voluntary Principles on Security and Human Rights} (the VPs) stem from a multi-stakeholder initiative consisting of companies, governments and NGOs such as Amnesty International and Human Rights Watch.\textsuperscript{69} The principles stress the need for thorough risk assessments that should be shared, as far as possible, between actors to become more effective. The assessment should include an analysis of the root causes of the conflict and assess the human rights records of different types of security providers, public as well as private. The VPs also deal with topics such as provision of instructions and training inputs for security providers. Allegations of human rights abuses and incidents where physical force has been used by security providers in the areas of operation must be reported to the authorities. Medical aid should be provided to injured individuals, including offenders.

The statements regarding payments to, or equipment provision for, public security providers are vague. Payments are not forbidden and the VPs lack specific recommendations on this topic. Companies providing equipment are recommended to “take all appropriate and lawful measures to mitigate any foreseeable negative consequences” and, to the extent reasonable, monitor how the equipment is used. Moreover, the voluntary nature of the Principles evidently limit their bite. Several conflicts would, however, have been avoided or mitigated if these principles had been adhered to over the past few decades. The VPs include components such as consultation with local communities and transparency. They also recommend that companies should make it feasible, for themselves, or for independent third parties, to monitor the practices of private security providers. Moreover, companies are advised to add the Principles to contractual agreements with private security companies and aim to employ providers that are representative of local populations.

\textsuperscript{67} Freeport McMoRan, 2009, p 29–30.
\textsuperscript{68} Australian Council for Overseas Aid, 1995, and ICCA, 2005.
\textsuperscript{69} www.voluntaryprinciples.org.
Freeport McMoRan participates in the initiative and the company has changed several of its policies, approaches and practices with regard to security in Papua over the last few years. They have promised to stop transporting military personnel and Freeport is now paying some of the military’s and the police’s expenditures itself, in order to gain control over money flows. The rest of the payments (some 20%) are paid directly to government institutions. Moreover, Freeport is trying to rely more on police than military protection. The former is generally regarded as being more sensitive towards the Papuans.\textsuperscript{70} Earlier reactions from the military indicate, however, that this is easier said than done since the military depends on Freeport financing.\textsuperscript{71} Moreover, it is important to stress here that it is by no means unproblematic that companies pay the police either, since such payments will jeopardize the fundamental rule of law and the principle of equality before the law, if the police becomes less inclined to investigate and report on any criminal acts of the companies that support them financially.

\textsuperscript{70} Swedwatch, 2009.
\textsuperscript{71} In 2009 Papua experienced a political radicalization with violent protests that also affected the Freeport mine. After some years of relative stability in the area, there have been a series of shootings along Freeport’s main mining road aimed at either Freeport vehicles or those of the paramilitary police, Brimob. Three people died and several were wounded. According to the conflict analyst International Crisis Group (2010), security forces, the Papuan guerrilla or both of them may be responsible for the events, which reflect the complex political and economic dynamics around the mine. Freeport’s payments for police and military protection continue to increase (Freeport, 2009:29-30 and Swedwatch, 2009:3-5).
SWEDWATCH’S RECOMMENDATIONS

MNCs operating in conflict zones have a legitimate need to protect their operations and personnel. Swedwatch recommends that companies:

- Follow the *Voluntary Principles on Security and Human Rights*.
- Do not pay the armed parties of a conflict, either in money or in kind.
- Consult local communities about the effects of their security arrangements.
- Allow independent third party auditors monitor the impacts and the system set up.
- Create whistle-blower functions and grievance mechanisms to enable employees and communities to report abuses anonymously.

The *OECD Guidelines for Multinational Enterprises* should include specific instruction on this and other topics related to conflict zones.

