

8. Ethics Codes and MNCs as Minority Shareholders: The Case of a Bauxite Mine in Brazil

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INTRODUCTION

Corporate codes are controversial. For some corporate codes of conduct are an important means to fill a 'regulatory void' left by government in an era of globalization – a means to ensure that global corporate activity promotes the public good. For others there is no evidence that corporate codes of conduct actually change corporate behaviour; such codes may instead be used merely to deflect government regulation and further diminish the role of the state in social and economic regulation. This debate is well developed and persuasively argued in the introductory chapters to this book. In our chapter we do not attempt to resolve this debate. Rather we simply report on the results of one case study in Brazil that suggests, at least in this one case, that corporate codes of conduct can influence corporate behaviour in a manner that may promote the public good. In particular we examine the activities of a large multinational mining company, Norsk Hydro, as a minority investor in a major bauxite mine in the Brazilian Amazon, Mineração Rio do Norte (MRN). As we detail in our research Norsk Hydro has not only a sophisticated corporate code of conduct, but Norsk Hydro has also taken an active interest in the corporate social responsibility (CSR) initiatives of MRN, a company in which Norsk Hydro holds only a minority 5 percent interest. We examine the CSR initiatives and shortcomings of MRN, a company effectively controlled and owned by Brazilian investors. The mine is located in a sensitive environmental setting and on territory close to local Quilombos communities. The Quilombos are descendents of escaped slaves who fled up the Amazon and adopted the lifestyle of local Indigenous peoples. As might be expected, MRN's CSR initiatives with respect to the neighbouring Quilombos were not particularly well developed and had uneven results. However we were intrigued by Norsk Hydro's efforts as a

small minority investor to be involved in the development of MRN's CSR initiatives and the importance Norsk Hydro placed on these initiatives, particularly those affecting the local Quilombos. Our research suggests that corporate codes of conduct, even those of multinational corporations with only a minority interest in a foreign venture, can have an impact on corporate activity.

We begin our analysis with a brief discussion of the meaning of corporate 'citizenship' in a global world. We argue that multinational corporations are, in an important sense, 'citizens' of the world and as such incur responsibilities to promote global welfare. We then turn to the results of our study of MRN's operations in the Brazilian Amazon, arising out of on site research conducted in July 2002.

CORPORATE CITIZENSHIP IN A GLOBAL WORLD

For some it is nonsense to suggest that a corporation can be a 'global citizen' with corresponding obligations. There are a number of competing theories about the meaning of citizenship.¹ Some would argue that corporations, unlike individuals, cannot be citizens – least of all 'global' citizens. For them citizenship traditionally has been narrowly conceived as a legal status that is held only by individuals, not corporations, and one that is tied specifically to a nation state and thus is inherently national, not global, in scope. Although this may seem a reasonably straightforward conception of citizenship that precludes corporations and transnational conceptions, it is subject to challenge. The efforts of the European Union to construct a supranational concept of citizenship challenges the concept of citizenship as inherently national. Likewise the increasingly common occurrence of dual or multiple citizenship, along with the greater legal status enjoyed by long-term resident foreigners, further fractures the notion of citizenship as inherently national. Other theorists suggest that notions of citizenship can be more broadly conceived, including both transnational conceptions and even conceptions that might include corporations. These broader conceptions tend to examine citizenship as rights, political activity or identity. Citizenship as rights suggests that citizenship, at least for individuals, consists of the enjoyment of certain civil or political rights – or more broadly human rights. The growth of international human rights suggests that this rights concept of individual citizenship can and does transcend national boundaries. Going back to the ancient Greeks, individual citizenship as political activity suggests that citizenship denotes active engagement in public and political affairs. The remarkable growth in the influence of international non-governmental organizations (NGOs) actively

engaged in global affairs suggests that citizenship as political activity can and does transcend the nation state. Civil society has by any measure become global. Finally citizenship can also be conceived of as an identity or solidarity with a specific community or communities that can and do transcend the nation state, such as gender, race, ethnicity, religion, to name a few.

