

The TOUGH International case

Temahefte 7 fra Etisk råd 2015

Tekna - Teknisk-naturvitenskapelig forening



The TOUGH International case

Introduction

In January 2015, the Ethical council of Tekna was asked to develop a case for the International Student Festival in Trondheim (ISFiT). The case, in five parts, is presented in the following pages and illustrated with Norwegian examples to show that the case parts are not entirely fiction.

In the festival four groups of students, from different countries, worked with the case over a period of days. They thereafter presented their views and advices before a jury of members from Tekna Ethical Council.

The working process through the festival is also presented below. The case in its parts, we think, could also be used as grounds for discussions about ethical dilemmas for those who are interested. That is the background for this publication. The design job was done by Anne Edholm at Tekna.

Oslo, summer 2015

John Mikal Raaheim
Secretary of Tekna's Ethical Council

The TOUGH International case

Short introduction to TOUGH International

The multinational company, TOUGH International (TOUGH), is involved in a broad range of industrial production and service activities all around the world. It has its formal headquarter in Luxembourg, but its production sites and offices are located in US, in Europe, as well as in Asia, and in developing countries in Africa.

The company's stockholders are mainly institutional investors. Among these are investment firms and national pensions fund established in order to secure the retirement pensions of large groups of people in several countries in Europe and the US. TOUGH is reckoned a secure long-term investment that guarantees that the savings at any time will grow, at least to the level of the inflation in Europe and the US. The company has an official business policy giving promises that this is a prime objective for the business.

The company's charismatic president Jack Bond did in a newly arranged meeting for investors underpin the business policy when he in his speech to the audience made the following statement: *We are international business. That gives us challenges, businesslike and ethical. But whatever challenges, it is a primary goal for us to secure that we can give the long time investors who believe in us, an added value and a share dividend that keep them as our companions.*

In order to fulfill this policy the company follows a business strategy where it optimizes its operations in the international markets of labour and commodities buying and producing where this could be done at the lowest price while still securing high quality. The company does its research and innovation in developed countries where this could be done most efficiently. Its main markets for products and services are in the same countries where the prices are at a level that give a secure profit. The company also takes advantage of the differences in tax-rate between countries by locating its centers for management services and immaterial rights in countries with favorable tax regime.

TOUGH is an invented case and an invented company. If you feel you lack information, use your imagination and fill in!

The slide cover features the Tekna logo in the top left corner. The title 'The TOUGH International case' is centered in a large, white font against a teal background with a white grid pattern. Below the title, it says 'Tekna's Ethical Council January 2015'. At the bottom, there is a smaller image of a building with the Tekna logo on it, and the text 'Tekna - Teknisk-naturvitenskapelig forening'.

The slide content features the Tekna logo in the top left corner. The title 'The TOUGH company' is centered. Below the title, there is a bulleted list of two points: 'Multinational business engaged in a wide range of activities all around the world' and 'Savings box for pension funds and future pensioners in developed countries in Europe and the US'. To the right of the list is a portrait of Jack Bond, the president of TOUGH. Below the portrait, his name 'Jack Bond' and title 'The president of TOUGH' are written. At the bottom, there is a footer with the date '2. februar 2015/jmr', the Tekna logo, and the text 'Tekna - Teknisk-naturvitenskapelig forening'.

Introduction to the workshop process

The case is described on the following five pages in five separate case parts. You will in this case function as advisers for the top management in TOUGH International (TOUGHI).

When you first meet, you will be organized in four groups, group A, B, C and D.

