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(R) DISCUSSIONS WITH THE UNITED NATIONS CENTRE ON TRANSNATIONAL CORPORATIONS (CTC)  
AND SELECTED MULTINATIONAL FIRMS IN THE FOOD PROCESSING SECTOR<sup>1/</sup>  
2-7 April 1979

by

H. K. Rahim

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          Report of the Secretariat  
          E/C.10/56 - 12 March 1979

I. Purpose of Mission

1. The purpose of the mission was two-fold: in preparing for the Global Consultation Meeting on Food Processing - scheduled for 1980 - it is necessary to ascertain the position of food-processing multinational firms vis-à-vis the new concept of the consultation system in general, and the food-processing consultation meeting in particular. It should be borne in mind that as early as 1980 large food will account for over 50 per cent of food industry production. The first objective of the mission was, therefore, to informally approach a number of major multinational firms based in the New York City area with a high food sales component. The attitudes of these firms (see listing below) will be tested on:

- . The industrial adjustment and re-structuring policies being pursued by UNIDO in conformity with the Lima mandate;
- . The overall objective of the system of consultations, with particular emphasis on the preparation for the forthcoming Consultation Meeting on the Food-Processing Industries (1980);
- . The possibility or acceptability of designing an agreed guideline of principles for cooperation between the large food firms and developing countries.

2. The second objective of the mission was to review with the Centre on Transnational Corporations (CTC) the status of their research on transnational corporations (TNCs) in food and beverage industries which is being finalized for the Fifth Session of the Commission, 14-25 May 1979, and to determine whether the CTC is in a position to orient its paper on food and

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beverage industries towards practical issues for consideration at the Consultation Meeting, namely, the identification of areas where concrete co-operation schemes could be realistically envisaged between the major TNCs and the developing countries. In addition, at the request of UNIDO, information was obtained on CTC's future work programme in various sectors of interest to UNIDO.

II. Persons Contacted

A. Multinational Firms

<u>Company and Official Contacted</u>	<u>Total Sales</u> (Billion \$)	<u>Food Product Areas, Major Subsidiaries, Divisions, Groups</u>	<u>Investment in Foreign Countries-</u>
Corn Products Corp. International (CPC International) • Mr. H.F. Harris, Vice-President, Assistant to Chairman	2.8 of which 2.6 food sales	Grain milling, canning, bakery, sugar, fats/oils, prepared foods, beverages (Best Foods)	41
.....			
Nabisco, Inc. • Dr. Mourad Megally, Director of Operations: Africa-Middle East	2.073 of which 1.857 food sales	Bakery, dairy, canning, grain milling, sugar/ confectionery, prepared foods	20
.....			
Borden, Inc. • Ms. Adrienne Glasgow, Manager International Finance	3.4 of which 2.0 food sales	Dairy, canning, bakery, sugar/confectionery, beverages, prepared foods (Borden Foods, Borden Dairy and Services)	25

Reference to "multinational firms" in this report is limited to those firms mentioned above.

./...

B. UN Centre on Transnational Corporations (CTC)

- . Mr. G. Feissel, Associate Director  
UN Centre on Transnational Corporations
- . Mr. Arthur Domike, Senior TNC Officer  
UN Centre on Transnational Corporations

C. Other

- . Mr. Walter W. Simons, Executive Director  
Industry Council for Development (ICD)  
821 UN Plaza, New York, N.Y. 10017

3. The Industry Council for Development (ICD) is the "unofficial" successor to the now defunct FAO Industry Co-operative Programme. It is a non-profit organization comprising 31 companies from market and centrally-planned economies in developed and developing countries. They include Booker, McCornell, Cyanamid, Fiat, Eucatex (Brazil), Kraft, Inc., Massey-Ferguson, Merck, Nestlé Alimentaria, Packages Ltd. (Pakistan), Polservice, Foreign Trade Enterprises (Poland), and others (see complete list and prospectus of ICD, and letter from Mr. Waldheim to Sir George Bishop attached as Annex 1). Their main objective is managerial and technological help through the direct provision of expertise from industry to governments, with the aim of facilitating the solution of practical industrial development problems by maintaining a dialogue between industry and governments in the developing countries. This objective is carried out by country missions, and expert working groups; the latter is formed on a sectoral basis - for example: for agricultural machinery a farm mechanization group has been set up by the ICD which is co-ordinated by H.A.R. Powell, Chairman, Massey-Ferguson Ltd., Holdings Ltd., London. This group is actively interested to co-operate with UNIDO in both the preparatory and the consultation phase of the UNIDO Agricultural Machinery Consultation

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Meeting. Discussions should be initiated by UNIDO with the Massey-Ferguson group, if not already started.

4. It is recommended that the ICD with its industry membership could become an effective "sounding board" for the system of consultations and obtain a direct and effective dialogue with different branches of industry and a greater exposure to the system of consultations thus establishing a continuing dialogue with major industrial firms on an activity which has generally received their conditional support (see below).

### III. Conclusions and Findings

#### A. Food processing multinational companies and possibilities of their contribution to the consultation process

##### i. General reaction to the system of consultations and its objectives

5. The overall reaction was favourable; the oft-heard comment was that UNIDO's main role as far as relations between food multinationals and developing countries is concerned, is to attempt to harmonize or reconcile the profit-oriented motive of business with developing governments objectives. This process will be a long one, and there was general agreement that the UNIDO approach is a sound one. Most firms emphasized the social by-products of their activity, and the benefits of income redistribution.