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**A conflict sensitive approach to development**

Even when intentions are good companies, as well as actors within the humanitarian and development communities, may produce unintended side-effects in conflict areas. They may both exacerbate and prolong conflicts but they may also be part of processes where tensions are reduced and people’s capabilities to disengage from fighting and find peaceful options are strengthened. The concept of Do No Harm is often referred to within humanitarian and development agencies and NGOs, but it is also relevant to companies. It helps practitioners adopt conflict-sensitive approaches in planning, execution and monitoring of projects where standard ways of doing things risk creating harm. The different steps include understanding the conflict and the local context, analyzing dividers (sources of tensions) and connectors (local capacities for peace) and how the project may impact these two components. These steps are useful for companies when considering entering a deal or a particular project and before choosing project partners and options. Conflict analysis should be updated regularly. This and periodic monitoring helps to adjust policies and practices when necessary to prevent harm.

**FURTHER READING:**

6.2 A social license to operate

Many cases, including the one on Freeport, prove the need to obtain a social license to operate. The term was first introduced in the 1990s, following a series of well publicized stories about environmental damage and conflicts with local communities affected by huge mining projects across the world. An often-cited poll at that time showed that the mining industry scored lowest among 24 industries in terms of public popularity – lower than the tobacco industry – and major mining companies realized that they had to act to recover their reputation.72

While the legal license to operate is granted by the government, the social license is given to the company by the community. Local discontent and open protests may interrupt operations and deliveries while local approval, gained through transparency, respect for local people’s views and clear benefits for the surrounding society, may create stability. Common pitfalls when trying to gain a social license include the company:

- Interacting too late with stakeholders.
- Regarding the license as a series of tasks or transactions (a deal) while the community grants the license on the basis of the quality of the relationship.
- Underestimating the time and efforts needed.
- Failing to deliver promises or reliable information.
- Failing to understand the local culture and norms, to respect and to listen.73

A study summarizing experiences from the operations of extractive companies in over 60 countries across the world supports these findings. Even though company failures have been many over the years, lessons learned show that it is possible to ‘get it right’ from the start and also that it is possible to reverse vicious circles. The authors base their conclusions on interviews with both managers and communities. They suggest engagement strategies that comprise the actual relationship, the procedures for interaction and the content. Historically companies have tended to focus mostly on the final element, but the first two are equally important and they need to be addressed in the order they stand.74

**Relationship:** One starting point is to ask communities about what they perceive to be fair since corporate and community definitions of fairness often conflict. While the company focus on material benefits, equally (or more) important for the local community is respect; respect for their views, local customs and decision-making structures, as well as for spiritual sites that can never be compensated for. Developing trust takes time. Promised outcomes

72 Ian Thomson, consultant with 30 years of experience from the mining sector, now specializing in capacity building and stakeholder processes. E-mail correspondence, 21 June 2010.
74 Zandvliet L & Anderson M B (2009). This study has been conducted within the framework of CDA Collaborative Learning Projects (www.cdainc.com).
have to be delivered and companies must be honest about any negative effects, direct or indirect, and include communities in the search for solutions to how these should be dealt with.75

**Processes & content:** According to communities, limited interaction and one-way corporate communications with fixed agendas are common explanations as to why relationships turn sour. Interaction processes need to be fair in the sense that they focus on common goals and cover all relevant groups in a diverse society, marginalized groups as well as power elites. Most communities interviewed request more and better information. Who gets what and why? What are the company’s criteria for selecting employees, contractors or for distributing other benefits?76 Even in countries where the law does not require that impact assessments are made public, the people who are affected have the right to know about the effects of the operation.

Evidence shows that much tension could have been eased if companies had involved communities at the early stages of the project. Companies that have seen community protests escalate recommend others to generate clear benefits not only for the community closest to the company operations, but also to the wider community. Companies may support structures that divide or connect groups within diverse societies. Mapping ‘dividers’ (sources of tension) and ‘connectors’ (local capacities for peace) becomes crucial in order to avoid doing harm (see the box on p 39). Effective grievance mechanisms are of utmost importance. When there are no channels for discontent, violence may soon occur.77

**SWEDWATCH’s RECOMMENDATIONS**

The concept of a social license to operate presupposes that all groups and institutions arrive at a shared attitude as concerns the company or the development project. The suggestions above give some indication of how this could be attempted in practice. While acknowledging the difficulties tied to consultation and consent processes (see box on next page), Swedwatch stresses the need for companies to understand the realities of local communities and include them in decision-making processes even when governments do not. Local NGOs, anthropologists and social workers should be consulted in order to bridge conflicting interests within diverse communities.

