



Dialogue on
Globalization

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FES session at the WTO Public Forum 2007 on

**“The Role of Social Standards
in Promoting Fair Trade”**

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Abstract: In recent years, social standards have been widely discussed on international, national and local levels. Their need and impact has been addressed not only by trade unions and non-governmental organizations (NGOs) but also by governments, international organizations and enterprises. The G8 Summit 2007 in Heiligendamm is a prominent example for the recognition of social standards in a globalized world. It says unmistakably that "open markets need social inclusion." The heads of governments agreed "on the active promotion of social standards, of corporate social responsibility, and on the need to strengthen social security systems in emerging economies and developing countries".

The importance of social standards will continue to increase in the following years. Therefore, social standards should no longer be recognized as an antagonist of economic growth. Instead, the effective implementation of social standards has the ability to provide a breeding ground for substantial growth.

In this regard, the objectives of this session were: First, to give an overview of the vast variety of instruments and mechanisms which do exist to promote and implement social standards, second to estimate the benefits for growth if social standards are successfully recognized and thirdly which role social standards should play in the multinational trading system.

The panelists were representatives of four players engaged in the promotion of social standards on completely different levels. The opening statement and moderation was provided by *Steffen Grammling*, Program Officer for Trade and Development of the Geneva Office of the German Friedrich-Ebert-Stiftung.

1 Summary of the main points raised by each panelist

Steffen Grammling, Program Officer for Trade and Development, Geneva Office of the Friedrich-Ebert-Stiftung

Steffen Grammling reminded in his introductory words of the importance of the social dimension of globalization. "Globalization has not delivered yet for the poorest and something has to be changed in the global governance system." The "jobless growth" dilemma has to be overcome and instruments have to be found to increase employment opportunities. One key factor that contributes to "decent employment" would be the effective implementation of social standards and in particular the Core Labour Standards. *Grammling* stated that "economically, the short-term costs of their implementation are often lower than the long-term gains" as the worker productivity, competitiveness and the social peace would increase. "Thus, it should be in the self-interest of any country to implement them". But necessary legislation and effective and independent monitoring systems must be in place. Although bilateral trade and investment agreements especially of the US and the EU already include labour clauses, many developing countries express their reservations towards linking social standards with trade agreements, considering them as a disguised form of protectionism.

He then addressed another point which is of crucial importance for the effectiveness of all these legal provisions: the problem of a huge implementation gap between international obli-

gations, national law and monitoring. In this context, *Grammling* referred to great challenges at three levels: coherence at international level, political will, good governance and capacity at national level and responsible behaviour and an enlightened long-term self-interest of enterprises. "The last point is of crucial importance because the power of multinational enterprises has increased enormously through the establishment of global production chains". Due to the ineffectiveness of public enforcement of social standards, a variety of voluntary instruments emerged with different levels of commitments.

Cleopatra Doumbia-Henry, Director of the International Labour Standards Department, International Labour Organisation (ILO)

Cleopatra Doumbia-Henry gave a short overview of the history of the International Labour Organisation (ILO). The ILO was already established in 1919. It is the oldest organization of the UN-System and the only international institution which survived the Second World War. The ILO was created to promote social justice. 193 conventions have since then been adopted, some in the character of guidelines others are legally binding instruments.

The ILO differs between three types of its main instruments: The eight Fundamental Conventions, the four Core Labour Standards and the Priority Conventions including the area of labour inspections. They underline the importance of the social dimension in a globalized world. *Doumbia-Henry* highlighted that the labour inspections as an instrument are taking place in

industries and agriculture. She also reminded of the almost universal ratification of the fundamental conventions although important actors such as China and the United States for example did not sign all conventions.

Doumbia-Henry emphasized that the four ILO Core Labour Standards are a "minimum set of labour standards in the globalized world of employment". They include freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour, and the elimination of discrimination in respect of employment and occupation. The Core Labour Standards have to be respected by states regardless of whether they have ratified the relevant conventions or not. They are adopted simply by membership of the ILO.