As the concept of citizenship evolves, what are the implications for corporations? The increasing influence of transnational corporations within both domestic and international affairs suggests that 'corporate citizenship' is an emerging and powerful phenomenon. The globalization of the multinational firm suggests that it has become unhinged from the nation state, the location of its head office being merely an incidental matter to its global operations. Much as the concept of individual citizenship is fractured by dual or multiple citizenship, the identity of the multinational corporation, one that operates and is resident throughout the world, is no longer tied to a particular nation state. The multinational corporation is also increasingly acquiring transnational rights in the form of treaties that provide for a minimum standard of treatment for the foreign investor, such as that found in Chapter 11 of the North American Free Trade Agreement (NAFTA). Much as the growth of international human rights reflects a concept of individual citizenship that transcends national boundaries, investment protections for multinational corporations grant to them valuable rights as corporate global citizens. Citizenship as political activity, reflected in the growth of international NGOs, is likewise reflected in the global political influence and activities of the multinational corporation. The community of interest reflected by a corporation is similarly transnational in its scope. In short an evolving concept of citizenship has implications not only for the individuals but also for the multinational corporation. This raises the question of what might be the corresponding obligations of this global citizenship. In our study we examine the role of multinational corporations as minority investors. Our study suggests that global corporate citizenship creates opportunities and responsibilities relevant to the promotion of global welfare.

CASE: MINERAÇÃO RIO DO NORTE (MRN)

Research Objectives

Our research examines the role of minority corporate investors in promoting CSR in developing countries. Specifically we conducted field research on a large bauxite mine in Brazil, Mineração Rio do Norte (MRN), which has significant investment by large transnational companies. Our field research compares local community perceptions of the social, economic and ecological impacts of MRN with CSR policy commitments by the mine itself and its transnational minority investors.

Methodological Details on Research Study

Field research on the investment case study was undertaken during July 2002. During this period we conducted interviews throughout Brazil and also undertook a six-day visit to the Pôrto Trombetas region of the Amazon in Para State in order to gather first-hand community and company perceptions of MRN's activities. Semi-structured interviews (Douglas 1985; McCracken 1988) were carried out with key MRN executives, government officials, community members and NGO representatives. Interviews ranged in length from 1.5 hours to a full day session at MRN. During our day-long interview session with MRN we also conducted a tour of the mine and Pôrto Trombetas, and visited the Quilombo community at Boa Vista (located beside MRN) to see a variety of company-financed community projects.

A three-hour preliminary meeting and a four-hour long community focus group (Hammersley and Atkinson 1995; Heron 1996) was carried out in the Moura community, one of the closest Quilombo settlements to MRN (see Figure 8.1). Twenty-eight adult members of the community participated in the focus group, including 15 men and 13 women between the ages of 18 and 50, and included the community's local Associação das Comunidades Remanescentes de Quilombos do Município de Oriximiná (ARQMO) representative as well as the regional ARQMO coordinator. Information gained from the focus group was further supported by a week of field observation during which time several informal ethnographic interviews (Hammersley and Atkinson 1995) were conducted. Permission to study Quilombo community perceptions was obtained in advance from the ARQMO.

Email requests for company information and corporate perspectives on the situation at MRN were also sent to key equity partners including Alcan, Norsk Hydro and BHP-Billiton in early November 2002. Each of these companies has a formal web-based channel for external stakeholder questions. However only Norsk Hydro provided us with additional data. Secondary sources were also used to supplement field research findings.

Background on Field Site

Mineração Rio do Norte is Brazil's largest bauxite mine and is owned by eight international aluminium customers in partnership:

Companies	Countries	Equity
Companhia Vale do Rio Doce (CVRD)	Brazil	40 percent
BHP-Billiton	United Kingdom	14.8 percent
Alcan	Canada	12 percent
Cia Brasileira de Alumínio (CBA)	Brazil	10 percent
Alcoa	United States	8.58 percent
Reynolds Metals Company		5 percent
Norsk Hydro	Norway	5 percent
Abalco	United States	4.62 percent

Mineração Rio do Norte is located in the Pôrto Trombetas area of Para State in northern Brazil (see Figure 8.1) and has bauxite reserves of approximately 800 million tonnes with an estimated reserve life of fifty years. In 2001 Brazil was the world's third largest producer of bauxite at 13.2 million tonnes/year, and MRN contributed approximately 81 percent of the national total (10.7 million tonnes/year).²