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75 Ibid.
76 Ibid.
77 Ibid.
One way of acquiring a social license to operate is to obtain what is known as Free, Prior and Informed Consent from the communities affected by the company’s activities. This principle is primarily referred to in the context of indigenous people and stresses their right to participation and consultations when projects affect their communities and ways of life.\(^78\) It is intended to secure their right to self-determination, to control access to their land and natural resources, and to share benefits when these are utilized by others. There is however no common, internationally accepted definition of the principle and little guidance on how it best should be translated into practical action. At the same time NGO reports and academic papers give plenty of examples where indigenous people’s rights have been violated by governments and MNCs. Many of the world’s 370 million native peoples live under conditions similar to war when areas are heavily militarized as a response to protests against forced relocation, loss of livelihoods, polluted land and water sources.\(^79\)

FPIC is based in international law but the question of whether the right to FPIC also covers groups other than indigenous people has not been legally settled.\(^80\) Again, different bodies and actors take different stances. The UN Commission on Human Rights acknowledged the right to FPIC to all groups affected within the community.\(^81\) This is in line with the conclusions of the Extractive Industries Review which was ordered by the World Bank and published in 2003. The authors of the review recommended that the World Bank require companies to obtain FPIC from all the parties directly affected by the project (not only indigenous groups) since FPIC was seen as vital in order to reduce poverty and the risk of conflict.\(^82\) However, the World Bank responded by replacing the word consent with consultation in its final recommendations regarding interactions with communities affected.\(^83\)

The discussions above reflect the conflicts inherent not only between corporations and local communities, but also between different groups within a community or nations. Moreover, it reflects conflicts between different human rights (e.g. economic rights vs cultural rights) and different views on what development actually is or should be. Neither the Global Compact, nor the OECD Guidelines for Multinational Enterprises deal with these latter dilemmas.

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78 The original treaty source for the principle of FPIC is ILO’s Convention 169 (Article 16:2 on forced relocation). The UN Declaration on the Rights of Indigenous People (2007) goes further by acknowledging this right also in other areas (article 10, 11:2, 29:2 and 32:2).
80 Ibid.
83 World Bank Group’s response cited in McGee, 2009, p 600. International Finance Corporation’s Performance Standards require, for example free, prior and informed consultation of communities significantly affected by projects that are granted loans and guarantees. IFC, 2006, Performance Standards on Social and Environmental Sustainability, article 22.
6.3 Boycott vs. engagement

Economic dimensions of conflicts are often highlighted when explaining root causes. Terms such as war economies and the resource curse are commonly used and there are plenty of examples of foreign businesses that have initiated or exacerbated conflict. But how and to what extent can companies play an active role for peace?

The concept of Peace through Commerce (PTC) stresses the fact that economic opportunity can be a powerful incentive for peace and stability.\(^4\) Trade creates interdependencies. Formerly divided peoples can come together in joint efforts for economic growth and social progress. Several scholars argue that business efforts should come in earlier in zones of conflict and crisis, instead of relying too heavily on relief. Lack of money is often a hinder to reconstruction and companies that enter post-conflict areas can play an important role by filling the investment gap that arose when conflict first erupted and companies fled. The peace-building organization International Alert describes *peace entrepreneurs* in conflict-prone areas all over the world. These companies are helping to prevent conflict and reconstruct societies by, for example, hiring people across ethnic and religious divides to stimulate social trust. Provision of microfinance is another example, as well as export of services and goods that are essential for public services to start functioning again.

