

TRANSPARENCY INTERNATIONAL SUBMISSION TO DG TRADE CONSULTATION ON A NEW TRADE AND DEVELOPMENT COMMUNICATION

1. How could the EU support developing countries better integrate into the world economy?

By taking a stronger stand against global corruption the EU can make a powerful contribution to integrating developing countries into the world economy. Trade-related bureaucracy should be minimal to ensure that risks from corruption are fully reduced, whilst EU measures to reduce corrupt business practices such as bribery, corporate fraud and global tax dodging will help to create a more accountable global trade environment. Increased transparency, promoted domestically, regionally and globally, will allow for smoother integration of LDCs into the world economy.

Addressing the threat from corruption within the Trade and Development Communication will complement externally the internal measures under the Stockholm Programme's proposed common approach to corruption, as well as helping to implement the *Action Plan on Combating Corruption* agreed by the G20 at Seoul in 2010. The G20 relies on the resources of its members, including the EU, to fulfil its anti-corruption commitments.

3. Which aspects of sound economic governance are important for sustainable social and economic development?

Effective controls against corruption at all levels of society are an essential pre-condition for sustainable development. Without them, trade and development cannot properly function.

Implementing Public Financial Management Systems, which comprise the key financial controls placed on the proper functioning of the state, will promote proper governance of public resources. When developing trade agreements countries should be assessed using World Bank governance assessment tools or Transparency International's [National Integrity Systems \(NIS\)](#), to ensure a holistic approach to combat corruption and achieve sound economic governance. Efficient and accountable budget management is crucial to ensure that public resources are not misappropriated, whilst regular and serious dialogue on the fiscal management of specific sectors of the budget (e.g. health, education), with consensual, predetermined indicators and measurable outcomes will ensure budget resources are effectively utilised.

4. What can be done to ensure that the gains from greater trade and investment are more evenly distributed especially to the worst off groups in developing countries?

A country's taxation system must be open and transparent, and governments should strive for participatory dialogue with all stakeholders for fully accountable resource allocation. Civil society must be empowered as a primary stakeholder in all discussions.

Corporate structures including full information on international subsidiaries, their countries of incorporation and of operations should be publicly disclosed. Multinational companies should also report major elements of their profit and loss accounts on a country-by-country basis. Transparency on these fronts should considerably increase the chance that taxes are paid where profits are generated, and not transferred from LDCs to global tax havens.

Country-by-country reporting by multinational companies is especially important in the extractive sector. Natural resources are public property, and as such precise information about how much revenue goes to state budgets and how much is retained by companies must be fully disclosed.

5. The EU pursues a comprehensive approach to trade negotiations with developing countries encompassing services, investment and trade-related issues (e.g. competition policy, innovation and intellectual property rights, public procurement, good governance in the tax area, environmental and social aspects). Should this approach be maintained or adjusted?

Trade-related issues are particularly relevant to achieve sound management of public resources and to help minimize the risks from corruption, with public procurement particularly exposed to the risk of mismanagement. Regulated and enforced public procurement rules are vital to ensure that contracts are awarded transparently. Similarly, simplification of trade facilitation can act to significantly reduce corruption risks. By simplifying procedures and lowering the chance for discretionary decisions and payments to facilitate trade, opportunities for corruption seriously diminish.

The EU should maintain a comprehensive, holistic approach to trade negotiations which promotes transparency, whilst ensuring that developing countries are actively involved as partners in all stages of negotiations. Negotiations and any resultant conditionalities should never be imposed upon LDCs. To reduce chances for corruption the EU should promote a major net simplification of global trade rules.

7. How could agreements with more advanced developing countries (such as China, India and Brazil) better reflect their increasing role in the global economy?

Trade agreements with BRIC countries should take account of their important position within world trade whilst emphasising the global responsibilities which correspond to their new-found economic strength. TI found in its [Progress Report 2011: Enforcement of the OECD Anti-bribery Convention](#) that enforcement of the OECD convention remains inadequate. Accordingly, the EU must ensure that governments which promote the exports and investments of domestic businesses by providing financial support adhere to their OECD anti-bribery commitments. Equally, safeguards and sanctions of export credit (ECA) systems must be properly enforced.

Developing countries, namely China, which deal directly with national governments and keep their operations closed to local communities, must be held accountable over commitments to combat corruption through UNCAC and the OECD convention. Advanced developing countries should take a stronger lead within their own regions in combating corruption.