Mineração Rio do Norte has been described as 'a modern bauxite quarrying operation with its own town, airport and harbour: Porto Trombetas, in the middle of the Amazonian rain forest. The area belonging to MRN encompasses about 30 000 hectares and borders a national park of 430 000 hectares. The bauxite quarry occupies a total of 40 hectares' (Steen 1996, p. 4). According to Acero (1999), MRN was instrumental in setting up the Saraca-Taquera National Forest and the Trombetas Biological Reserve: 'In 1989, the company persuaded the government to create a national forest of 429 600 ha around the bauxite reserves to protect the surrounding virgin forest. MRN maintains the physical integrity of this forest (for example, felling of trees and hunting are prohibited) and another 385 000 ha on its side that forms the Trombetas' Biological Reserve. MRN

supports the Brazilian Ministry of Forestry's (IBAMA) scientific research in those areas' (Acero 1999, p. 63). Figure 8.1 identifies the location of Pôrto Trombetas and also indicates the location of the bauxite throughout the National Forest.

The mine site is a typical example of development projects in Brazil with the developed and the undeveloped living side by side. Currently over 6200 people live in Pôrto Trombetas, a mining enclave where inhabitants enjoy the amenities of a small resort town, complete with a sophisticated social infrastructure. Outside this area the region is much less developed and contains Indigenous peoples, a number of *Quilombo*³ and *Ribeirinho*⁴

Figure 8.1 - SEE SEPARATE FILE

settlements and the many migrant peoples (mainly from the northeast of the country) who have settled locally (Steen 1996). Living standards for these peoples are significantly lower than for those located in Pôrto Trombetas.

In the past MRN has been responsible for significant environmental degradation, particularly of Lake Batata, where a 600-hectare region was seriously affected due to the direct dumping of bauxite waste produced by MRN. Over a ten-year period 2400 cubic metres of residues from washing bauxite were dumped directly into the lake per hour. As a result the lake and water table were poisoned, affecting the surrounding flora and fauna. In the past five years MRN has spent over R\$1 million in an attempt to recover the lake (Palmquisti 2002). MRN is currently planning an expansion in order to achieve an increased production capacity of 16.3 million tonnes per year by 2003 (Alcan 2000) at an estimated cost of US\$200 million (World Mining Equipment 2002).

CASE STUDY FINDINGS

Our research findings are presented in three subsections. Part I outlines and evaluates minority investors' and MRN's corporate perspectives on CSR. Part II presents Quilombo community perspectives on MRN, with particular emphasis on highlighting local community perceptions of injustice surrounding the social and environmental problems associated with the mine. Part III includes a summary of our findings.

Part I: Investors

Table 8.1 summarizes the minority investors' CSR policy commitments as well as any information on MRN from their websites. A review of the websites of each of the minority investors in MRN indicates that all are publicly committed to corporate social responsibility at the corporate policy level. Local community issues are also perceived to be important at the policy level for most of the investors. Some companies provide financial or production information on their investment in MRN; however there is almost no information provided on the impacts of MRN by most of the companies. CVRD and Alcan do refer to the environmental remediation efforts by MRN, but only Norsk Hydro explicitly addresses the need to address social issues in the surrounding area. We provide more in-depth information on the approach of Norsk Hydro below.

Table 8.1: CSR Commitments of Minority Investors in MRN

Norsk Hydro (Norway), 5 percent	
<i>CSR Policy Commitments</i>	<i>Comments</i>
<p>‘At the heart of our businesses lies our global commitment to conducting business in a sustainable manner’. And: ‘We are committed to playing a constructive and positive part in all the communities in which we are present. In this connection, we are active both globally and locally. Globally, we participate in a number of partnerships for sustainability focusing on large-scale challenges. Locally, we take part in activities that concentrate on the needs of the area in question’.⁵</p>	<p>Unlike the other minority investors, Norsk Hydro presents an explicit stance on its website on its role in CSR at MRN and explicitly identifies the need to address social issues for the Quilombo.</p>
Alcan (Canada), 12 percent	
<i>CSR Policy Commitments</i>	<i>Comments</i>

‘As a global company, our impact on society is far reaching. We interpret social responsibility as conscientious cooperation with our communities, our employees and all other stakeholders. This includes providing a safe and healthy work environment, respecting local culture, and working together to achieve mutual benefits for our business and for the communities where we operate. Our goal is to be a “company of choice”, no matter what stakeholder group is involved. Strategy that impacts social performance is developed at many levels of Alcan. Substantial opportunities for input exist, including the EHandS Committee of the Board of Directors, the EHandS Council, Human Resources and Corporate Affairs Councils, joint company-union and workplace Health and Safety Committees, and community working groups. These efforts have resulted in a broad-based approach that includes the development of governance instruments such as the policies, standards and guidelines . . . ’ (Alcan 2002a)