You will belong to the same group all through the workshop, but for part of the process two and two groups will work together. You are supposed to work with the cases in five separate workshops (one for each part of the case) in this way.

| What to do | | Approx. time |
|------------|---|--------------|
| 1 | Take some minutes individually to read the introduction and the actual case part and do some personal thinking about what this is all about | 5-10 min |
| 2 | Group A and B gather to form one group (Group 1) and so do group C and D (Group 2). Get acquainted in the groups and choose one of you to be chair and one or two to do the secretarial work and to represent the group and to the presentation of your discussions, and what you have agreed upon. Then, do the work with the actual case as described in the cases. | 25-35 min |
| 3 | All participants gather in plenary session where the representatives from Group 1 og Group 2 do their presentations. | 15 min |
| 4 | All participants are invited to debate the presentations and give their personal view about the actual case. | 20-30 min |
| 5 | Reorganize in the initial groups a, B, C and D and choose chair and secretariat and find out what will be your groups advice to the top management in TOUGHI in the actual case. Your advice should be explained/given grounds for. Write it down in short. | 20-30 min |

On 12th of February from 12:45 there will be a jury session. To this session all groups, A, B, C and D, are supposed to present their advices from the five cases in a short presentation (10 minutes) in a plenary

session, with all participants in the workshop and a jury of three members from Tekna's ethical council. The groups are supposed to deliver a short, written resume of the presentation to the jury. Be creative! This event will be organized as follows:

| What will happen | | Time |
|------------------|---|-----------|
| 6 | Group A, B, C and D present their advices with grounds in a plenary session with all participants in the workshop and a jury of three members from Tekna's Ethical Council. | ca 60 min |
| 7 | The jury has a closed meeting to evaluate the advices and the given arguments for the advices. Well-grounded arguments are what count the most in this evaluation. | ca 60 min |
| 8 | Plenary session with the jury and all workshop participants. The jury will give its comments on the advice, and there will be an opening for comments. | ca 60 min |

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The process – Working with the case parts

FIRST:
Look at, and investigate, the cases from two different angles

Group A and B as Group 1
Group C and D as Group 2

SECOND:
Make a report on your advice to the TOUGHI top management

Group A, B, C and D as separate groups

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The case and its parts

The subjects:

- Multinational wealth creation
- Facing possible corruption
- Social responsibility and human rights
- Garbage handling and social entrepreneurship
- Sustainability and living conditions

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Case part 1: Multinational wealth creation

Introduction

Most multinational companies do as TOUGHI do today, following the late American professor and Nobel memorial Prizewinner in economy Milton Friedman's advice, practicing that the social responsibility of a business is first of all to increase its profit. Its main responsibility is towards the owners and stockholders. That is to see to that the stockowners of the company get the most possible outcome out of their investment in stocks. This includes also the responsibility to take advances of the international differences in markets for labour, services and products, and differences in taxation regimes.

A business should follow the local legislation, but it should not take any social responsibility in its social and environmental surroundings. A business company has no political mandate and interference in local society unless such a mandate could easily sustain corruption.

On the other hand, transfer pricing, as it is called, is widely used to transport profit to countries with low-tax-regimes. African countries, as an example, are said to "lose" at least 34 billion dollar yearly in income taxes because of transfer pricing. That is more than the same countries get in aid from developed countries. According to Kofi Annan, the work to give poor people a better living advances slowly, because of this system and the secrecy that surrounds it.

Case and workshop process

Group 1 should find and make a list of arguments that supports the policy of TOUGHI that its main objective should be to secure the profit of the company to the benefit of its stockowners. If there are different opinions in the group, which are of a cultural nature, make a note of them.

Group 2 should find arguments, make a list of those who supports that TOUGHI should revise its strategy, and not be involved in tax planning and transfer pricing, even though it is legal. TOUGHI should organize its business so that the company pays more taxes where it produces and sells its products, even if the profit available for the stockholders then would be less. If there are different opinions in the group, which are of a cultural nature, make a note of them.

The two groups are after this invited to a debate where they initially both present their arguments.

Finally, after participating and listening to the debate, the initial groups A, B, C and D gather to find out what will be their advice to the top management in TOUGHI in this actual case. What should TOUGHI do? Your advice should be explained and given grounds for. Write it down in short.

