

# Companies: why we need new laws

February 2006

- **Two-thirds of world trade is controlled by multi-national corporations**
- **3 companies control 83% of the world cocoa trade**
- **Less than one-third of the top 100 UK companies monitor and report on their impact on people and the environment**

Some companies are more powerful than nations. They can influence the fortunes of thousands of the world's poorest people through investment and trade. But despite their might, they are not accountable for their impact on society, or the environment. All too often they pursue profit at the expense of people. And the UK government is letting them get away with it.

We have an opportunity to change this. But we need to act fast. The Company Law Bill is up for review and is going through Parliament **now**. We're calling on the government to make companies more accountable for their actions.

**Urgent action: use the enclosed sheet to lobby your MP**

## Why companies matter

Most trade is carried out by companies within a set of international rules. Traidcraft knows from its own experience that done well, trade is a fantastic thing — it can truly change lives. People and communities can earn an income, gain self-worth, and escape a life of grinding poverty. But trade is often causing harm where it could be doing good.

- The rules of trade are rigged in favour of rich countries and companies – poor people and countries aren't getting a look in. Traidcraft is campaigning for these international trade rules to be changed in favour of the poor. Visit [www.traidcraft.co.uk/campaign](http://www.traidcraft.co.uk/campaign) to find out more.
- There are no binding rules to hold powerful companies accountable for their actions. Whether they behave for good or ill is left to choice and voluntary codes. So while governments set targets to combat poverty they're allowing some companies to undermine them. This is where Company Law comes in.

## Why focus on Company Law?

Company Law outlines what companies are legally required to do when they make their decisions. It affects all UK companies and outlines what directors need to consider when doing their business.

But the current law is outdated. So the government has decided it is time to make a law fit for 21<sup>st</sup> century business. They've been drafting this new law since 1997 and the Company Law Reform Bill is going through Parliament from November 2005-October 2006. This means it gets debated and MPs and Peers get to vote on it and put forward amendments.

Traidcraft believes this is an historic opportunity to truly modernise the law so that UK companies are legally required to respect people, employees, suppliers and the environment. But we need to get this included in the new law – it is not there yet!

<sup>1</sup> The rules of trade are set by governments through institutions like the World Trade Organisation and regional agreements between particular countries. The International Monetary Fund and World Bank apply conditions to aid and loans, which affect the way poor countries trade and run their economies.

## UK Company Law: the situation now

### Have your cake and eat it

Under current law, UK companies enjoy some significant privileges such as limited liability and tax benefits. And with modern technology and communications, it is getting easier to operate wherever they like in the world.

Companies have many rights, immense power but few responsibilities – we think that is no way to run the world. Traidcraft seeks to lead by example through practising and promoting socially responsible business. We offer support and guidance to our producers and tell our customers about our business and procedures. We believe that all companies should take responsibility for their impact and that we need new broader standards for company behaviour. The government should use Company Law to balance companies' rights with companies' obligations.



### Maximise profit: it's the law!

The primary legal duty of company directors is to maximise profits for shareholders. So it is in companies' interests to drive down costs like wages for employees and prices paid to suppliers to increase profit. There is no general legal requirement on companies or their directors to consider the impact of their business activities on the environment, people or society. Companies like Traidcraft who choose to make ethics a priority are doing so voluntarily. The new Company Law needs to encourage companies to make a profit but without harming people or the environment.

### Go on then, sue me!

If a company breaks the law the penalty is financial – either a fine or payment of damages. But this can be a meaningless deterrent, especially for large or wealthy companies. If the cost of complying with legal obligations exceeds the likely cost of any breach, the company may choose to ignore the law.

### Directors: the buck stops here

If individual directors are not legally required to consider environmental and social matters, and are not personally held accountable where they fail to do so, those issues are more likely to be overlooked and ignored. In addition to the existing UK Company Law, UK governments have enacted some single-issue laws, which affect what companies can and can't do such as employment law, health and safety standards and environmental protection. In some cases the government has recognised that for these laws to have any teeth, directors must be held personally liable if their company breaks the law. So asking directors to take responsibility for their company's actions is not new.

### Go overseas: they do things differently there

- UK companies do not have to obey these existing laws when they operate overseas.
- Some developing countries do not have minimum standards in place and where they do, they are usually weakly implemented.
- There is no law requiring businesses to abide by internationally accepted human rights' standards, such as the Universal Declaration of Human Rights wherever they operate.

All this means companies often have a free rein when they operate overseas.

<sup>2</sup>Limited liability means companies are able to limit their financial and personal liability to a certain level. This can be much smaller than the real size of their trading activities and impacts.