Alcan does identify the need to address CSR in minority investments. For example in Alcan’s Corporate Sustainability Report 2002, the company highlights two cases where they have actively participated in CSR initiatives as a joint venture partner (for example in Ghana and India). Our field research indicates that there are no CSR programmes and processes in place in Pôrto Trombetas similar to those used in Ghana or India. Alcan’s 2002 report only identifies the ‘rehabilitated and reforested area at the Trombetas mine in Brazil’ (Alcan 2002b), but does not identify or discuss any of the social impacts on local Quilombos. The company also voices a strong commitment to transparency, accountability and open dialogue with stakeholders.⁶ However Alcan has not responded to our written request for further information.

BHP-Billiton (United Kingdom), 14.8 percent

CSR Policy Commitments

Comments

‘Communities where we operate should benefit from our operations both in the short and long term. We aim to work with governments, communities and other organisations to ensure resources are directed toward sustainable benefits. We are committed to ensuring that the communities in which we work share our success. In addition to the traditional benefits that flow from our activities such as royalties, taxes and business and employment opportunities, we plan to spend one percent of our pre tax profits (including in-kind support) on community development programs to be calculated on a three year rolling average. Our community programs will focus on self-help initiatives that leave a lasting, positive legacy, particularly in developing countries. The programs will be delivered through formal partnership arrangements with internationally recognised service providers and will target capacity building and skill transfer for employees and communities. We intend to contribute in a way that supports government programs and infrastructure initiatives without replacing them’. The Health, Safety, Environment and Community (HSEC) policy adopts a ‘zero-harm’ philosophy. That is, ‘we commit to continual improvement in our performance, efficient use of natural resources and aspire to zero harm to people and the environment . . . This also applies to communities where we operate and means their social well being should be preserved or enhanced by our presence’.

BHP-Billiton’s ‘zero-harm’ philosophy goes beyond legal compliance. BHP-Billiton states that its employees and contractors are ‘bound by the requirements of this policy’. To a weaker degree, the company will ‘encourage our business partners, suppliers, customers and visitors to uphold the spirit of this policy while on our sites’. BHP-Billiton does not mention any social or environmental issues at MRN on its website and only refers to MRN in terms of financial or unit output. BHP-Billiton also encourages feedback on its social and environmental performance through an electronic question and comment form. While we requested more information from BHP-Billiton via email, we have received no response from the company.

Alcoa (United States), 8.58 percent +

*CSR Policy Commitments**Comments*

‘As a global organization, Alcoa touches the lives of thousands of people every day in our communities through our employees, customers and suppliers, in our plants and through our many nonprofit partners around the world. Wherever we go, whatever we do, we take our Values with us. We know that our acceptance in these communities depends on our living up to high standards of corporate citizenship, and on the products we create adding value. Our future is linked to the future of our communities. And we are driven by the conviction that part of being the best company in the world is being the best company in our communities’ (Alcoa, undated a).

Alcoa says that it is ‘[t]he volunteer participation of employees rather than money contributions’ that differentiates their approach to CSR from other companies.

While Alcoa has a stated 8.58 percent direct investment in MRN, the Reynolds Metals Company (which has a further 5 percent investment) is also owned by Alcoa. In addition, Alcoa is the majority investor (60 percent) in Abalco, which in turn, has 4.62 percent investment in MRN. There is no mention of MRN on the Alcoa website. However the Alcoa Brazil website indicates that ‘Alcoa is among the 11 Brazilian companies that are considered models in terms of citizenship, published by the Guide of Good Corporate Citizenship 2001, of the magazine EXAME’ (Alcoa, undated b).

Companhia Vale do Rio Doce (Brazil), 40 percent

*CSR Policy Commitments**Comments*

Since CVRD was privatized in May 1997, the company has adopted a ‘policy of results’ which defines social investment as an integral part of its business strategy. Working through its foundation, the Fundação Vale do Rio Doce (FVRD), the company focuses on ‘social action and regional sustainable development, with a priority focus on education, but also acting in areas of social development and culture, always in partnership with society’ (CVRD, undated a). CVRD also has a strong stated commitment to the environment and to sustainable development, and has provided specific support to Indigenous communities (CVRD, undated b).