##### ii. Areas of possible co-operation with developing countries

6. With UNIDO acting as a "catalytic agent" multinational firms have expressed their willingness to co-operate in identifiable areas of

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the food-processing industries: these are know-how and technology, storage and distribution, packaging (for local consumption), local marketing, etc. These activities can be rendered through technical assistance consultants, joint ventures, sub-contracting, etc.

iii. Negative aspects for the developing countries

7. Most of the multinationals interviewed, clearly indicated that development and expansion of food-processing capacities should be aimed mainly at satisfying local consumption needs, and not oriented towards exports. Most developing countries, on the other hand, place a priority on exports as a means to improve their foreign currency reserve position; although this may have no lasting effect on improving local food consumption or the nutritional content. One multinational, however, (Borden Inc.) stated that it will consider possibilities for third-country exporting.

8. Developing countries have stressed the need for the integrated agro-industry approach and the strengthening of the links between agriculture and industry, mainly by ensuring agricultural production of an adequate supply and of high quality. All firms interviewed were most reluctant to enter into agricultural production through large land purchases, development of special seed varieties, quality grading, etc. Experiences so far have shown that involvement of multinationals in farm production management have been unsuccessful due to changing local requirements for land exploitation.

iv. Basic prerequisite for investing in a developing country

9. Several multinationals stressed the basic prerequisite for investing in a developing country: the existence of a vigorous local market potential, a cash economy, stable political and legal systems. In replying to queries as to implications of over-sophisticated products using high food-processing technologies,

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most firms contacted seemed prepared to adjust to local requirements as far as simple, adapted product development is concerned using a mix of labour-intensive and capital-intensive technologies. All firms approached felt that there is a lack of ground rules for cooperation between them and the developing countries and the filling of this void by UNIDO will facilitate a more intensified collaboration between them and the developing countries.

v. Major areas of cooperation

10. The major areas of cooperation between multinational firms and developing countries could be in identifying broad principles or a framework for industrial co-operation between the two parties concerned, taking into account their mutual interests. First, the areas of industrial cooperation will have to be defined (i.e. technology, storage and distribution, packaging); this will be followed by model guidelines for cooperation in each area identified and if possible, a model contract covering the terms, conditions of such cooperation. It is recommended that UNIDO organizes an expert task force consisting of legal experts from developing countries, representatives of multinational companies to review existing contractual arrangements and practices between multinationals and developing countries, and propose a general framework or guideline for collaboration between them, identifying those areas of food processing that are less likely to raise divergent views. At a second stage, a draft model contract will be prepared for consideration at the Consultation Meeting.

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vi. Third world multinationals as a new force and a viable alternative in the development process

11. There is growing evidence that the expansion of the activities of third world multinationals is becoming a viable, new force for regional and inter-regional cooperation. This new phenomenon requires increasing attention by UNIDO. The third world multinationals are spearheaded by such countries as South Korea, Brazil, Mexico, Venezuela, Philippines, India, Saudi Arabia who are resource-rich, labour-rich or market-rich developing countries. As regards agro-industry, it is significant that the 25-nation SELA has recently endorsed the establishment of multinationals in Central and South America with priority being given to agro-business (and selected capital goods, low-cost housing, etc.) <sup>1/</sup>

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<sup>1/</sup> For an interesting treatment of this subject, please refer to "The Rise of Third World Multinationals" by David A. Heenan and Warren J. Keegan in the Harvard Business Review, Jan.-Feb. 1979 pp. 101 to 109

B. Cooperation with the Centre on Transnational Corporations (CTC)

(i) on the food-processing sector (ii) other sectors (iii) other matters

(i) Food-processing sector

12. Discussions with the CTC centered on their programme of research on the TNCs in the food and beverage industries. The CTC report on the sector now being finalized (draft to be completed in July) will comprise ..... of three main sections (also please see Annex 2):

- . Food processing industries and developing countries
- . Structure and TNC participation in world food processing industries
- . Impacts of food industry TNCs in developing countries.

13. While the report appears to be an analysis of the structure of TNCs in the food industry sector, its thrust seems to be the minimization of the adverse economic and social affects of TNCs' activities in the developing countries.

14. The CTC is already aware of the system of consultations and the issues to be considered at the Consultation Meeting on Food Processing in 1980. In this connexion, it was suggested that two aspects of the CTC study could be strengthened or elaborated to address itself to two questions so that a meaningful discussion could be generated at the Consultation Meetings:

- . What are the specific negotiating options available to developing countries vis-à-vis the TNCs in the food industry sector and the range of issues the developing countries have to consider; and

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- . Could agreed model guidelines or prototype contracts for joint ventures be designed for attracting investments by TNCs in establishing complete food-processing plants in developing countries and which take account of the interests of both parties?

15. The CTC agreed that these are aspects which could be included in the third section of the paper entitled "Impact of the food industry TNCs in developing countries".

16. Another useful input in the CTC study is a comprehensive review of the corporate profile of leading TNC firms in the food-industry branch.

17. Future studies of food industry TNCs will include specific sub-sectors such as fisheries, sugar industries, and dairy products.

(ii) CTC's research programme in other sectors

18. In preparations for the Fifth Session of the Commission on Transnational Corporations (14-25 May 1979), the CTC is undertaking a varied research programme in several areas/sectors (please refer to Annex 3 "Topics for further research", Report of the Secretariat, E/C.10/56 of 12 March 1979).