## Case study: profits before people

These two examples show why Company Law needs to change. Many other UK companies adopt similar practices.

### Tesco:

One of the 6 largest retailers in the world

Profits in 2004: £1.7 billion (before tax)

Annual turnover: £34,353 million

30% share of the UK grocery retail market

Intense competition between supermarkets (of which Tesco has the largest market share) and the race to reduce prices for shoppers has helped to expose thousands of workers in developing countries to exploitation and drive some UK farmers to the brink of bankruptcy. For example, women workers growing fruit on some farms acceptable to Tesco in South Africa are exposed to hazardous pesticides, suffer insecure employment with long hours, and are often paid below the minimum wage.

### Arcadia Group:

UK's second largest clothing retailer

Profits in 2004: £296 million

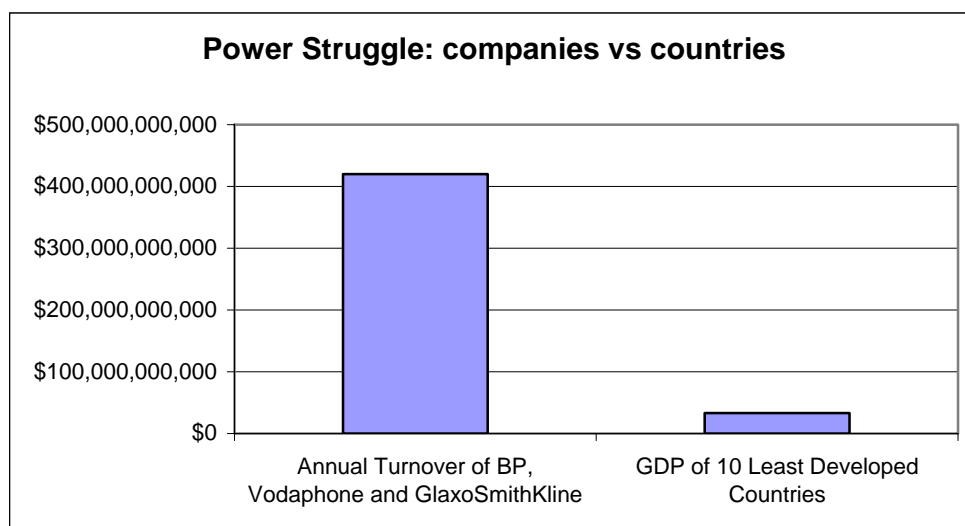
Annual turnover: £315 million

Owns 7 high street brands including Top Shop, Dorothy Perkins, Wallis and Burton

Arcadia buys garments from around 750 suppliers around the world. They have a Code of Conduct, to which their suppliers have been asked to sign up, but investigations indicate that conditions in many of the factories are far from ideal. In factories where Arcadia clothes are produced workers are sometimes paid wages too low to live on, are required to work excessive hours, have insecure jobs and suffer poor working conditions including inadequate health and safety practices. Unions are sometimes repressed as well.

## The weakness of voluntary codes

Pressure from customers has definitely helped change the behaviour of some companies who have put a lot of time and energy into drawing up 'corporate social responsibility' procedures and policies. But over two-thirds of the top 100 public companies in the UK do not report on their environmental or social impact. Poor behaviour by multinational corporations is too serious to leave to voluntary initiatives – instead there should be clear laws that set standards right across the board.



The 10 least developed countries are: Mozambique, Burundi, Ethiopia, Central African Republic, Guinea-Bissau, Chad, Mali, Burkina Faso, Sierra Leone, Niger

<sup>3</sup> <http://81.19.58.74/annualreview05/k/k.html>

<sup>4</sup> <http://en.wikipedia.org/wiki/Tesco>

<sup>5</sup> <http://www.tescopoly.org>

<sup>6</sup> "Rotten Fruit: Tesco profits as women workers pay a high price" Action Aid, March 2005

<sup>7</sup> Julia Finch, The Guardian, 22 October 2004

<sup>8</sup> <http://www.fashionunited.co.uk/news/arcadia.htm>

<sup>9</sup> "Arcadia: The High Street of Exploitation" Labour Behind the Label March 2004

## What the Government is proposing

The draft Bill recognises some of these issues, but does not go far enough. Directors are required to 'have regard to' social and environmental issues only if they happen to coincide with shareholders' interests. The number one legal duty of directors is still to maximise profit for shareholders.

## What we're calling for

Traidcraft is part of the Trade Justice Movement and the CORE coalition<sup>10</sup> of agencies. We believe companies can be a real force for good and we are not against trade or profit. But we believe we need basic regulation to encourage the good that companies can do and guard against the harm.