The Peace through Commerce field is, however, still under-explored; the question about ‘what works and when?’ remains, to a large degree, unanswered.\(^5\) Companies investing in conflict zones often have to interact with existing structures of conflict economies and powerful actors that benefit from these. In order to be able to make a positive contribution, companies need to fully understand the conflict context, how different actors are positioned within it and what their drivers are. One conflict region may contain different types of ‘conflict economies’ that affect conflict risks and opportunities for peace in different ways.\(^6\) Scholars distinguish between *combat, shadow* and *coping* economies. In a combat economy actors try to take control over economic activities for military reasons. Actors in shadow economies do not have a military purpose but take advantage of the regulatory vacuum that exists. In coping economies economic actors mainly try to survive by adapting to a new reality marked by conflict. It could be artisanal miners and displaced people who conduct illegal activities without much option (mining without permission, tax avoidance etc.). These three categories often overlap but are important in order to understand both conflict risks and opportunities for peace. Who you sign a contract with, source from, employ and try to support

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\(^6\) International Alert, 2006.
through social investments in the community matters. Few choices are seen as neutral in the midst of a conflict.

Several examples show that trade holds clear, conflict-prevention potential. Environmental friendly techniques and training inputs on sustainable methods may help reduce competition over scarce land and ecosystem services, while unsustainable techniques may aggravate tension. Companies may create alternative income opportunities for ex-combatants and improve access to social services in tense communities, but new projects and production units may also create influxes of migrants that fuel local discontent. Socio-economic factors such as increasing gaps between rich and poor or marginalized ethnic groups, often lie at the heart of a conflict. Again, companies may mitigate, prevent or exacerbate tensions through their practices. Governments have the prime responsibility for income and resource distribution but companies operating and sourcing from conflict-prone areas also have a role to play – in business decisions (who gets what) and in their interaction with governments.

Companies that do enter or stay in conflict zones argue from different perspectives with regards to their responsibility. Some draw a sharp line between business and politics, arguing that “the business of business is business” and that conflict prevention and resolution therefore do not concern them. Others argue that they are trying to make a difference from within through engagement. The Sullivan principles during the apartheid regime in South Africa constituted an example of the latter strategy. The Sullivan code advocated six principles that essentially required companies to violate apartheid laws related to working conditions. However, as more and more actors started to question its effects, withdrawal, divestment and boycotts became the new norm.

Calls for withdrawal and divestment due to state repression have also been raised in relation to current conflicts such as those in Burma and Sudan. In the former the repressive regime controls most economic activities through enterprises owned by the state or by family members and cronies of the generals. This has contributed to the fact that Swedish trade with Burma is almost non-existent. Sanctions, consumer boycotts and divestments have, however, not succeeded in achieving their desired effect i.e. to produce progress in the field of human rights in Burma. Countries such as China, India and Thailand are continuing to trade on a large-scale. When this report was being finalised it was unclear whether newly released pro-democracy leader Aung San Suu Kyi would withdraw her support for sanctions.

89 Statistics Sweden (SCB). The value of the Swedish imports from Burma decreased from SEK 35 to SEK 10 million between 2003 and 2009 (mainly fish, seafood and garments). Exports increased from SEK 20 to SEK 111 million (mainly pipes and technical equipment). The names of trading partners are not made public by Statistics Sweden.
As regards Sudan, companies within the extractive and power sectors have mostly been targeted by NGOs and divestment campaigners, as well as other projects closely tied to the Sudanese government. From 1983 to 2005, Sudan was ravaged by a civil war between the Government of Sudan and several armed forces. In 1997, the Swedish oil company Lundin Petroleum (then Lundin Oil) and two other oil companies signed a contract with the Sudanese government for oil extraction in Block 5A located in the south of the country. The Sudanese government held a 5% share in the project and from 1997 to 2003 block 5A became a scene of fighting between government forces and those associated to the movement SPLM/A, fighting for an independent Southern Sudan. When the concession was granted to Lundin, Block 5A was not under full government control. The European Coalition on Oil in Sudan (ECOS) argue that Lundin and its partners worked alongside the perpetrators of severe human rights abuses and that the oil project’s infrastructure made the commission of crimes by others possible. Lundin Petroleum has refuted all allegations, stating that they strongly feel that their activities in Sudan contributed to peace and development. The company sold its rights in Block 5A in 2003. In June 2010, a preliminary investigation was initiated by a Swedish public prosecutor into allegations that Swedes working for the oil consortium in Sudan during the civil war may have been complicit in violations of international law.