Of special interest to the Negotiations Section are the reports on:

Extractive industries (April 1978 - being revised); Pharmaceuticals (March 1979) and TNCs in least developed countries.

(iii) Other matters discussed with the CTC

19. . The next issue of the CTC report (No. 7) has been delayed and will be issued middle May;
- . Regarding CTC's future programme, please refer to Annex 3;
  - . A full set of documents for the Fifth Session of the Commission was not available (with the exception of Annex 3).

IV. Acknowledgments

20. I would like to express my appreciation for the assistance extended to me during my mission by Mr. Adly Abdel-Meguid, Head, Mr. J. Wischeidt, Senior Industrial Development Officer, and other members of the UNIDO Investment Promotion Service, United Nations, in New York as well as Mr. Arthur Domike, Senior CTC Officer, Commission on Transnational Corporations.

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Industry Council for Development

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March 1979

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Industry Council for Development

PROSPECTUS

The members of the Council share the following views:

1. The development of productive capacity to eliminate poverty in the world is a top priority task for mankind.

In supporting this task, the Council specifically undertakes that its activities will be carried out for the purpose of encouraging economic and social development in developing countries, and not to promote the commercial interests of its members.

2. Setting the priorities for development policies and objectives is the responsibility of national and international public authorities.
3. In our interdependent world, the actual development process cannot take place without mobilizing a number of essential resources, one of which consists of managerial and other practical capabilities acquired over years in creating and expanding viable enterprises.
4. Whatever the economic system or its stage of development, the creation and management of productive capacity requires similar capabilities.
5. The development process requires a continuous exchange of views between national and international public authorities responsible for development policies, and those with the managerial and other capabilities to create productive capacity. This principle has been reconfirmed in resolutions of the UN General Assembly.
6. Enterprises from all countries have a responsibility to communicate and cooperate with government and international organisations in furthering development, especially concentrating on priority sectors.

/...

7. The primary responsibility of company managements is to build and run viable productive capacity through their enterprises. However, apart from this primary responsibility, managers and experts from enterprises should be prepared to spend time and effort on the dialogue with public authorities on development problems.
8. The Industry Council for Development has been created to stimulate the dialogue on practical development problems between public authorities and enterprises. The Secretary-General of the United Nations has requested the Chairman of the Council to establish these new arrangements so that the UN system can make use of industry expertise.
9. In these activities, the Council seeks to create understanding by its membership of development objectives set by the United Nations and its member governments on the one hand; and, on the other, understanding by United Nations organisations and their member governments of industry's role in facilitating the solution of practical development problems.
10. To this end, the Council organises:
  - country missions
  - expert working groups
  - other forms of dialogue

when invited to do so by governments directly through the United Nations or other international organisations, or on its own initiative.

#### THE ORGANISATION OF ICD

The Council is an independent, non-profit organisation, financed primarily through membership fees and other contributions.

The Council's members ~~are companies~~ from market and centrally-planned economies in developed and developing countries. Individuals can be invited to become members on the basis of their special knowledge and experience.

The Board of the Council is elected by the members.

The headquarters of the Council are located in New York in the vicinity of the UN Secretariat to facilitate the organisation of the work in cooperation with governments and with the UN system on the basis of working agreements, as requested by the United Nations. The Council will set up offices in other locations as its work may require.



THE SECRETARY-GENERAL

- 19 -

24 February 1979

Dear Sir George,

I have been advised by Mr. Morse of the steps which you and your colleagues have taken to establish the Industry Council for Development.

I understand that arrangements for cooperation between the new institution and UNDP have been discussed with you and that Mr. Morse intends to submit them to the Governing Council of the UNDP in June of this year. I am confident that these arrangements will provide the basis for the establishment of a constructive relationship.

As you are aware, I attach great importance to the contribution which industry can make to the development process and I very much appreciate the efforts you and your colleagues are making in this field.

With best regards.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'Kurt Waldheim', written in a cursive style.

Kurt Waldheim

Sir George Bishop  
Chairman  
Booker McConnell Limited  
London

March 1979

Working outline: TNCs in food and beverages industries

The report consists of three sections, titled as follows:

1. Food processing industries and developing countries
2. Structure and TNC participation in world food processing industries
3. Impacts of food industry TNCs in developing countries

The focus of the report, as is evident from the section headings, is upon the needs and options of developing countries with respect to food processing industry development. The role of TNCs is introduced with respect to the options and potentials of the countries. Further analysis of the impacts of TNCs in the countries is then provided, to provide a basis for the countries to evaluate their options.

A summary of the arguments and supporting data for each of the sections of the report is given below.



- I. Food processing industries and developing countries
  - A. Aims of chapter and summary
  - B. Dimensions of the world food and beverage industry
    1. Distribution of world commercial food processing industry:  
focus on relative importance of LDCs in world food processing (CTC estimates made; table attached).
    2. Trade in food products and raw materials: focus on LDCs import and export structure in processed and raw material foods. (Data base partially prepared).
  - C. Structure of FAB industries in developing countries
    1. Commercial and traditional food processing industries in LDCs:  
focus on relative importance and consequences
    2. Structure of commercial food processing industry on LDCs:  
focus on lines of business, scale, market orientation, productivity, employment, relation to agricultural and manufacturing sectors, ownership (including TNC participation). Data available and being processed.
  - D. Food processing industry growth options and national development objectives.
    1. Organizational options: private national, transnational, co-operative; public sector national; public sector international
    2. Planning objectives and organization options: focus on relation of FAB growth to development goals, to specifically agricultural and rural transformation: improved national nutrition: direct employment creation and linked industry growth; improved national market structure and international market access: improved national balance of payments and government revenues. Illustrative data on LDCs are presented to indicate nature and importance of issues. (Data formats attached).