### We're calling for Company Law to be amended so that

1. **Companies are legally required to report on their social and environmental impacts.**
2. **Directors are legally obliged to minimise any damage their company does to local communities and the environment.**
3. **People overseas who are harmed by the activities of a UK company are able to take action against them in a UK court**

### Case study: responsible business is possible

#### Traidcraft plc:

The UK's leading fair trade company  
Turnover in 2004: £15 million  
Profit in 2004: £530,000 (before tax and dividends)

Traidcraft obtains feedback from suppliers, staff, shareholders, donors, and customers through regular Partnership Reviews, surveys, interviews, focus groups and specific research. This information is reported in Traidcraft's award-winning social accounts<sup>11</sup> and is used to inform the company's decisions.

For example, developing country suppliers told Traidcraft that one way to help reduce poverty is by providing larger and more consistent orders, communicated well in advance. So Traidcraft aims to place orders in good time, develop long-term relationships with suppliers as well as achieve a steady growth in turnover so the company can increase purchases from suppliers in the developing world.

## What needs to happen

The Company Law Reform Bill is going through Parliament now. The UK government hopes to make it law in November. It is vital that we do not miss the opportunity to win a change in the law.

### We need to convince the government that the new Company Law Reform Bill must make it illegal for UK companies to violate human rights or harm the environment.

Please take action to help ensure that UK companies do not increase poverty so that the world's poor feel the benefits of trade.

**See the enclosed sheet for your simple action guide.**

[www.traidcraft.co.uk/campaign](http://www.traidcraft.co.uk/campaign)

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<sup>10</sup> The CORE (Corporate Responsibility) campaign is a coalition of 130 charities and campaigning organisations including Amnesty International UK, Friends of the Earth, Christian Aid, War on Want, Action Aid and Traidcraft.

<sup>11</sup> <http://www.traidcraft.co.uk/socialaccounts>

This briefing paper series is supported by:



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# **Take Action on company law now!** (August 2006)

## **What you can do:**

### **1. Lobby your MP**

*'I was expecting it to be difficult to see my MP, but it was just a matter of writing a letter and making a phone call'.* 16 year old Sam Wolfson, after lobbying Lynne Featherstone MP.

The Company Law Reform Bill is due to come back into Parliament in early October, where it will be voted on by MPs. It is important that your local MP knows you are concerned and that they support the Bill in the vote. The best way to do this is to meet directly with your MP to express your concerns and urge them to vote accordingly.

You can find all the information you need on the Trade Justice Movement website [www.tjm.org.uk](http://www.tjm.org.uk). It includes a lobby pack, questions and answers, posters to advertise your event and a list of local lobbies that you can join in if you don't want to set one up yourself.

### **2. Write to your MP**

You can find out who your MP is by visiting: [www.writetothem.com](http://www.writetothem.com) or calling 020 7219 4272. Please ask them to:

- a) Sign Early Day Motion 697 'Modernising Company Law' if they have not already done so.
- b) Write to Margaret Hodge MP, the Minister responsible for the Bill, about your concerns.
- c) Support the Trade Justice Movement and CORE's amendments to the Company Law Reform Bill.

You can find more information to help you in the lobby pack, available from [www.tjm.org.uk](http://www.tjm.org.uk). If you have already written to your MP on this issue, you can find suggested response letters at [www.traidcraft.co.uk/campaign](http://www.traidcraft.co.uk/campaign).

Fax your letter to your MP at [www.writetothem.com](http://www.writetothem.com) or send it to:

**<Name of your MP>**  
**House of Commons**  
**Westminster**  
**London**  
**SW1A 0AA**

### **3. Be part of the final push!**

From the start of September, we will have a new email action for you to take, and a new lobbying toolkit. There will be materials for people who have not yet had the chance to contact their MP about the Bill, and much more tailored help and information for the many of you who have already worked hard to persuade your MP to support the campaign and want to take it to the next level. Further information will be available from our website in September.

In the meantime, you can email Margaret Hodge directly by visiting [www.traidcraft.co.uk/campaign](http://www.traidcraft.co.uk/campaign).

### **4. Stay involved**

To keep in touch with all the latest news and actions by email or post visit [www.traidcraftinteractive.org.uk](http://www.traidcraftinteractive.org.uk) and click on 'get our campaign emails'

Keep visiting our websites for the latest news and further actions you can take as the UK Company Law Reform Bill goes through parliament.

**[www.traidcraft.co.uk/campaign](http://www.traidcraft.co.uk/campaign)**  
**[www.tjm.org.uk](http://www.tjm.org.uk)**  
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