CVRD does not discuss the social impact of MRN but does highlight the environmental responsibilities of the mine, and outlines the following areas to reduce its environmental impact: prohibition of hunting in the areas of the project, recuperation and reforestation of mined area, and reducing the release of bauxite residues into the atmosphere, rivers and lakes (CVRD, undated c).

Cia Brasileira de Alumínio (Brazil), 10 percent

CSR Policy Commitments

Comments

‘CBA is aware of the social role it plays and the commitments it keeps with the people and the community it is a member [sic] of and with whom it interacts’. ‘This same community relationship policy is adopted by other CBA units distributed in different regions of the country and involved in mining and electrical generation activities’.⁷

CBA emphasizes its environmental management approach. Social issues are less emphasized but still acknowledged. MRN is only mentioned in terms of CBA’s minority share.

Norsk Hydro (5 percent equity partnership)

Interviews with MRN employees indicate that Norsk Hydro has been the most active equity partner in terms of promoting CSR improvements despite having the lowest equity stake of all equity partners. Like its other equity partners, a CSR-focused philosophy is found on the Norsk Hydro website. However unlike the other minority investors, Norsk Hydro presents an explicit stance on its website on its role in CSR at MRN. For instance, in the section on 'Social Programs in Brazil', Norsk Hydro states:

By virtue of our ownership stake, Hydro is involved in the development of social guidelines and programs at two alumina plants in Brazil: Alunorte (32 percent ownership) and MRN, which is Alunorte's main supplier (5 percent Hydro owned). While MRN has managed the environmental challenges of operating in the rain forest satisfactorily over a number of years, more attention is now directed to conditions for the local inhabitants. Alunorte is also developing social development programs in five local villages with more than 500 inhabitants. A board of experts from the authorities and the plant is monitoring these programs. To take the work with social issues further, a task force has been set up to develop specific CSR guidelines for the plant (Hydro 2002).

Norsk Hydro was also the only company to respond to our request for further information on its CSR practices at MRN. In written response to our interview questions (submitted via email) Ivar Oellingrath, the CSR coordinator from Hydro Aluminium, stated:

As you will appreciate, Hydro is not only a minority stakeholder, but also a very small minority stakeholder with its 5 percent holding in MRN. Hydro exercises influence accordingly, and we have to be quite selective when it comes to picking areas which we want to highlight.

Having said that, Hydro's corporate directive on CSR states that 'When Hydro is involved in business through minority interests, and other similar business arrangements, we will work to identify and minimise discrepancies in CSR standards and practices that might arise'. And further, as CSR has become more prominent on our company's agenda over the last years, Hydro has realised that 'Our long term success as a company depends on managing risks and opportunities taking the social impact of our business into consideration'. Formally, Hydro exercises its influence in MRN through the MRN Board, as well as through various owners' committees. Hydro personnel visit the mine site on a regular basis. Despite our small shareholding, Hydro has been active in promoting sound environmental practices in MRN since our participation started in the seventies. We have also been supportive of the various community programs that have been initiated by MRN over the years.

In December 2000 Hydro conducted a CSR assessment of MRN, concluding with a set of recommendations that were shared with the MRN management. In this context it is important to stress that the responsibility for eventual implementation rests with the local management. Recommendations included:

- A more systematic approach to CSR
- A baseline study to determine the basis for sustainable community programs
- A specific Quilombo program, with focus on health, education and assistance for the Quilombos to organize properly

Over the period after the assessment, Hydro has followed up through the various channels described above. The main challenge is to redirect MRN's community efforts towards sustainable projects rather than short-term initiatives. Experience has taught us that this is not done overnight, even in projects where Hydro has controlling interests.

Interviews with an NGO representative in Brazil and community members confirm that Norsk Hydro has conducted informal meetings with the external community and CPI (Comissão Pro-Índio or Pro-Indian Commission).

Corporate commitments and behaviours: what MRN says and does

Our interviews with corporate employees and a review of corporate documents indicate that MRN promotes a four-factor approach to CSR focusing on education, health, environment and sustainable development. During our field visit MRN representatives hosted a full-day meeting with us to discuss the corporate social responsibility and environmental issues and to take us on a mine tour. In their corporate presentation materials MRN representatives indicated that the company spent US\$3.9 million in 2001 on corporate social responsibility programmes and projects. CSR programme highlights include the Pôrto Trombetas school and hospital, the environmental remediation efforts at Lake Batata and a few community focused projects in health care (for example to reduce the incidence of malaria) and sustainable development. MRN employees also highlighted the various environmental awards that the company had won.

