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Executive Committee of the
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SHOULD THE FUND FINANCE ACTIVITIES RELATING TO ENTERPRISES THAT ARE WHOLLY OR PARTLY OWNED BY TRANSNATIONAL CORPORATIONS

INTRODUCTION

1. The issue of whether or not to fund projects involving enterprises that are wholly or partly owned by transnational corporations (TNCs) is a complex one involving a mix of social, economic, and political considerations as well as conflicting perspectives. For this reason, this paper addresses the arguments on both sides of the issue and recommends options for consideration.

ARGUMENTS FOR FUNDING

Calculated Consumption

2. The total calculated level of consumption of each group of controlled substances, in any given country, is based on statistical data which includes estimates from all sources including transnational corporations (TNCs) doing business in that country. To that end, national ozone policies for the phase out of ODSs do not discriminate with respect to the source of the calculated level of consumption. Some of that calculated level of consumption is attributable to transnational corporations. For some Article 5 countries, most of the calculated level of consumption to be phased out is attributable to transnational corporations. These countries would therefore be also responsible for the phase out of the ODSs attributable to local enterprises of TNCs. Consequently, projects relating to enterprises of TNCs are also included in the country programmes of the Article 5 countries.

Incremental Costs

3. The incremental costs that are determined for Montreal Protocol projects are distinguished as economic costs as opposed to financial costs. <u>The economic incremental costs are costs to a country as a whole and not costs to other economic agents such as transnational corporations</u>. One rationale for the imperative to determine country economic costs, is the need to conduct the analysis from the standpoint of society's welfare as opposed to the standpoint of an individual or private firm. As such, the derived incremental costs are the costs to the country for implementing the Montreal Protocol and not costs to other economic agents such as TNCs. Therefore, TNCs per se are not an issue in the determination of incremental costs which is the basis for the determination of the magnitude of project financing.

Economic Development

4. TNCs, like other legitimate economic activities, do have some measurable positive impact on the development process in Article 5 countries. There are multiple economic effects

in terms of production, employment, access to finance and markets, national income, balance of payments, and general welfare. TNCs help to modernize factories, create jobs, bring new technology and management techniques, and, in some cases, earn desperately needed foreign exchange for the Article 5 countries. Consequently, most Article 5 countries are, these days, encouraging TNCs and promoting their functioning as part of their national economic development programmes. Some Article 5 countries have even created special "free zones" for export-oriented subsidiaries of TNCs. Given this increasingly accepted importance of TNCs in the development process in Article 5 countries, some of those countries may find it counterproductive to completely exclude them from participation in Montreal Protocol projects financed by The Fund.

ARGUMENTS AGAINST FUNDING

Branch Firms

5. A branch firm is defined here as an entity that is affiliated to a parent firm which has primary responsibility for its operation, and whose majority ownership is based in an industrialized country. These branch firms should therefore follow the phase out schedule of their home country rather than their host country and be subject to the same standards required for implementing The Montreal Protocol in industrialized countries.

Protocol Objectives

6. The Interim Multilateral Fund was established, as part of the financial mechanism of the Montreal Protocol, ".... for the purposes of providing financial and technical cooperation, including the transfer of technologies, to Parties operating under paragraph 1 of Article 5 of the Protocol to enable their compliance with the control measures set out in Articles 2A to 2E of the Protocol. The mechanism, contributions to which shall be additional to other financial measures to Parties operating under that paragraph, shall meet all agreed incremental costs of such Parties in order to enable their compliance with the control measures of the Protocol".[1] Consequently, The Fund was established specifically to assist Article 5 countries, and only Article 5 countries, in meeting the incremental costs of the implementation of The Montreal Protocol. Allowing the funding of projects involving the branch firms of TNCs would not only be contrary to the spirit of The Fund but, in effect, would also be allowing the use of Fund resources for supporting the enterprises of industrialized countries.

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[1] Montreal Protocol On Substances That Deplete The Ozone Layer As Adjusted And Amended By The Second Meeting Of The Parties, London, 27-29 June 1990, Article 10.

Limited Resources of the Fund

7. Given the uncertainties of estimating future incremental costs for Article 5 countries to comply with the control measures of The Montreal Protocol, the limited resources available from The Fund should be directed specifically toward those priority projects which would impose a financial hardship on the Article 5 countries if they were to pursue such projects themselves. Many Article 5 countries are classified by the United Nations as least developed countries and are therefore at a disadvantage in the implementation of The Montreal Protocol without the requisite financial assistance. Transnational corporations, and their branch operations, would have global access to financial resources for implementation of The Protocol without assistance from The Fund.

8. Many of the projects for conversion to ozone-friendly technologies offer potential profits. Since TNCs operate in two or more countries, it is reasonable to expect them to have established lines of credit for financing capital improvements for business development. TNCs might be called upon by the global community to use these established financing means for the elimination of ODSs since the conversion will result in improved conditions both for the environment and for the TNC itself through more efficient and profitable technical processes.

Corporate Citizenship

9. Furthermore, as part of their corporate social responsibility, the enterprises of TNCs should be amenable to requests from host governments to cooperate with international organizations in their efforts to develop and promote national and international standards for protection of the ozone layer through their own efforts and resources. To act as good corporate citizens of their host countries, the enterprises of the TNCs should, however, undertake their activities in conformity with the national ozone policy of their host countries. As a matter of fact, some Article 5 enterprises in the aerosol sector, for example, have already eliminated the use of ODSs without assistance from The Fund and, in some cases, prior to its establishment.

OPTIONS FOR CONSIDERATION BY THE EXECUTIVE COMMITTEE

10. The foregoing discussion leads to the following two options for consideration by The Executive Committee:

A. No Funding

11. The Multilateral Fund should not finance phase out activities relating to enterprises that are wholly owned subsidiaries of TNCs. Such activities should be financed by the TNCs themselves in conformity with the ozone policy of their home countries. No funding should also be provided for enterprises permitted to operate in "free zones" and whose outputs are for export only.

B. Partial Funding

12. Partial funding can be considered on the basis of the distribution of the share ownership of any given enterprise partly owned by a TNC. In such a case, funding can be provided as a percentage, of project incremental costs, proportionate to the local share ownership of the enterprise with the TNC responsible for the rest. Subject to the approval of The Executive Committee, the same criteria should apply to bilateral assistance for activities involving subsidiaries of TNCs.