Another Swedish company targeted by the Sudan divestment campaigns was Swiss-Swedish electrical engineering group ABB. In 2004, ABB started supplying distribution and transmission equipment to foreign companies involved in the Merowe dam hydropower project in Northern Sudan which, it was estimated, would double the country’s power generation capacity when completed. Local communities were critical towards the project and there were accounts of forced relocation and violent interaction with fatal outcomes. ABB did not have operations on the ground, nor did it pay any direct taxes to the Sudanese government. After the killings they met with the Sudanese authorities to express their concerns and called for a full public inquiry into the matter. Together with Shell and the UN Global Compact they initiated seminars and a local network to see if and then how companies could be a force for peace and human rights in Sudan. However in 2007, ABB finally announced that they would not undertake any new business activities in the country because of “political, legislative and economic reasons”, and the withdrawal was completed in mid-2009. According to the company it was not an easy decision. ABB was convinced that the basic purpose of their presence in Sudan – to help develop the Sudanese infrastructure – was much needed and company representatives say that local organizations supported their presence. But the overall human rights situation was difficult and pressure was mounting from investors.

91 ECOS, 2010.
95 ABB response, 5 May 2006.
Due to sanctions against US companies dealing with Sudan, business opportunities for ABB were also threatened.96

“Looking back, I think we were a bit naïve. We underestimated the risks related to doing business with actors in a country that was highly unstable and had just came out of a civil war”, says Anders H Nordström, ABB’s Group Advisor for Sustainability Affairs.

The experiences from Sudan caused ABB to develop a new, group-wide protocol for evaluation of risks related to financial, legal, security, human rights and reputational aspects. Apart from Sudan, the company may not do business with Burma or North Korea. Other areas of the world are ranked with different numbers of red flags to highlight the level of risk. Evaluations include risks related to customer relations (as the one in Sudan). ABB assesses risks before entering a project, by requiring impact assessments or by visiting the area themselves. Business offers have been rejected and contracts cancelled due to sustainability risks over the past few years. When issues arise at customers operations when contracts are running, they try to influence the customer by raising concerns on their own or with other suppliers. They also raise concerns when in contact with authorities granting permits.97

“We don’t frame human rights issues as political but as a matter of decency when doing business around the globe. Our starting point is to serve customers in all parts of the world, wherever they are, but we must also be respected by stakeholders in the countries where we operate and at home”, says Anders H Nordström.

Other conflict areas important to mention are those under occupation. In 2008, Swedwatch discovered that a fully-owned subsidiary of Swedish Assa Abloy was located in an illegal settlement in the West Bank. These settlements have been widely condemned by the international community since they constitute serious obstacles to achieving a lasting peace in the region. The Israeli state, however, encourages both national and foreign companies to locate their operations in the industrial zones of the settlements through benefits and economic incentives. According to International Humanitarian Law, it is prohibited for the occupying power to transfer its own population into occupied territory. The International Court of Justice has confirmed that this prohibition does not only cover the actual transfer of persons, but also any measures taken by an occupying power in order to organize or encourage transfers of parts of its own population into the occupied territory. This would also cover the Israeli government’s incentives to companies to locate in the settlements. The mere fact that companies exist in the illegal settlements makes it possible, in theory, for population transfers to take place due to job opportunities. Only one Palestinian man worked in the Assa Abloy...
factory. The plant had received financial benefits from the Israeli state due to its location. After having read Swedwatch’s report, the company decided to move its factory to land recognized as Israeli territory by Sweden, the EU, the US and the UN. Heineken is another company that has closed down a factory located on territories illegally occupied by Israel.98