As part of MRN's commitment to corporate social responsibility, MRN has established a Health, Safety, Environment and Corporate Social Responsibility (HSEC) Committee, which is comprised of senior executives from MRN's equity partners. Company interviews suggest that this committee has influence on MRN CSR activities, although we were not able to access corporate information on its formal role or mandate. Company interviews indicated that Norsk Hydro has been particularly active on CSR issues within this committee.

Our review of corporate documents indicates that 72 percent of the company's CSR budget (2001) primarily benefited MRN employees. Only 9 percent of the total annual CSR budget (US\$314 593) was spent directly on Quilombo communities. The majority (72 percent) of funds was directed towards employees (approximately US\$2.5 million) or to clean up Lake

Batata. Of the monies spent on local communities, the largest annual expenditure was for hospital services (nearly two-thirds of the budget), related healthcare via the 'Quilombo project' (a travelling medical boat which visits the communities) and education (the high school in Pôrto Trombetas and the primary school in one community, Boa Vista). While these were positive investments, field research indicated that local Quilombo community members had concerns about the implementation of each of the above programmes (see findings on community perceptions below).

Corporate reports also indicate that the mine's sustainable community development projects were relatively minor, with initial investments in the range of US\$8 000 to US\$35 000 made in 1996 for one year only. Interviews at both the community level and with MRN staff indicated that these projects were largely unsuccessful, except perhaps for the labour cooperatives. Interviews indicate that project failure was related, in part, to a lack of community involvement in the project conception phase. Most of the projects were developed by MRN staff, who acknowledged in our interviews that this approach may not be ideal.

With respect to the expansion, MRN's social impact assessment does not provide details on its community consultation plans. However the document indicates that Brazil nut trees, which are harvested by local Ribeirinho families, exist throughout the proposed expansion area. MRN estimates that this may result in a community-level loss of around R\$6000 per year.⁸ While low in absolute terms, this amount represents a significant income to local people. In the Social Impact Assessment (SIA), MRN identifies three alternative scenarios: expansion of the mine with socio-economic and environmental compensation; partial (10 percent) conservation of Brazil nut trees on the plateau; and total conservation with no expansion. MRN rejects partial conservation since it argues that 10 percent compensation will make little difference to local peoples. MRN also rejects total conservation by arguing that, while this option would be beneficial to the local people, it would seriously compromise the activities of MRN. With full expansion MRN offers some mitigation plans; however each plan is based on the idea of changing the traditional harvesting activities of the Ribeirinho.

With respect to current impacts of the mine, we did not uncover any substantial data to indicate that MRN was systematically evaluating the ongoing social impacts or costs of the mine at the local community level. Unlike the environmental monitoring programme, there was no comparable social monitoring programme in place. While MRN employees openly admitted to some environmental impacts of its operations (particularly the pollution of Lake Batata), company employees were more reluctant to discuss potential negative social impacts and preferred to stress the social

benefits such as improved education and health. For instance, when asked if the participation of local Quilombo women and girls in prostitution was a social issue, personnel stated that while this had happened in the past, this was no longer a problem (despite community suggestions to the contrary – see following section). There was no indication that the mine had a sophisticated or formal approach to social impact assessment, and, it did not conduct any gender assessment of the social impacts of its operations (or of the proposed expansion).

MRN has a more comprehensive approach to environmental performance. The company has detailed environmental monitoring programmes in place and produces environmental reports on an annual basis. A review of corporate documents and press articles indicates that MRN has recently received ISO 14000 certification for both the town of Pôrto Trombetas as well as the mining operation.⁹ Yet interviews with both MRN employees and local community members indicated that the company does not share detailed environmental monitoring information with local communities, nor is there an ongoing discussion with external stakeholders about remediation efforts and/or key community concerns.¹⁰

Part II: Stakeholder Perceptions – the Quilombo

Part of our study focuses on gathering local Quilombo community perceptions of the impact of MRN on their lives and livelihoods. Approximately 6000 Quilombos live in the region of the Trombetas River Basin within the municipality of Oriximiná (Andrade 1993). The Quilombos (or Quilombolas) are descendants of runaway black slaves who formed small communities in remote regions of the Amazon to escape persecution and slavery.