Bedriftsbeskatning som konkurransefortrinn

UTENRIKS
Vurderer vagnmet
Syrte-hjelp
Lån er Apples

- Amerikanske selskaper har plassert ti trillioner kroner i lavskattelend og skatteparadis. En del europeiske land med blant annet Irland, Nederland og Luxembourg, deltar i konkurransen om å tiltrekke seg slike selskaper ved å lokke med svært gunstig bedriftsbeskatning.
- Ordningen gir fjerne nasjonale selskaper en klar skattefordel. De kan slippe unna med selskaps-skatt på 5 %. Nasjonalt baserte selskaper må i noen tilfeller betale opp mot 30 %.
- Apple er et av selskapene som har store verdier (145 milliarder dollar) plassert under gunstige skatteregimer. Å tilbakeføre disse verdiene til USA ville gi en stor skatteregning.
- Når selskapet nå tvinges til å betale utbytte til sine aksjonærer skjer dette ved at selskapet opptar lån (100 milliarder kroner) for å betale utbytte. Slik slipper selskapet unna skatteregningen de ville fått om de brukte sin kontantbeholdning.

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Multinasjonal verditapping og -skaping

- Tidlig i mai i år ble The Africa Progress Report lagt frem. Kofi Annan kommenterte lanseringen ved å konstatere at fattighedsreduksjonen går sakte i mange land og at dette skyldes skatteundragelser og hemmelighet rundt internasjonal handel.
- Transfer pricing (interprising mellom virksomheter i samme selskap i flere land) benyttes for å transportere overskudd til land med gunstige skattebetingelser.
- Det er beregnet at Afrikanske land taper minst 34 milliarder dollar i skatteinntekter på slike overføringer. Det er litt mer enn landene mottar i bistand.
- Undersøkelser har også vist at EU har større import fra land i Afrika enn det som er rapportert eksport fra de samme landene.

Jakten på sjørøverskatten

Fattige land tappes for milliarder

Land A i Afrika
Selskap VCC-A

Land B i Skatteparadis
Selskap VCC-B

Land C i Europa
Selskap VCC-C

Marked

Billig vare → Dyr vare → Dyr vare

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Case part 2: Facing possible corruption

Introduction

TOUGHGI has made a study of new business opportunities, which indicates that investments in an identified African country could be very profitable for the company. The study's proposal is that TOUGHGI should build and manage a new production plant in this country to sustain its policy. As in most developing countries, when a foreign company will establish new business, it will need a local partner to go on. According to law in this country, the local partner shall have at least a 10 % ownership in the business. To get a local partner you have to establish connections in the country. TOUGHGI has for that purpose engaged a consultant with local knowledge and connections with local government.

The actual country is according to Transparency international's corruption index rated as one of the world's most corrupt countries. Elite of people with close connections to the country's president and his family are involved in most local businesses and companies of importance as well as in central governmental positions. An international expert on these kinds of countries is quoted: *This country has the most advanced developed kleptocracy in all of Africa.*

The study TOUGHGI has conducted has made a comment on this as follows: *We will obviously be challenged when we go further with this project. However, this is a unique business opportunity that will give the company substantial payback for many years. In the world we live in today, we have to meet challenges like this. For the future, we would have to operate in countries like this to stay in business. We must see this as an opportunity to develop our business strategies and tactics to implement our sound business philosophy in this country.*

Case and workshop process

Group 1 should find and make a list of arguments which supports that TOUGHGI should go on with this project in this country. If there are different opinions in the group, which are of a cultural nature, make a note of them.

Group 2 should find arguments and make a list of those who supports a statement that TOUGHGI should not go further with its project in this country. If there are different opinions in the group, which are of a cultural nature, make a note of them.

The two groups are after this invited to a debate where they initially both present their arguments.

Finally, after participating and listening to the debate, the initial groups A, B, C and D gather to find out what will be their advice to the top management in TOUGHGI in this actual case. What should TOUGHGI do? Your advice should be explained and given grounds for. Write it down in short.



