

Ideally, codes of conduct should be appropriate to external monitoring and verification, and private firms or non-governmental groups must be willing and able to undertake such monitoring activities. The Government of Canada should promote the emergence of a social auditing industry in Canada with the capacity to monitor corporate activities in risky states. To this end, Government procurement, investment insurance, embassy or business promotion support, as well as other benefits, should be made conditional on adherence to an externally monitored code of conduct.

Research has shown that voluntary codes of conduct are most effective where the government retains some form of enforcement power to sanction firms for persistent and gross non-compliance. Voluntary codes of conduct and possible regulatory measures are therefore not alternatives to one another but should be seen as parallel initiatives. The next three proposals suggest different ways to create material incentives for firms to manage their international partnerships ethically.

Proposal #3: Revise *Canadian Business Corporations Act*

Roughly 50% of Canada's largest companies are incorporated under the federal *Canada Business Corporations Act* (CBCA). Currently, the CBCA strongly inhibits shareholder initiatives linked to corporate complicity with human rights abuses. Section 137 of the CBCA allows management to reject shareholder proposals where it clearly appears that the proposal is being submitted primarily for the purposes of promoting general economic, political, racial, religious, social, or similar causes. These terms afford management enormous discretion to exclude shareholder proposals dealing with social responsibility issues, hence closing off an important channel of influence between civil-society groups and businesses and increasing pressure on Government to regulate firms directly.¹¹

The *Canadian Business Corporations Act* is currently under review by Industry Canada. Every effort should be made to ensure that the revised *Act* expands the scope for shareholder resolutions on corporate social responsibility issues. Such a revision would be in the interests of the Government, the public, and Canadian corporations themselves.

Proposal #4: Revise *Income Tax Act*

Canadian tax law allows Canadian companies to deduct a portion of their foreign business income tax from their Canadian taxes, even in the absence of a formal tax treaty with that country. In 1998, the Senate Standing Committee on Foreign Affairs cited with approval a recommendation that the 'government should publicly establish thresholds of systematic human rights abuses beyond which the government...[, amongst other things,]...will not provide tax credits for taxes paid to the regime.'¹²

¹¹ See Canadian Lawyers Association for International Human Rights *Options Available to the Government of Canada in responding to Canadian Corporate complicity with human rights abuses*, p. 19-21.

¹² *Ibid.* p. 10.