## II. STRUCTURE AND TNC PARTICIPATION IN WORLD FOOD INDUSTRY

- A. Aims of chapter and summary
- B. Leading firms in world food and beverage industry: Focus is on DME-based enterprises (TNC and others), with some materials available on CPE and LDC-based firms. (List of DME-base firms attached).
- C. Growth and operations of leading transnational corporations firms:  
  
Focus on diversification and transnational growth strategies of major food firms. Aim to put perspective on expansion of TNCs and LDCs, among the various options of TNCs. (Basic data available on 200 + firms with detailed materials on 10-15 TNCs for illustrative analysis of growth and operations).
- D. TNC participation in various commodity sectors: Summary of integrated commodity-industry systems (9 systems/40 processing industries/trade and service links); TNC participation in commodity and industry groups; TNC involvement in LDC food production-processing-distribution systems. (Preliminary data on TNC involvement available; data on TNC operations in LDCs still being entered in computer).

### III. IMPACTS OF FOOD INDUSTRY TNCs IN DEVELOPING COUNTRIES

A. Aims of chapter and summary

B. Overview of role of food processing industry in development and organizational options available to LDCs (including TNCs). (Reprise of issues examined in Section I D).

For sections C-G, focus is upon effects of conventional TNC "package" upon "Agricultural and rural development", etc. Differences between effects of TNC and other options are indicated (Materials drawn from case studies).

C. Agricultural and rural development

D. Nutrition improvement

E. Direct industry employment and linked industry growth

F. Improved market structures and international market access

G. Balance of payments improvements

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Fifth session  
14-25 May 1979  
Item 8 (c) of the provisional agenda

TOPICS FOR FURTHER RESEARCH

Report of the Secretariat

SUMMARY

In response to the request of the Fourth Session of the Commission of Transnational Corporations (E/1978/52, para. 69), the Centre on Transnational Corporations prepared a list of research topics which might be given priority consideration in the 1980-81 biennium. Ten research topics are proposed, as follows: comprehensive survey of transnational corporations; competition and corporate strategies; transnational corporation linkages in host economies; social and political impact of transnational corporations; in-depth studies of selected extractive and manufacturing industries; transnational corporations and international financial transfers; national policies affecting balance of payments and transfer pricing impacts of transnational corporations; alternative arrangements with transnational corporations for acquisition of technology; transnational corporation policy implementation; and transnational corporations in least developed countries. It is suggested that the Commission indicate the relative priorities to be assigned topics within the overall research programme of the Centre.

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## I. INTRODUCTION

1. The Commission on Transnational Corporations at its second session established the Centre's research programme. 1/ Further research mandates were approved at its subsequent sessions. 2/ The major lines of work for the 1977-79 period, thus defined, cover some 15 substantive areas on which reports are being submitted for the Commission's Fifth and Sixth Sessions. 3/

2. In response to a Commission mandate the Centre reported to the Fourth Session of the Commission on possible future research areas. 5/ On the basis of detailed consideration of research needs, the Commission took the following action: 6/

"68. The Commission reiterated that the research programme, decided at its ~~third~~ session, should be geared to supporting the two major goals of the Commission, namely, the formulation of a code of conduct, and the strengthening of the negotiating capability of host, particularly developing, countries. The research should focus on the effects and impact of the operations of transnational corporations. It should also focus on issues related to the impact on national developments of both home and host countries, as well as global effects of transnational corporations. Close attention should be paid to the social, political and legal aspects of the operations of transnational corporations. In that context the Commission recognized the importance of the Centre's intention to begin work on methodological issues related to those aspects.

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1/ E/5782, paras. 26-30

2/ E/5986, para. 14 and E/1978/52, para. 9

3/ See below, and E/C.10/45 for a report on the status of current research projects.

4/ E/5986, para. 13

5/ E/C.10/40, in response to the mandate given in E/5986, para. 13

6/ E/1978/52, paras. 68 and 69.

"69. The Commission also took note of the broad proposals regarding future research orientation contained in the report (E/C.12/40) and the introductory statement of the Executive Director, as well as the suggestion that a specific list on future research topics would be submitted to the Commission at its fifth session to enable the Commission to decide priorities within the context of the 1980-1981 biennium. The Commission considered that future research should be oriented towards areas of concern to all Governments, including the issues in the outline of the code of conduct, in paragraph 23, of the report on the second session of the Commission I/ on issues relating to strengthening the negotiating capability of developing countries, in particular the least developed and to the social, political effects of the operations of transnational corporations. Furthermore, in preparing specific proposals for further research the Centre should pay attention to the role of transnational corporations in international trade and finance and certain sectors, particularly those which are export-oriented."

**3** In the development and design of the further research proposals, the Centre has taken account of the requests by member countries for technical co-operation and information services, as well as the issues raised in deliberations of the Intergovernmental Working Group on the Code of Conduct. Consultations were held with other United Nations

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I/ Official Records of the Economic and Social Council, Sixty-first Session, Supplement No. 5.

bodies, including the Regional Economic Commissions, to assure fullest coordination of the Secretariat's plans, particularly in support of activities concerning the New International Economic Order and the United Nations development strategies for the 1980s. <sup>3</sup>/

4. The report is organized in three parts. A review of the ongoing research programme is given in Section II. Ten research projects proposed for consideration in the 1980-81 workplan are discussed in Section II, with a summary listing of the projects presented in the final section.