The ILO Constitution of 1919 and its declaration of Philadelphia from 1945 already say unambiguously that "first, labour is not a commodity and second that the actions taken by one country should not undermine the social progress of another country" as *Doumbia-Henry* put it in her own words. She continued in stating that labour "is not a race to the bottom factor in the sense of competitiveness".

She then outlined the monitoring system of the ILO "which is the best in the United Nations System". It provides, inter alia, survey of the independent experts of the Committee of Experts on the application of Convention and Recommendation, the tripartite discussion at conferences and a complaint based mechanisms. During the regular supervisory process for example, member states of the ILO have to submit reports on a regular basis to present its measures undertaken in law and practice to fulfil any of the eight fundamental and four priority conventions. Respecting the tripartite structure of the ILO, the governments have to send a copy to employers and workers' groups who have both the possibility to comment on those reports.

Concerning the question on how the ILO should respond to the challenges of globalization institutionally today, she referred to the report of the World Commission on Social Dimension of Globalization from 2004 in citing: "(...) fairer economic rules are not enough. They must also respect the international framework for agreed fundamental human rights and measures of social justice." And the preamble of the ILO declares "While economic growth is a prerequisite

for social progress, it can not by itself guarantee social progress". For *Doumbia-Henry* the globalized world should be concerned about minimum occupational and health standards, minimum on social and security standards, fair wages and other working conditions.

The ILO has a strong interest in seeing the international labour standards included in the mechanisms of the world's economic system.

Doumbia-Henry looked at the development on how the international social standards are used. A growing number of multinational and bilateral agreements refer to them. They get more and more integrated in Corporate Social Responsibility (CSR) frameworks. Another example is the one of the European Union. In its new Generalized System of Preferences (GSP-plus), the EU has linked tariff preferences and development assistance to the ratification and implementation of the eight ILO fundamental conventions amongst others. The EU GSP 'is the system of preferential trading arrangements through which the European Union extends preferential access to its markets to developing countries'. All those conventions have to be ratified until 31 of December 2008 (Council Regulation No.980/ 2005, Article 9).

Even the International Finance Corporation (IFC) has adopted recently in their Performance Standards the ILO fundamental conventions. The Performance Standards define 'clients' roles and responsibilities for managing their projects and the requirements for receiving and retaining IFC support'. And the Asian Development Bank (ADB) has published in 2006 together with the ILO a Core Labour Standards Handbook. "These examples underline the relevance of the ILO institution today", *Doumbia-Henry* said. But looking at the World Bank, in her view a lot of things still need to be done.

In conclusion she listed a number of trade agreements wherein references have made to the international labour standards in recent times: the North American Free Trade Agreement (NAFTA), the Southern Common Market (MERCOSUR) and the Central American Free Trade Agreement (CAFTA). She would appreciate to see a continuation of this development but also warned: "one needs to look carefully to the real impact of these trade agreements, of their labour closet in free trade agreements".

**Veronica Nilsson, Senior Policy Advisor,
Trade Union Advisory Committee (TUAC)**

Veronica Nilsson said perspicuously what people sometimes like to forget that the OECD Guidelines for Multinational Enterprises are governmental. "Even though the guidelines are not legally binding for governments", she estimated. Nevertheless, business as well as civil society was involved in the negotiations about the Guidelines. More and more countries adopt them even outside the OECD world, thirty OECD and ten non-OECD countries currently including Argentina, Brazil, Chile, Estonia and Israel.

The Guidelines are government recommendations to good cooperation behavior. In most aspects they imply company behavior and encourage sub-contractors explicitly to implement the Guidelines. "Their major advantage is that the Guidelines do not only apply to companies operating in countries of origin but apply to companies' activities world wide", *Nilsson* said.

To underline the governmental character of the Guidelines, *Nilsson* referred to the National Contact Points (NCP). They have to be set up by governments that acceded to the Guidelines. The NCPs are dealing with the promotion and implementation of the Guidelines. Due to the fact that NCPs are mostly related to Trade Ministries, *Nilsson* criticized that all relevant ministries should be involved. Some NCPs would even be tripartite like in the Scandinavian Countries and in France. National Contact Points are "a forum for discussion and mediation and not a way of sanctions", *Nilsson* pointed out.