10. And how can it best encourage Corporate Social Responsibilities practices by investing enterprises and their suppliers, while adapting to different national and regional contexts?

In its 2011 review of these policies, the Commission should put anti-corruption at the heart of its CSR agenda, linking it closely to the new UN Guiding Principles on Human Rights and Business, which raises issues such as adequate whistle-blowing and grievance mechanisms against corporate abuses. CSR practices should promote strong governance and increase SME capacity to combat extortion.

As suggested by the 2010 [Transparency International working paper on Corporate Responsibility and Anti-Corruption](#), the EU should enact legally binding CSR clauses into trade contracts signed by EU agencies to ensure that contracts are concluded and implemented in a socially responsible way. The EU should encourage standards set out in leading guidelines for CSR such as ISO 26000 and OECD Good Practice Guidance to support businesses with training, advice and monitoring. The EU can encourage CSR practices through research, financial support, and LDC-based solutions.

12. What conditions are needed to ensure that, when developing countries open their public procurement markets, this enhances their growth prospects, boosts employment, and reduces poverty? Are these conditions the same for all types of developing countries?

If a country chooses to open up its procurement market, the entire process must be transparent – open hearings should be held, and all documents should be publically accessible to ensure that local communities can input into the contracting process to make the process work for public interest. LDCs

should be allowed to give local companies a margin of preference to ensure that they can be cost effective against large foreign multinationals.

The EU should promote Integrity Pacts in procurement contracts, as featured in Transparency International's [Integrity Pacts](#) (2009). An Integrity Pact contains rights and obligations to the effect that neither side engaged in procurement will pay, offer, demand or accept bribes of any sort to obtain a contract.

Civil society monitoring mechanisms are crucial to ensure that transactions are fully transparent and accountable. There should be a focus on transparency in the award criteria of contracts, with environmental and social criteria considered.

15. How can EU trade and development policy further promote sustainable management and efficient use of natural resources in developing and emerging economies, And what measures should be implemented in order to avoid environmental negative consequences in the exporting countries ensuring long-term benefits for local people?

The EU should promote a legally binding global standard on sustainable resource management to stop circumvention of environmental, social and economic standards by extractive industries; combat corruption and misappropriation of natural resources; and address the need for a reduction in global demand for natural resources through conservation and efficiency.

Strict international and domestic monitoring is required of all governments and companies involved in extraction. There must be full public disclosure of industry payments and host government earnings. Ratification of international commitments such as UNCAC and country-by-country reporting legislation must be properly and strictly enforced, with any resultant environmental assessments completed with full transparency and reliability. Trade policy should include codes of conduct which emphasise the importance of continued consultation by private sector stakeholders with affected local communities; civil society must act as a monitor.

16. How can EU trade policy (continue to) maximise the potential of such schemes for developing and emerging economies while addressing risks of confusion related to a multiplicity of such standards? What should be the role of the private sector here?

EU trade policy should specifically criminalise not only the import of illegally sourced resources, but also products whose legality or provenance is unproven or suspect. At the same time, the EU should increase and strengthen the enforcement capacities of developing countries, with a fully accountable police, government, army and border patrol. Internationally, certification standards which attempt to track resources through the supply chain must be standardised, to ensure that only legal and sustainable

resources are imported into consumer countries. Initiatives such as the US' Lacey Act and the EU FLEGT process should be supported and enforced to ensure that import certification is legitimate and legal.

The private sector needs to recognise that corruption is an important factor driving illegal and unsustainable extraction. This means that for risky areas in the resource supply chain, especially when there is dependence on outside auditing, care should be taken to ensure integrity.

20. What is the best way for EU trade policy in raw materials to boost key development objectives of improving governance, building up administrative capacity, minimizing global prices volatility and opening new foreign investment possibilities, in developing countries and notably in LDCs?

The EU must ensure that its trade policies guarantee that raw materials are supplied in a transparent and accountable way. Natural resources must be sustainably managed and the benefits of trade policy must be of benefit to the entire populace; not just political elites. To ensure that the wealth accrued from natural resources is not misappropriated, civil society must play an active and participatory monitoring role. The EU must make sure that it does not support foreign investment and export credits which are detrimental to its development objectives. Companies which, for example, engage in unsustainable forest exploitation should not be allowed access to EU markets.

The EU should support LDC engagement with the *Extractive Industries Transparency Initiative (EITI)* to promote better governance in resource rich countries. To ensure full accountability the EU should advocate for mandatory comprehensive disclosure of financial information by companies on a country-by-country basis.