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- Telenor har status som vitne i saken som gjelder Telenor-deleide Vimpelcom.
- Telenor eier 35,7% av Vimpelcom og stemmer for 43%. Tre av ni styre-representanter er fra Telenor. Baksaas sitter selv i styret.
- Vimpelcom har 220 mill. abonnenter i 17 land i Øst-Europa, Asia og Afrika. Gikk inn i Usbekistan i 2007. Har 10,5 mill. abonnenter der.
- TeliaSonera betalte selskapet Takilant ca 2 milliarder kroner for å etablere seg i Usbekistan og er under etterforskning for korrupsjon for dette. Vimpelcom benyttet samme selskap ved sin etablering.
- Gulnara Karimova, datter av Usbekistans president, er tidligere koplet til Takilant og nå under etterforskning i Sveits for hvitvasking av milliardbeløp knyttet til telesektoren i Usbekistan.

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- Angola er rangert som et av verdens mest korrupte land av Transparency International.
- President Jose Eduardo dos Santos styrer landet. En av hans sønner, leder landets oljefond. Hans eldste datter, Isabel, er nylig kåret til Afrikas første kvinnelige milliardær med store eierandeler i Angolas mobil-selskaper og banker.
- For å bygge opp lokal industri krever Angola at oljeselskap inngår partnerskapsavtaler med lokale selskaper. Somoil er et slikt selskap. Eiere er ministre i Angola, sjefen i statsoljeselskapet Sonangol, banksjefer m.fl.
- Nå har Statoil fått en ny partner i Angola. China Sonangol er en av de største aktørene på angolansk sokkel med forretningsbygg på Wall Street i New York og postboks på De britiske jomfruøyene. Sonangol eier 30 % av selskapet. Rike kinesere eier trolig resten gjennom stråmenn.

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Case part 3: Social responsibility and human rights

TOUGH I has already done the preparation for a new production site in a small local community in an Asian developing country. TOUGH I has engaged an international engineering and construction company as main contractor for the project, but are obliged to use local contractors as subcontractors. This obligation is stated in the contract with the main contractor, and the site is now under construction.

TOUGH I has adopted parts of the ISO26000 on Social responsibility as guidelines for its international projects. As a condition for the project, TOUGH I has on their own initiative suggested and accepted to build a combined primary school for the local community and pay for the teachers and management of the school for a limited time. This is intended as a mean to fulfill the human rights of children to education in a country where schools and education are uncommon in this local district and neighboring districts. The school has been built and local children are already attending the education. The older children in the community do though not attend classes.

An investigation of these phenomena exposes that young boys from the age of eleven are engaged in work as helping hands at the plant by local subcontractors. The investigation shows also that girls from the same age are engaged in the local households as house cleaners and servants. Search into the reason for this uncovers that the income from the young boys and the services of the girls are needed in the local community to keep it going, for economic reasons as well as reasons connected to local culture and tradition.

Case and workshop process

Group 1 should find and list arguments that "our" understanding (meaning the mainstream western world understanding) of the standards set by the declaration of human rights when it comes to child labor and the right to education should be what counts in all countries in the world.

Group 2 should find and list arguments that human rights, as defined in the declaration of human rights when it comes to child labor and the right to education, must be understood and practiced according to local standards of living, culture, traditions, ideology and religion.

The two groups are after this invited to a debate where they initially both present their arguments.

Finally, after participating and listen to the debate, the initial groups A, B, C and D gather to find out what will be their advice to the top management in TOUGH I in this actual case. What should TOUGH I do? Your advice should be explained and given grounds for. Write it down in short.

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Klesprodusenter og samfunnsansvar



- Hvert femte klesplagg som kastes i Norge har ikke vært i bruk. I Storbritannia ligger klær til en verdi av flere hundre milliarder kroner ubrukt i klesskapene.
- Kleskjedene får sine kolleksjoner produsert i lavkostland som Bangladesh, India, Vietnam og Kambodsja og selger sine klær til relativt sett stadig lavere priser for kundene i vesten.
- Tekstilarbeiderne i disse landene bidrar med arbeid i dårlig og ofte helseskadelig arbeidsmiljø og lave lønninger. Korte leveringsfrister og mye overtid er en del av bildet.
- Nå tas det til orde for at kleskjedene bør offentliggjøre hvilke leverandører de henter sine tekstiler og klær fra og ta samfunnsansvar for arbeidsforholdene i produksjonslandene.