In the next part of her speech, *Nilsson* drew the attention to cases brought up by trade unions at the Annual Meeting of National Contact Points in June this year. Reporting on these cases she provided an insight into various kinds of violations and indignities workers are faced with worldwide. Since 2001, trade unions have raised about 90 cases, NGOs 60 cases in addition. Most of the cases raised by trade unions referred to the infringement of the right to freedom of association.

She gave the example of a case which was first brought to the Montenegro National Contact Point. However, after the Belgium Company did not accept its proposal to re-employ the Montenegrin workers concerned, the case was brought to the Belgium NCP and succeeded. Another example is a complaint against the Chemical Company BAYER which was brought to the German

Contact Point. BAYER Philippines had established their own trade union and after the enrolment some of those workers belonging to another and independent union, the Employees Union of Bayer Philippines (EUBP), have been fired. The statement by the German Contact Point which is published on its website contains financial offers by BAYER Philippines to EUBP 'in the interest of further cooperation in the spirit of trust'. *Nilsson* estimated that "the Guidelines can be used to solve the problems on the ground" even so not all of them have been successful.

Relating to the important question on when Trade Unions should raise cases, *Nilsson* stated that the circumstances are most important. "Trade Unions should be clear of their goals and what we want to achieve", she added. To raise cases would not cost a lot of money but a lot of time.

In the future the Guidelines should be used to strengthen the dialogue with companies, who are often not aware of them. An increasing number of trade and investment agreements take into account labour issues. The Guidelines need to be referred to in these agreements, in states' export credits to make them more binding, more recognized and more accepted.

**Auret van Heerden, President,
Fair Labour Association**

"Can standards make trade fairer? Yes", asked and responded *Auret van Heerden*. "Yes, if they were enforced", he added. In his view globalization has a strategic possibility to obviate labour standards. And this is not only made by companies. "It is very, very hard to list countries that are enforcing the labour laws", he said. Sometimes it happens unofficial, sometimes it happens official. Sri Lanka as an example did not enforce pension and other social protection systems in the sense of competitiveness. This is an argument which is often brought forward by governments. "But companies are shutting up, people are left behind, jobless and pension less", he emphasized and with this situation the state has to deal alone.

One of the most important issues *van Heerden* raised afterwards was the issue of responsibility. "We take responsibility for social labour conditions everywhere in the world regardless of ownership or control" he demurred and continued in saying that multinational companies liked to fold their arms. Giving them an account of concussive circumstances people are working in, you would have heard sentences like the follow-

ing: "We had no idea that this was going on!" or "We don't own this factory". Especially the latter point is crucial as the thousands of small factories which are producing millions of products have never been in the possession of companies like Nike. Nike and all the others are only brand names. And the brand is their only effort, which they seek to protect.

A meeting in the White House to which the then-president Bill Clinton of the United States invited brought about a rebound. Industries, trade unions, human rights organizations and the labour department came together, started a discussion and created a "White House Task Force" which lasted four years. The result or more the response was put in one sentence by *van Heerden*. "Whatever you find, you have to fix". From this time on multinational companies have to take responsibility for their business and for their reputation. They have "a duty to know" as he said. Today about five percent of the 750 factors which are manufacturing for Nike are visited by inspectors each year. Nike has therefore to be extremely confined on their internal complaint system. They do not know when and where the inspectors will arrive at. But they know that the results of these inspections are being published. "We believe transparency is the only way to ensure that the companies are walking the walk", *van Heerden* emphasized.

Why should or why are multinational companies engaged in ameliorating the working conditions of employees respecting the Core Labour Standards? *Van Heerden* gave two reasons. First due to consumer pressure, publicity and transparency reasons and second precisely because of insurance as it is a very good protectionist system. Thus, in the words of *van Heerden* "we do have the ability to harness the resources of multinational companies."