The Moroccan occupation of most of Western Sahara raises similar complicity risks for companies. In March 2010, a Swedish television program revealed that Swedish pharmacies and health stores sold dietary supplements containing Omega3 extracted from Western Saharan fish, while Sahrawi refugees in camps in Algeria depended on food aid for their survival, such as Thai mackerel provided by Sweden.99 The UN has classified Western Sahara as the only remaining colony left on the African continent and the International Court of Justice has decided that Morocco has no legal claim on the territory, a position that is supported by the Swedish government. According to international law, exploitation of natural resources such as fish is only legal if it benefits the people of the occupied territory. The principle of self-determination requires that decisions regarding natural resources correspond to their wishes. So far the Sahrawi people have benefited little from the extraction of natural resources and decisions have been made over their heads.100

In 2010, four Swedish public pension funds held shares at a total value of SEK 90 million in Australian Incitec Pivot Ltd, a company sourcing phosphates from a Moroccan company with mining operations in the occupied territories.101 The pension funds state that they have started a joint dialogue with the company, with the aim of making Incitec stop sourcing from Western Sahara, if support from the Sahrawis cannot be proved. To avoid future liabilities, the pension funds also demand that Incitec adopt a policy that prevents future disrespect of international humanitarian law.102

98 Read more about this case in Swedwatch, 2008.
99 Uppdrag Granskning, 3 and 10 March 2010.
100 Leite et al, 2006, which includes the conclusions of the former Under-Secretary-General for Legal Affairs and the Legal Counsel of the United Nations, Hans Corell (2002). This legal opinion deals with mineral resources but according to Hans Corell (2008) it also applies to other natural resources.
101 Public figures published 30 June 2010 (AP1, AP2 and AP4) and 31 Dec 2009 (AP3).
102 Etikrådet, 2009, p 17. Swedwatch has requested information about any results of the dialogue so far. The Swedish Ethical Council, a collaboration between four of the Swedish public pension funds, informs Swedwatch that they do not comment on ongoing shareholder dialogues.
Swedwatch recommends importers and retailers of fruit, vegetables, fish and other natural resources to conduct due diligence with regards to imports from occupied territories. If benefits for, and support from, the local people cannot be proved the imports should be stopped. Divestments based on the same grounds are recommended by investors in order to safeguard that they do not benefit directly or indirectly from violations of international humanitarian law.

Companies, investors and credit providers must respect international law. Having that said, with strong emphasis, Swedwatch recommends withdrawal, divestments and bans only as a last resort and welcomes efforts to act as a counterforce to war and other types of conflicts, as well as contributing to relief and poverty alleviation in countries that are in great need. The burden of proof should, however, lie on the company that chooses to operate in, or trade with, actors in conflict zones. It has to present credible proof that it does no harm and open up for independent monitoring and verification of effects on the ground.

The Western Sahara conflict is one of the world’s most neglected. An unknown number of Sahrawis live their lives marked by isolation and poverty in refugee camps while Rabat continues to reap the benefits of Western Sahara’s natural resources in breach of international law. These Saharawi children are the second generation to be born in the refugee camps in Algeria. Photo: Danielle Smith.

SWEDWATCH’S RECOMMENDATIONS
Trying to contribute to peace in Eastern DRC

In 2007 Swedwatch and other organizations within the European project MakeITfair published several reports about the link between electronics and mineral extraction in poor and conflict-ridden areas of the world.\textsuperscript{103} The mining of metals used in laptops, mobile phones and other electronics products are often extracted several tiers down the supply chains of companies such as Nokia and HP. Still, MakeITfair argued that these companies, as important end users of minerals, have a responsibility to try to improve conditions at the mine level and to make sure that they do not contribute to conflict. As pressure from NGOs and investor groups increased and the industry had conducted their own study into the matter\textsuperscript{104}, the industry associations (the EICC and GeSI) acknowledged some kind of “shared responsibility” together with other actors.\textsuperscript{105}