In 1988 the Federal Constitution through Article 68 of the Temporary Constitutional Provisions Act officially recognized the land rights of the Quilombolas (Andrade 1993; Palmares 2001). Since 1995 29 communities have been granted land title, of which four are located in our study region in the Oriximiná area of Para State. The community of Boa Vista, which is located directly beside MRN, was the first community in the country to achieve land rights. Other Quilombo communities are still undertaking the lengthy lands claim process and have not yet received official recognition. MRN is situated in the middle of this territory.

Outside the protected areas of the National Forest and Biological Reserve, local Quilombo communities continue to practise a subsistence approach to living, focusing on subsistence agriculture, fishing, hunting and gathering indigenous fruit and Brazil nuts, known locally as ‘castanha’ (Andrade 1993; Linhares 1993). Main crops include manioc, bananas and

corn. In addition to crops Quilombo women also plant medicinal plants and herbs (Linhares 1993). Having lived in the area for over a century, local Quilombo have developed sustainable land management strategies (Linhares 1993). However since the establishment of the National Forest and Biological Reserve, the Quilombo have been prohibited from pursuing traditional activities in these areas.

The ARQMO was founded in 1989 and today represents 27 Quilombola communities in the area. ARQMO was created in an attempt to enforce the land ownership assured by the Federal Constitution of 1988 and to counter the threats against Quilombo territories which began in the 1970s when MRN came to the area and occupied part of their lands. The threat to Quilombo land was further accelerated by the establishment of the Trombetas Biological Reserve which, once created, prohibited Quilombo access to the main Brazil nut (castanha) trees.

ARQMO has been supported since its inception by the Brazilian non-governmental organization Comissão Pro-Índio (CPI), an NGO which promotes the rights of Indigenous peoples throughout Brazil (CPI 2002). Currently ARQMO and CPI are working on a joint initiative on sustainable development. The goal of the project is to develop a sustainable system of land management that combines subsistence agriculture, hunting and fishing with the organized collection of Brazil nuts. The collection of Brazil nuts is currently the main source of cash income (ARQMO and CPI 2002). ARQMO is currently exploring the opportunities of a fair trade certification of its Brazil nuts by the Forest Stewardship Council, and has received financial support from Oxfam, SESE (a Brazilian NGO in Bahia) and the World Bank, which provided US\$10 000.

What the Quilombo communities say about MRN

Despite corporate optimism about CSR, our field work among local Quilombo indicates that many community members had a variety of concerns regarding the negative impacts of the mine. While community participants did recognize some positive benefits of MRN (such as the education and health benefits), the negative issues far outweighed these. Table 8.2 summarizes our findings.

Table 8.2: Quilombo Community Perceptions of the Impacts of Mineração Rio do Norte (MRN)

Economic Impacts

Positive

- Jobs at mine and mine site: Some Quilombo men have full-time jobs at mine. Some women and girls have odd jobs at Porto Trombetas, mostly as part-time housekeepers. One or two women have full-time work at MRN
- Opportunities to sell local produce at the market at the mine

Negative

- Decrease in traditional subsistence economy
- Increased commercialization of local subsistence economy
- Jobs at the mine are unskilled and low paid – males who work full-time at the mine site receive only ~\$R229/month. Female part-time housekeepers also receive low wages (~R\$30/day)
- Increased economic disparity: people who work in the mine have money while others do not
- It is difficult to get access to the market at the mine (hard to get a table from which to sell). Most entrepreneurs at the market are not Quilombos but come from Santarem and Oriximiná. Mine said that in order to participate in the market the Quilombos must guarantee production, which is difficult
- Further complication: Cannot commercialize their fishing due to legal restrictions of the Biological Reserve

Gender Impacts

- Very few opportunities for Quilombo women at the mine

Social and Cultural Impacts

Positive

- Improved education: Quilombo children can attend the school provided by MRN (it is the best school in the area).