But is it not a very controversial approach? "You are saying that a public good like health safety and legal work places which is no longer been delivered by public agencies will now be delivered by private actors, the multinational companies", *van Heerden* declared.

Recognizing some promising progress, there are still too many workers without access to any kind of social standards. A lot of multinational companies have no interest in implementing them, they still see no necessity. A lot of countries recognize them as protectionism of more industrialized countries. China for example is not

paying minimum wages for seventy percent of their workers. "This is an unfair competition", *van Heerden* remarks.

Thus he requested "go and get your governments to do more to understand that margin the workers future is not a way for getting sustainable competitiveness". And concerning the multinational companies he concluded, "they have to tell the buyers what they are doing to ensure that labour standards are respected".

Claribel David, Vice-President, International Fair Trade Association

Claribel David started with the words that she is not only the vice-president of the International Fair Trade Association but that she is a small craft producer, too. Talking about fair trade, this is more than essential information. But what is Fair Trade? "Fair Trade is an alternative way of doing business", *David* explained. It is a trading system that seeks greater equity in international trade and contributes to social development by offering better working conditions.

Fair Trade is dealing with respect of social and ecological development especially in the South. It is also a market with twenty five percent of growth for the last seven years and two billion Euros of total revenue.

She did not forget to mention a famous supporter for Fair Trade: "*Pascal Lamy* once told that at home he eats fair trade labeled bananas". Today, 80.000 supermarkets and 3.000 One World Shops offer Fair Trade products, 7.5 million people are gaining from Fair Trade with a fast growing base in the North and in the South. The customers know their capacity to influence the economy. But still, "Fair Trade is only 0.1 percent of world trade", *David* pointed out. The Fair Trade Label is a non-governmental monitoring system granting licenses and a guarantee for consumers. It is an independent guarantee which teaches us in the words of EU Commissioner for Trade, *Peter Mandelson* whom *David* cited "that consumers are not left outside".

David listed the nine key principles of her organization which have to be respected by Fair Trade labeled Organizations. Creating opportunities for economically disadvantaged producers, transparency and accountability, capacity building, promoting Fair Trade, payment of a fair price, gender equity, working conditions, child labour and the environment. Thus the United Nations Declaration on Human Rights and the

ILO Conventions are fully recognized. "All these principles stand for trade justice", she added.

The history of Fair Trade started with selling crafts in the late 1940s in the US and about ten years later in Europe; but was still in its infancy. In 1969 the first "The World Shop" opened its doors in the Netherlands. These shops are playing a crucial role also in regard of awareness-raising. Over the time more and more people in the North as well as in the South got involved in supporting disadvantaged producers. Already in 1968 at the second conference of the United Nations Conference on Trade and Development (UNCTAD) in Dehli, the developing countries called for "Trade not Aid". "This approach put the emphasis on the establishment of equitable trade relations with the South", *David* highlighted, "in stead of seeing the North appropriate all the benefits and only returning a small part of these benefits in the form of development aid".

In the end *David* addressed the international institutions like the United Nations, the World Bank and the WTO to recognize and support Fair Trade "its principals, its standards and practices as developed and defined by the Fair Trade movement". These organizations should strengthen their cooperation with social partners like NGOs, trade unions, consumer organizations, producers and companies. "To conclude", she said, "every one of us here are consumers and we have the power to influence that social, development and ecological criteria are respected".

2 Summary of the discussion

During the discussion several interventions on different issues were made by the audience.

One speaker focused on the gender perspective of Fair Trade and wanted to know who is benefiting most from the Fair Trade system. She also asked if Fair Trade is limited only to goods. *Claribel David* reacted on these questions in highlighting that about 60 to 70 per cent of the workers belonging to Fair Trade cooperatives are women. These cooperatives are in their majority small scaled enterprises. As most of these women were working in the informal sector before, Fair Trade addresses the needs of those specific marginalized sectors of society. *David* added that Fair Trade labeled products are mostly agriculture products and craft but that in the field of tourism more labeled services are provided.