<sup>8</sup>/ General Assembly resolution **A/RES/33/123**



## II. ONGOING RESEARCH

5. As noted earlier, the Centre's research priorities were in large part established by the Commission at its Second Session, <sup>9/</sup> with additional mandates given by both the Third and Fourth Sessions. <sup>10/</sup> The research activities have been organized into fifteen projects indicated in Table 1. Three research areas fall under the "General (cross sectoral)" heading, nine are "Sectoral studies", and three concern "Special Issues and Policies". In the same table, research areas proposed for the future work programme are listed under appropriate headings.

6. Reports on six of the ongoing research projects were prepared and submitted for consideration of the Commission at its Fifth or earlier Sessions. (See Table 1) These include three reports on transnational corporations in southern Africa (E/C.10/26, E/C.10/30 and E/C.10/51) and individual reports related to the comprehensive survey of transnational corporation activities (E/C.10/39), <sup>11/</sup> the social and political impact of transnational corporations (E/C.10/ 55), the pharmaceutical industry (E/C.10/53), the advertising industry (E.C.10/54), extractive industry (ID/B/209), and measures to improve negotiating capacity (See Table 1 for a full listing of reports issued).

<sup>9/</sup> E/5782, paras. 27 and 29

<sup>10/</sup> E/5986, para. 14 and E/1978/52, para. 9. At the request of the Secretary-General, the Centre also prepared a report in response to ECOSOC Resolution 2111 (LXIII), "Consumer protection: A survey on institutional arrangements and legal measures" (E/1978/01), June 1978.

<sup>11/</sup> In addition, the Centre has prepared a report at the request of the ACC Task Force on Long-Term Development Objectives: "Transnational Corporations and the Long-Term Development Objectives of Developing Countries", February 1979.

7. Reports on ten projects are scheduled for completion by March 1980, to be considered at the Sixth Session of the Commission. These include the following: linkages of transnational corporations with host economies, transnational corporations impacts on balance of payments, and measures to improve host country negotiating capacity, plus sectoral studies on banking, insurance, food and beverages, tourism, shipping and extractive industries. In July 1980, a report on the consulting industry will be submitted.

8. The experience gained in carrying out this research programme is reflected in the proposals for further research. Research methodologies designed for ongoing projects are adapted to future work. Economies in data collection and analysis have been realized through integration of research with Centre work on the Code of Conduct, the information system and advisory services. Closer familiarity with related work of other United Nations bodies / and opportunities for collaboration more fully identified.

### III. TOPICS FOR FURTHER RESEARCH

9. Ten research areas are suggested for further work by the Centre. Resources available to this programme have been assumed to be equivalent to those provided for research during the 1978-79 biennium. In this light, not all the proposed studies can be carried out in the same depth. It is therefore appropriate for the Commission to indicate those projects to which greatest priority should be attached, and those which might receive less resources.

10. The projects are discussed below under <sup>the</sup> three headings indicated in Table 1: A. General (cross sectoral) studies, B. Sectoral studies, and C. Special issues and policy studies.

A. General (cross sectoral) studies

(i) Comprehensive survey of transnational corporations

11. For the Commission to carry out its function as forum in the United Nations for the consideration of issues relating to transnational corporations,<sup>12/</sup> it must dispose of comparable, current and well analyzed materials on the range of transnational corporation-related activities.<sup>13/</sup> The establishment and implementation of the United Nations strategy for development in the 1980s will necessarily be concerned with transnational corporations as one of the principal actors affecting industrial and resource development, employment, production and flows of goods, finance and technology. In other international policy discussions, as well, the role of transnational corporations needs fuller elaboration, particularly on issues such as protectionism in developed market economies,<sup>14/</sup> competition from newly industrialized developing countries,<sup>15/</sup> international

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<sup>12/</sup> Economic and Social Council Resolution 1913 (LVII), para. 3(a)

<sup>13/</sup> See "Transnational corporations in world development: A re-examination" (E/C.10/39)

<sup>14/</sup> General Agreements on Tariffs and Trade, "Activities in 1977", Geneva, 1978.

<sup>15/</sup> See "Dynamic products in the exports of manufactured goods from developing countries to developed market-economy countries, 1970-1976", UNCTAD, ST/D/18.

financial flows, 16/ and the international distribution of production and division of labour. 17/

12. The Centre would concentrate study under this project on two issues in 1980-81. A report would be prepared on the role of transnational corporations in the international redeployment of production, and the related policies and programs of developing countries. Secondly, the activities of transnational corporations in expansion of non-traditional, manufactured exports from developing countries would be examined. This project would be carried out in close collaboration with UNCTAD, UNIDO and other United Nations agencies. For 1983, a comprehensive survey on transnational corporations in world development would be prepared. 18/

13. This project would both draw upon and support other research and informational activities of the Centre, for example, with respect to creation of consistent data bases for analyses of specific sectors, of trends and tendencies with respect to transnational corporation activities, and the emergence of new forms of transnational corporation involvement in the international economy.

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16/ See International Monetary Fund, Annual Report 1978

17/ See document A/10112, UNIDO, 1975

18/ As mandated in the Fourth Session of the Commission (E/1979/52, para. 44).