Some minerals that are crucial to the functioning of our computers and mobile phones are mined in the eastern parts of the Democratic Republic of Congo (DRC) where people are experiencing the deadliest conflict since World War II. Even though the Second Congo War officially ended in 2003, fighting between the Congolese military and various rebel groups continues in the east of the country. Since 2009, members of EICC and GeSI have taken a collaborative approach to working with other actors within their supply networks to see how they could contribute to more sustainable development and make sure that they do not contribute to conflict. EICC/GeSI first initiated a joint traceability effort for member companies. Later on they announced that they will engage in a certification process of tantalum and tin smelters that buy from responsible sources.\textsuperscript{106}

Swedwatch welcomes the steps taken by the most active companies within the EICC and GeSI. It is well-known that income from metal extraction helps finance the fighting between government forces and rebel groups in Eastern DRC. Breaking that link will require efforts by several actors (governments of the DRC and neighboring countries, actors within the mining industry, the international community etc.). As we see it, end users such as companies within the electronics and automotive industry may help create economic incentives for more sustainable mining and peace. A new report from Swedwatch shows, however, that several companies have chosen to turn their back on the DRC even though several local actors and international mining experts warn against the negative effects of the boycott strategy. Local communities rely on the income they receive from mining and removing that income risks exacerbating the conflict even further. Security sector and governance reforms, in combination with efforts to marginalizing illegitimate trade and strengthening “islands of stability”, are therefore recommended.\textsuperscript{107}

\textsuperscript{103} The 2007 reports are available at http://makeitfair.org/the-facts/reports.
\textsuperscript{104} EICC & GeSI, 2008.
\textsuperscript{105} Discussions between MakeITfair, representatives of the EICC and GeSI and other stakeholders in Washington, November 2008.
\textsuperscript{106} Press releases from EICC and GeSI, 28 Sept and 2 Dec 2009.
\textsuperscript{107} Garrett N. & Mitchell H., 2009, and Johnson D et al, 2009. See also Finnwatch’s & Swedwatch’s recent study from 2010.
Conclusions

Swedwatch believes that businesses can be an active force for change in several high-risk areas of the world but due diligence, heightened levels of proactivity and transparency as well as sufficient resources are necessary to avoid doing harm. Companies must respect international law. The burden of proof should, however, lie with the company that chooses to operate or trade with high-risk countries.

Trying to respect human rights in repressive regimes and weak governance zones often requires collective action between companies, as well as with public actors and organizations from civil society. Swedwatch sees much untapped potential here. Home countries should facilitate communication with host governments, as well as coordinating their own trade, development and foreign policy agendas to ensure that they do not conflict. Furthermore, this work needs to be aligned with the work of other domestic actors. In order to respect and advance human rights, export credit agencies, public pension funds and other investors and credit providers should make use of their influence and require companies to set up robust due diligence processes in order to control their human rights impact.

Swedwatch welcomes the work of the UN Secretary-General’s Special Representative on business and human rights, John Ruggie. His framework has, for example, delivered more clarity regarding the boundaries between the duties of states and the responsibilities of businesses. We do, however, see a need for increased accountability. Some UN treaty bodies encourage home states to take steps to prevent abuses by companies headquartered within their jurisdiction.108 Swedwatch feels that some sort of preventive legislation that requires companies operating in, or trading with, high-risk areas to conduct due diligence should be considered and victims’ access to effective remedy should be guaranteed. Voluntary mechanisms are a good place to start, but without binding rules, due diligence is obviously an approach that only will be embraced by the willing. Moreover, several voluntary guidelines are vague or do not explicitly cover crucial aspects of doing business in areas marked by conflict or repression. It is recommended that Swedish politicians promote the inclusion of such aspects, for example during the ongoing revision process of the OECD Guidelines for Multinational Enterprises.

The issues described in this report pose a number of dilemmas for companies and there are no easy answers. However a number of problems can be mitigated with early proactive measures: the inclusion of people affected, collaboration and transparency. We hope that this report will contribute to further discussion and inspire companies to become active defenders of human rights and agents for peace.


AP2, www.ap2.se/sv/Innehav/Aktie--och-ranteportfolj/?swetyp=1&swesector=&orderby=&portfoliosearch=S%C3%B6k

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