

I. Introduction

The recent controversy over Talisman Energy's investment in an oil-pipeline project in Sudan raised important questions for Canadians:

- ◆ Should Canadian firms invest in countries, such as Burma or Afghanistan, where significant portions of the population suffer serious human rights abuses or threats to their personal security?
- ◆ Do Canadian companies bear special responsibilities when operating in environments that are the scene of bloody civil wars or brutal dictatorships?
- ◆ What is the role of the Canadian government in ensuring that Canadian firms reflect Canadian values in their commercial operations overseas?

This report, produced by Canadian Business for Social Responsibility (CBSR) in partnership with the Canadian Centre for Foreign Policy Development, argues that the Government must do more to encourage global corporate citizenship on the part of Canadian firms and sets out a policy framework for achieving this goal.

II. Arguments for Government Action:

1. Canadian firms are active in many conflict-prone areas around the world. It stands to reason that the Talisman Energy scenario is likely to repeat itself in the future. The Government's ultimate response to Talisman disappointed many Canadian NGOs as well as individual Canadians, who, in turn, are likely to be much more vocal and much more critical next time around.
2. Canadians value corporate social responsibility. In the Environics 'Millennium Poll', a recent cross-national survey, 88% of Canadians polled believed that corporations should do more than 'making a profit, paying taxes, employing people and obeying all laws'. Over \$4 billion is currently invested in socially and/or environmentally screened mutual funds, and Canadians are amongst the most willing in the world to punish firms for perceived violations of social values. Opinion leader research suggests that public support for corporate social responsibility is likely to increase over the coming years.
3. The question of where and how Canadian firms operate will continue to be a serious irritant in US-Canadian relations. Such tensions would be easier to manage if Canada had in place a principled, public, and prudent strategy for mitigating the human rights impacts of Canadian corporate activities overseas.
4. Canada's leadership on the international human security agenda will be untenable unless it can respond more effectively when Canadian corporations are accused of complicity in human rights abuses.
5. There is a compelling 'market failure' argument for government intervention. At one level, firms identify corporate social responsibility as a source of competitive advantage and hence are willing to invest time and money to ensure a leadership position. But at another level, private firms need social legitimacy to operate effectively both at home and abroad. This legitimacy is built up slowly over time, in response to the concrete actions of *all* companies working within a local area. Because building this social legitimacy takes time and money and because it benefits all companies regardless of whether they have contributed to it or not, there is a short-run incentive for companies to 'free ride' on the aura of social responsibility established by other firms. This is especially true where