(ii) Competition and corporate strategies

14. Both developed and developing countries have continuing policy concerns regarding market concentration and its effects on income distribution, industrial prices and inflation. Planning choices with regard to sectoral development and international redeployment of industrial activities are similarly affected.

15. Evidence that relatively few large transnational corporations dominate global markets has been countered with arguments that these traditional structures are being eroded.<sup>17/</sup> In markets and industries which are becoming more concentrated, there are, of course, fewer negotiating options open to customers and suppliers. However, general tendencies can only be evaluated in light of changing interests and activities of major firms in <sup>the</sup> industry and of governments. Most large firms have become increasingly diversified as well as more transnational. This may, in fact, mean expanded marketing and negotiating options for concerned developing countries.

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<sup>17/</sup> Cf. E/CN/32, paras. 181-188 and Tables III-52 and III-54. Additional information on this issue is currently being developed by the Centre.

16. Under this project, research would be carried out on structural trends within industries in national and international markets, the accompanying shifts in corporate structures and policy strategies, and the implications of such changes on home and host countries.

(iii) Transnational corporation linkages in host economies

17. Many developing countries facilitate entry of foreign investors in the expectation that there will be widespread benefits from expanded purchase of raw materials, components and services from local enterprises.

Such linkages may create even greater employment and production than that arising from the original investment, if fully integrated into the national economy. With this aim in mind, host governments often set local purchase requirements and/or penalize imports of components which could be locally produced.

18. Studies now under way by the Centre are endeavoring to quantify local direct particularly through subcontracting, linkage effects, of foreign automobile manufacturers in countries at different levels of development and under different policy régimes. Further study would focus on sectors in / which linkages have proved especially difficult to foster, as in the engineering and related sectors where technology and operating know how is proprietary or firm specific. This has most relevance to developing countries seeking to strengthen their national scientific and technical capabilities. <sup>20/</sup> The methodology developed for the Centre initial studies would be applied in country case studies of potential and effective linkages in selected engineering industries, and evidence/ regarding developed costs and benefits of government policies to increase desired linkages.

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<sup>20/</sup> The Centre is presenting a report on this issue to the United Nations Conference on Science and Technology (See E/C.10/47)

(iv) Social and political impact of transnational corporations

19. The Commission has called attention to the need for further study of social, political and legal impacts of transnational corporations, particularly on developing host countries. 21/ These issues are also raised within the code of conduct deliberations, whose present formulations calls upon the transnational corporations to observe national laws and regulations. Previous studies of the Centre, particularly those dealing with southern Africa, 22/ have explored some of these issues, and a methodological paper is being submitted for consideration of the Fifth Session. 23/

20. Some / in social and political structures have accompanied the expansion/ of foreign firm involvement in most developing countries. Some governments have indeed sought or encouraged these changes, which often are seen as necessary to transforming traditional economies into market-oriented ones. It is difficult to attribute all such changes to transnational corporations, where they are in fact only one of numerous actors in a process. On the other hand, it is possible to isolate certain attributes of transnational corporations, and analyze their social and political consequences.

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21/ E/1978/52, para. 61 and 69. Legal issues and impacts are more fully considered under projects (viii), (ix) and (x) below.

22/ E/C.10/26, E/C.10/30 and E/C.10/50

23/ E/C.10/55, in response to the request of the Fourth Session (E/1978/52, para. 68)



21. Research priority on social-political impact would be given to issues on which host governments can make effective policy choices, and where the policy results can be reasonably well ascertained. Countries may, for example, exercise choice with respect to sectors in which transnational corporations are permitted to function, the type of technologies or products that may be introduced, or the political activities which may be permitted. Case studies would be undertaken to determine transnational corporation impact, and to determine feasibility of government action to control or channel activities to minimize adverse social and political impacts.

B. Sectoral studies

(v) In-depth industry studies

22. In its initial research mandate, the Commission attached high priority to in-depth analysis of transnational corporations in specific industries. <sup>24/</sup> Nine industries were singled out for work in the 1977-79 period. ~~These included six service industries (banking, insurance, shipping, tourism, consulting, and advertising),~~ in addition to pharmaceuticals, food and beverage processing and extractive industries. <sup>25/</sup>

23. The coverage of these studies varies, in part, because of differences in the characteristics and transnational corporation activities in each industry. Nonetheless, **the issues common to all the studies** are the following:

- (a) Technical characteristics of the industry
- (b) Competitive structure, including market participation by national and transnational corporations
- (c) Trends and international distribution of production, investment, trade, and research and development
- (d) Growth and operating strategies of leading firms, particularly transnational corporations.
- (e) Economic and other impacts of transnational corporation activities, particularly in developing host countries
- (f) Policies and measures of home and host countries relating to transnational corporate activities in the industry.

<sup>24/</sup> E/5702, para. 29

<sup>25/</sup> These studies are described in further detail in E/C.12/40, E/C.10/35 and E/C.10/45

24. For the 1980-81 biennium, it is proposed that in-depth sectoral studies be continued on the extractive industries and three studies be initiated on manufacturing industries of most importance to developing countries.

25. The Commission may thus wish to indicate the manufacturing industries for future priority attention in the research programme. Several criteria are available on which to base the selection. From review of available data, the Centre has established ~~that twelve~~ manufacturing industries figure importantly in the development plans of developing countries, and at the same time have substantial trans-national corporation participation: petroleum processing, petrochemicals, synthetic fibers, fertilizers, mineral and metal refining and processing, rubber, electrical equipment, electronics, transportation equipment, non-electrical machinery (particularly machine tools and instruments), food and beverage processing and pharmaceuticals. The latter two industries are, of course, already being studied by the Centre.