Tekna – Teknisk-naturvitenskapelig forening 4

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Human rights and the world we live in

LIVING CONDITIONS



ISO 26000
Human rights

CULTURE RELIGION IDEOLOGY

Teknas Etske råd januar 2015/jmr Tekna – Teknisk-naturvitenskapelig forening 6

Case part 4: Garbage handling and social entrepreneurship

In still another developing country TOUGH I is a major stockowner together with others, mainly local investors, in G-GO a company engaged in recycling industrial and domestic waste from all over the world. The site is one of its kind, highly automated and using the latest in technology for screening, handling and recycling the incoming garbage. The business is very profitable.

This company is also involved in local garbage handling through a social entrepreneur specialized in handling plastic waste from landfills in the surroundings of one of the countries' main cities. This business engages local people to gather plastic waste, and also use locals to presort the garbage before delivering it to be recycled in the G-GO plant. The initiative gives work and income to a substantial crowd of poor people in the slums of the city. The initiative has got international recognition in media for its way to organize a business which both gives an environmental effect by picking up garbage that in many ways would represent an environmental hazard, and also gives work and income to the poor that otherwise would have lived by and on the land fill picking up whatever they could use and sell in local markets.

All seems well until a high profiled international magazine publish an article about this social entrepreneurial business pointing out that the wages that the garbage handlers get is far below the minimum wage needed for living, even in this country. The article shows pictures of children climbing in mountains of garbage to get the plastic waste. Moreover, the headlines are *Environmental success – Inhuman exploitation*. It addresses also the severe health risks for the people who are involved in the business and so forth. TOUGH I's indirect involvement in this business is part of the story in the magazine's version.

Case and workshop process

Group 1 should find and list arguments that TOUGH I should keep up its engagement in G-GO and the cooperation with the social entrepreneur business handling plastic waste.

Group 2 should find and list arguments that TOUGH I should not get its profit from a business that are involved in the exploitation of poor people and that also put these same people under a health risk.

The two groups are after this invited to a debate where they initially both present their arguments.

Finally, after participating and listening to the debate, the initial groups A, B, C and D gather to find out what will be their advice to the top management in TOUGH I in this actual case. What should TOUGH I do? Your advice should be explained and given grounds for. Write it down in short.

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International division of labour

CO₂ CO₂

PRODUCTION PRODUCTS USED AND GARBAGE

Teknas etiske råd januar 2015/jmr Tekna – Teknisk-naturvitenskapelig forening 5

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International garbage handling

Export of e-waste

NORTH AMERICA WESTERN EUROPE EASTERN EUROPE CHINA

SENEGAL IVORY COAST GHANA BENIN EGYPT NIGERIA PAKISTAN INDIA VIETNAM HON KONG

From North America From Western Europe

Source: Greenpeace, Basel Action Network

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Case part 5: Sustainability and living conditions

Rich countries produce a substantial part of the CO₂ that are disposed into the atmosphere. At the same time production of products, that is exported to and traded in the rich countries, also contribute to the CO₂ disposal from the developing countries in Asia and South America.

Poor countries are also the receiver of used products and garbage from rich countries. The potential for environmental hazard caused by this export is substantial.

The rich countries must and will cut their CO₂ deposits, but they will still anticipate a growth in wealth among people in these countries. There are also poor people in these countries. Countries with a huge population of poor people will not be able to raise the living standard among their inhabitants without a rise in CO₂ deposits given today's technology.

When it today is difficult to agree on terms that give the necessary reduction in the deposit of CO₂, this is because the interests of rich and poor countries cannot be coordinated.

TOUGHI operates in this environment, and through their business activities one could say that they support the differences in living conditions between people in rich countries at the expenses of poor people in developing countries.

TOUGHI's president, Jack Bond, has asked you to help him with a speech he is planning for a coming gathering with investors and stockholders. He wants your advice on how to address the topic addressed in the two statements below.