The sense of Corporate Social Responsibility (CSR) was addressed by another speaker. He articulated serious doubts on whether CSRs are nothing more than window-dressing. In his point of view there is also a gap between the role consumers could play and consumers are playing as for most the price remains the essential criteria. Ethical issues would be margin to the nowhere. It was *Veronica Nilsson* who reacted to this question in reminding on the disapproval trade unions have yet with CSRs. The main point of criticism would be the voluntary character of these mechanisms which trade unions would never respect. Only enforceable regulations can really ensure that social responsibility is respected and implemented by companies. *Nilsson* continued in saying that if workers were really allowed to set up trade unions, they would not need these CSR. And most of the CSRs were especially in the beginning not based on ILO standards. Nevertheless, she mentioned that about 60 to 70 international framework agreements which have been negotiated between multinational companies and global union federations respect Core Labour Standards. Those agreements would be really a commitment by companies.

Van Heerden added to this question that most CSR frameworks are not integrated in their business model, as this would mean to renew the way of doing business.

Another speaker questioned whether one can trust on the WTO Singapore Declaration or not as little action have taken place since its adoption more than ten years ago. He also reminded on the fact that a lot of private and public organizations deal with labour standards except the WTO. The Singapore Declaration of the first Ministerial Meeting of the then new established WTO was the first official document in the multi-lateral trading system that referred to labour standards. It states that "we [the member states of the WTO] renew our commitment to the observance of internationally recognized core labour standards", but continues to underline that "the (...) ILO is the competent body to set and deal with these standards (...)". *Cleopatra Dombia-Henry* answered this question first on outlining that political will is needed to achieve those agreements. Regarding the different competencies of ministries inside the governmental structure of one country, it is a matter of coherence to take into consideration, that the same government is reacting quite different in its position in the ILO and in the WTO. She added that very small steps have started to be taken be-

tween the secretariats of the ILO and the WTO by mentioning the joint ILO/WTO publication on trade and employment, which was launched in February 2007.

The same speaker raised another point. He stated that the WTO in not integrating the labour standards in its work runs the risk of undermining its legitimacy once more as on the level of bilateral agreements governments do agree to include the standards in these agreement. On the level of the multinational trading system they do not.

One representative of a company asked *van Heerden* if the Fair Labor Association is checking CSR standards also of those companies who are not member of this organization. He added that he actually did not know whether or not its own company's standards are complying with the OECD guidelines or all the other standards which were discussed by the panel.

Another speaker wanted to know which countries really have implemented the OECD Guidelines in their trade and investment agreements. It was *Veronica Nilsson* who responded on this question, that the only one she knows is the one between the EU and Chile not being sure if others do exist or not.

3 Conclusion and recommendations on what should be the future role of the WTO

To overcome the dilemma of the current globalization in not delivering a real social dimension, the social standards have to be strengthened in different ways in order to contribute to this goal.

First, those legally binding instruments which do already exist have to be implemented effectively by governments and enterprises. Thus, more independent monitoring systems are needed.

Second, despite legally binding instruments the effects of soft-politics as dialogue between enterprises, trade unions and governments should not be underestimated. Soft-politics can not substitute legally binding instruments but they are an indispensable way in establishing mutual trust and political will.

Third, transparency is essential on all levels. It is important for every relevant actor to have the ability to know what who is doing where and when.

Fourth, everybody has to play its role to take responsibility, i.e. governments, enterprises, producers, trade unions, consumers and international organizations. Mechanisms have to be established which evaluate whether these responsibilities are respected or not.

Finally, which impact will have the recognition of social standards by bilateral agreements for the multilateral trading system?

If the WTO and its member states do not want to erode these developments, they should consider the social standards in their framework and try to identify which role social standards could play in their policy.

In a globalized world, no clear separation between policies is possible as every policy has an impact on another. Some might have stronger interdependency, therefore, neither policy nor the multilateral trading system exist in isolation. Globalization is a complex system, but not to recognize it as such, makes it in the long term even more complicated.

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