26. ~~A second basis for setting priorities among industries has been provided by countries responding to the Secretary-General's Note of 28 October 1978 to all states soliciting their views on the information system of the Centre. The industrial sectors suggested for priority attention were:~~  
~~Food and beverages; chemicals and pharmaceuticals, petrochemicals, metallurgical products, electrical machinery, tyres, electronic equipment, iron and steel and telecommunications.~~ 26/

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26/ See document E/C.10/47, para. 21

27. It may be noted that several industries would receive priority both on the basis of the Centre's study of national development plans, and of interest expressed in response to the Secretary-General's Note. In addition to the food and beverages, pharmaceuticals and extractive industries, which are already under investigation by the Centre, the following manufacturing industries are included on both lists: petrochemicals and chemicals, electrical equipment, electronics, metallurgical products, and rubber industries.

C. Special issues and policies

(vi) Transnational corporations and international financial transfers

28. The relevance of transnational corporations financial management policies to international capital flows, tax and monetary issues is clear from numerous studies, and have been discussed by the Intergovernmental Working Group on the Code of Conduct.<sup>27/</sup> The sheer volume of international private monetary stocks forces careful consideration of the impacts of movements of such capital on national economic, monetary and fiscal policies.

29. Transnational corporation financial policies have been reviewed by the Centre in relation to its information activities.<sup>28/</sup> Differences in financial management between transnational, and domestic corporations and financial institutions have been found to stem not only from the relative size of the enterprises but also from the ability of transnational

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<sup>27/</sup> See, for example, document E/C.10/AC.2/10 and working paper No. 5

<sup>28/</sup> Work was undertaken under the Mandate given in Document E/5702, para. 23. See document E/C.10/17.

corporations to shift internal financial holdings among subsidiaries and across borders, and to utilize international capital markets as needs arise. Since these large scale enterprises have widely varying needs and options, their financial policies can also be expected to vary considerably.

30. Research would classify and analyze major differences in financial policies arising from corporate needs, reporting requirements and types of industry. The uses of international financial centres would be examined in this context. The study would provide information necessary for analyzing the impact and effectiveness of government policies on taxation, investment and reinvestment, balance of payments and transfer pricing.

(vii) National policies affecting balance of payments and transfer pricing impacts of transnational corporations

31. Both host and home countries have continuing policy concerns with transfer pricing and other practices of transnational corporations as they affect national balance of payments positions. Such practices have particular relevance to developing countries for whom significant portions of production, imports and exports are controlled by transnational corporations.
32. Few countries collect or separately report information on transnational corporation transactions or their impact on balance of payments. Analysis by the Centre indicates that, in the best cases, only half of the international financial movements by transnational corporations are currently measured. At the same time, most countries have elaborated detailed policies intended in some way to control intrafirm pricing practices and international financial movements.
33. An initial report on the measurement of transnational corporations impact on balance of payments is to be completed for the Sixth Session of the Commission. Further work would seek to quantify the importance of intrafirm international trade and financial transfers in different industries and countries. <sup>29/</sup> In addition, case studies would evaluate measures governments have adopted to monitor and control intrafirm pricing and other practices which affect their balance of payments positions.

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<sup>29/</sup> See E/C10/38, paras. 139-146 for a summary of the current state of information on intrafirm trade.

(viii) Alternative arrangements with transnational corporations for acquisition of technology

34. In their efforts to acquire technology and adapt it to national needs, several host countries have evolved alternative regulatory and administrative arrangements to the conventional arrangements with transnational corporations. 30/

35. To assist countries in selecting among and designing improved arrangements, the Centre would prepare detailed case studies covering a range of industries and host country circumstances. Attention would be given particularly to "depackaging" arrangements in which project elements are separately contracted with engineering, financial and operating firms - transnational and others. Differences among industries, and among transnational corporations in the same industry, in the willingness and ability to enter improved arrangements would be examined. Partnerships of foreign technology suppliers with state agencies or enterprises, and with host country multinational enterprises <sup>among developing countries</sup> would also be considered. Among the benefits of alternative arrangements to be considered are their contributions to national scientific and technical capacities.

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<sup>30</sup> For a review of new types of transnational corporation host country arrangements, see E/C.10/38, paras. 250-404.

(ix) Transnational corporation policy implementation

36. The Centre has already been called upon, within its advisory services programme, to assist various governments in evaluating their policies and procedures regarding transnational corporations. <sup>31/</sup> Implementation of a consistent and coherent policy regarding treatment of foreign investment crosses many bureaucratic and programme lines.

37. The study would evaluate the experience in formulation and implementation of policies affecting transnational corporations of selected host developed and developing countries. Through case studies, the evolution of foreign investment policy, the creation and testing of policy instruments, and solutions to problems of policy implementation would be examined. Cases would be selected which illustrate both the range of policy positions, and alternative solutions to implementation problems.

(x) Transnational corporations in least developed countries

38. The least developed countries face special problems, not only in overcoming internal obstacles to growth, but in dealing with present or potential foreign investors. <sup>32/</sup> The transnational corporations who enter these countries have, historically at least, concentrated in labour-intensive export-oriented activities. Although the <sup>usually host to</sup> countries are relatively few transnational corporations, the impacts of these corporations are likely to be particularly great in view of the small size of their modern and commercial sectors.