Case and workshop process

Group 1 should find and list arguments that support that in 50 years' time we still have to accept that some countries have significant better living conditions for its inhabitants than others if we should avoid critical global warming.

Group 2 should find and list arguments that supports that rich countries today have to accept reduced living standard for its inhabitants if we should avoid critical global warming.

The two groups are after this invited to a debate where they initially both present their arguments.

Finally, after participating and listening to the debate, the initial groups A, B, C and D gather to find out what will be their advice to TOUGHI's president Jack Bond in the actual case and situation where he is to meet the companies present stockholder and preferably stockholders to be. What should Jack Bond say? Your advice should be explained and given grounds for. Write it down in short.

Fattige land. Rike eliter.

- Utviklingsland mister ti ganger så mye i illegale pengestrømmer som de samme landene mottar i utviklingshjelp i følge en rapport fra Global Financial Integrity (GFI).
- Pengesummer som skulle ha blitt innmeldt for beskatning blir i stedet flyttet til skatteparadis. Dette skjer blant annet ved at man innrapporterer lavere varepriser på eksportvarer enn de reelle eller ved at man unnlater å rapportere varesalg.
- Fleire av disse landene har mindre registrert eksport enn det som kan måles som import i importlandene.
- Landene taper milliarder, mens mange i den politiske eliten i de samme landene beriker seg gjennom som privatpersoner å overføre penger til skatteparadisene.
- Landene som blir tappet mest, India, Kina og Russland, er ikke med i rapporten.

Ref: <http://ifri.com/wordpress/wp-content/uploads/2014/24/global-financial-integrity-flows-from-developing-countries-2001-2010-WEB.pdf>

Tekna – Teknisk-naturvitenskapelig forening 3

Etisk handel?

- Over 1100 arbeidere døde da en bygning med produksjonslokaler for tekstilindustri raste sammen i Dhaka i Bangladesh i april i år. Det var oppdaget sprekker i bygningen, men arbeiderne ble tvunget tilbake til arbeidet. Bygningen viste seg i ettertid å være oppført ulovelig.
- Tekstilindustrien i Bangladesh har vokst kraftig siden 90-tallet og omfatter mer enn fire millioner arbeidere fordelt på 50.000 registrerte fabrikker. De seneste årene har mange omkommet i branner og bygningskollapser. I november 2012 døde 117 arbeider i en brann. Dårlige arbeidsforhold og usikre arbeidsplasser er gjennomgangstema.
- H&M og Zara er store innkjøpere av klær fra Bangladesh. Disse har nå undertegnet en avtale med Clean Clothes Campaign som sikrer inspeksjon av arbeidsforholdene ved fabrikker kjedene handler med.

Tekna – Teknisk-naturvitenskapelig forening 11



Studentgruppen som arbeidet med casene under ISFiT 2015.



The jury day: February 12th, at 12:45

- All groups, A, B, C and D, are supposed to give a 10 minutes presentation of their advice in all the case parts to the TÒUGH management before the jury.
- The arguments for the advice counts as much as the advice it self.
- Use all the groups' resources in the presentation. Be creative!
- A written resumé is to be delivered to the jury after the presentation as well!

The jury, all members of Teknas ethical council:



Guri Vik



Svein Nordenson



Geir-Ivar Soleng

Temahefter utgitt av Teknas Etske råd

1. Varsling av kritikkverdige forhold (2009)
2. Fra Gaza til finans push – Cases fra Magasinet Tekna 2009-2010 (2013)
3. Om juks og egne verdier – Etikk i møte med studenter og lærere fra Tekna Studenten og Magasinet Tekna 2010-2011 (2012)
4. Etikk, ledelse, ansvar og usikkerhet – Artikler fra Magasinet Tekna 2012, nr. 2, 3, 4 og 5 (2013)
5. Om etisk refleksjon – Artikler fra Magasinet Tekna 2013 (2013)
6. Green economy and ethical challenges (2015)
7. The TOUGH International case (2015)

www.tekna.no/etikk