<sup>31/</sup> See also E/C.10/38, paras. 246-253

<sup>32/</sup> The Commission specifically recommended consideration of this issue at its Fourth Session (E/1978, para. (c))



39. The desire to foster investment and growth in these countries may be combined with limited technical and administrative capacity to monitor foreign (or other) investment or channel it into activities with priority in terms of development needs.

40. The proposed research work would identify and indicate means for overcoming technical and administrative problems related to setting project priorities, negotiating with transnational corporations and others; and in monitoring or controlling activities

in place. Special attention would be given to the possible role of international co-operation, through, for example, economic and technical co-operation among developing countries, regional co-operation and international agency programmes.

#### IV. SUMMARY

41. Ten projects are proposed for further research by the Centre.

In light of resource limitations, it may be appropriate for the Commission to indicate the relative priority each might be assigned within the overall programme. The projects, in brief, are as follows:

42. (i) Comprehensive study of transnational corporations. Analyses would be carried out of transnational corporation involvement in international redeployment of production, and transnational corporations role in expansion of exports from developing countries. The studies would be closely linked to the United Nations Development Strategy programme.

43. (ii) Competition and corporate strategies. Comparisons would be made of recent trends in concentration of major manufacturing and service industries, and adaptations in corporate strategies and in government policies to such changes.

44. (iii) Transnational corporation linkages in host countries. Country case studies would be prepared on the direct linkages of engineering industries to host economies, and the effectiveness of policy measures to increase desired linkage effects.

45. (iv) Social and political impact of transnational corporations. Reports based on case studies, would be prepared on the social and political impact of transnational corporations on host developing countries and measures countries utilize to control adverse impacts.

46. (v) In-depth industry studies. Four in-depth studies would be prepared on the impact on developing host economies of transnational corporation activities in specific industries, and the effectiveness of measures used to foster, control or monitor activities in these sectors.

47. (vi) Transnational corporations and international financial transfers. A report would be prepared analyzing corporate financial policies and practices including transnational corporation use of international financial centres.
48. (vii) National policies affecting balance of payments and transfer pricing by transnational corporations. Studies would be prepared on the importance of intrafirm international transactions, and of measures taken by governments affecting transnational corporations balance of payments impacts, including monitoring and control of transfer pricing.
49. (viii) Alternative arrangements with transnational corporations for acquisition of technology. Studies would be prepared on options to conventional arrangements with transnational corporations regarding technology acquisition.
50. (ix) Transnational corporation policy implementation. Studies of the evolution and implementation of national policies vis-à-vis transnational corporations would be prepared for selected developed and developing countries.
51. (x) Transnational corporations in least developed countries. Study would centre on the activities of transnational corporations in the least industrialized developing countries, and the means available to the countries for improving the transnational corporation contribution to development objectives.

Table No. 1

Research projects under Centre on Transnational Corporations programme, 1977-1979  
and proposed for further research

PROJECTS IN RESEARCH PROGRAMME 1/ A. General (cross sectoral)	DATE OF REPORT	TITLE OF REPORT
1. <u>Comparative survey of TNCs*</u>	April 1978	Transnational Corporations in World Developments: Re-examination" (E/C.10/8)
	March 1978	Transnational Corporations and the Long-Term Development Objectives of Developing Countries. (Working paper prepared for the United Nations Committee for Development Planning)
Competition and corporate strategies*	February 1980	
2. Industries with domestic economies*	April 1979	Methodological Issues in the Study of Social and Political Impact of the Activities of Transnational Corporations. (E/C.10/55)
Social-political impact*	March 1980	
3. Deployment		
4. Sectoral		
a. Pharmaceuticals	March 1979	Transnational Corporations and the Pharmaceutical Industry (E/C.10/53)
b. Advertising/press media	March 1979	Transnational Corporations in Advertising (E/C.10/54)
c. Banking	December 1979	
7. Food and beverages	September 1979	
8. Insurance	October 1979	
9. Consulting	July 1979	
10. Shipping	March 1980	
11. Extractive industries *	April 1979	Transnational Corporations and the Production of Raw Materials: Impact on Developing Countries (E/C.10/52)
12. Tourism	January 1980	
Selected manufacturing and other industries *		

1/ Projects in the 1977-79 work programme are numbered 1-15. Projects on which work is proposed to continue in the 1980-81 financial year are indicated by an asterisk (\*).

PROJECTS IN RESEARCH PROGRAMME 1/

DATE OF REPORT

TITLE OF REPORT

C. Special issues and policies

- |  |               |  |
|--|---------------|--|
| 13. Balance of payments *                    | February 1980 | Regional Integration cum/versus Corporate Integration, Working paper by C. Veltsos   |
| 14. Measures to improve negotiating capacity | April 1979    | Activities of Transnational Corporations in southern Africa and the Extent of their Collaboration with the Illegal Regimes in the Area (E/C.10/26) |
| 15. Southern Africa                          | April 1977    | Activities of Transnational Corporations in southern Africa: Impact on Financial and Social Structures (E/C.10/39)                                 |
|  | April 1978    | The Activities of Transnational Corporations in the Industrial, Mining and Military Sectors of southern Africa (E/C.10/1)                          |
|  | March 1979    |  |

Financial transfers\*

Alternative arrangements in technology\*

TRC policy implementation\*

TRCs in least developed countries\*

**B - 6**



**79.11.12**