Negative

- Decline in traditional pursuits, like Brazil nut harvesting
- Buy more products instead of traditional exchange system or through cultivation
- Change in key values: no more sharing; instead people now sell meat to each other. While attendance at the school is free, school materials are very expensive
- Increased availability of alcohol, easily accessible to 12+ youths
- Increased number of people frequenting the bar in Porto Trombetas
- Difficulty keeping youth away from the bars on the week days
- Children and teenagers give up school
- Increasing economic disparity causes social imbalance and conflict
- Further complication: limited access to the National Forest and Biological

Ecological Impacts*Positive*

- Water Project: distribution of a small machine to clean the water
- Reforestation
- Partial remediation of Lake Batata
- MRN now does environmental monitoring

Negative

- Deforestation
- Scarcity of the wild animals and fish
- Extreme past degradation of Lake Batata
- Bauxite waste still affecting the water in the Agua Fria area; people must go very far to get clean drinking water
- Cold water creek area is also polluted
- Bauxite mud and bauxite powder in the water and air near Boa Vista and Moura
- Residues from washing the port flow directly into the river
- Transportation ships come in carrying salt water for ballast which is discharged into the fresh water river prior to loading bauxite
- Problems with drinkable water – wells built by the mine do not work
- Sonorous pollution which drives away animals and disrupts community life
- Poor sewer treatment system with discharge going directly into the river
- In the summertime, indiscriminate fishing by mine employees often using pressure guns to catch the large fish
- MRN does not give the communities environmental monitoring information

In addition to these perceptions, local people also voiced concerns about the potential impacts of the proposed expansion. The first phase of the expansion will affect primarily the subsistence activities of Ribeirinho communities. Interviews also suggested that the non-Quilombo Ribeirinhos (river people) are not well organized as communities and are significantly more marginalized than the Quilombo. The Quilombo are also concerned about future expansion plans since bauxite deposits are located throughout their traditional territory. Local people believe that Phase 2 expansion plans will likely impact Quilombo Brazil nut harvesting areas. While our research

cannot confirm this, if we compare MRN's map showing the bauxite reserves in the area (Figure 8.1) with another showing the Quilombo territory, it appears that this concern is not unfounded – some of the bauxite deposits are located in traditional Quilombo territory. In addition Quilombo communities of Alto Trombetas, Jamari and Moura have outstanding land rights for territories that are part of the protected areas of the National Forest and Biological Reserve.

Local Quilombo also voiced strong criticism of historical and current consultation procedures and generally were unsatisfied with community-company relations. Local people had concerns over their lack of participation in decision making (lack of choice), their inability to influence decision making (lack of voice), and about the infrequent and incomplete feedback provided to them by both MRN and the government. These concerns had both a historical and current basis.

People were also concerned about the historical process for decision making with respect to the establishment of MRN and the Biological Reserve and National Forest. For instance:

- 'Until 1989, the mine did not recognize that the Quilombo communities existed'.
- 'They just denied the existence of the communities'.
- 'When the Biological Reserve was established in 1979, they put out the communities by burning their houses'.
- 'The mine was established here in 1970. We had no idea about it at all'.

Local people were not consulted on these important natural resource developments. Document analysis indicates that at the time none of the Quilombo communities had recognized land rights (another procedural justice issue), and that the government and MRN were under no legal obligation to consult with them. However people felt this lack of consultation to be unjust.

Interviews further suggest that local people perceived that the National Forest and Biological Reserve were actually established by the government in order to protect the area for future bauxite development by MRN. That is, the establishment of a 'protected area' meant that the Quilombo had no legal rights to this area and therefore no legal right to provide input on development plans, which remained solely the responsibility of the government. Our data cannot substantiate whether this perception is correct; however interview data indicates that local people and civil society members perceived this to be an unjust process that had current implications for them:

The area where there is a concentration of bauxite is the Quilombo area. We do have land rights and they're getting stronger. Despite that, the mine can come and extract the bauxite; they have that right. The National Forest was created by the President [of Brazil] to protect the bauxite for the mine. And this is what this fight is about because whoever lives in the forest, they are not even allowed to do anything like cut down the trees to plant. That's what we tell IBAMA [Brazilian ministry of forestry]. We are the poor.

Community members voiced concern over the weak processes governing ongoing community-company relations. While MRN has regular meetings with Boa Vista community representatives (approximately once per month), there is currently no formal channel for other communities. There are also no formal procedures for conflict management, and no formal channel for the local communities to discuss issues with foreign equity partners. MRN's HSEC committee is not open to community participation. In general MRN's consultation procedures on the impacts of their ongoing operations appeared to be weak, nor was there any significant acknowledgement of the importance of gender issues. Community members perceived that their complaints about negative impacts were not adequately recognized or addressed by MRN. Some community members also were concerned about the consultations surrounding the proposed expansion.

Interestingly interviews with IBAMA and CPI indicate that a new multi-stakeholder committee will be formed to oversee the sustainable management of the protected areas, in accord with recent environmental regulations. This committee must contain a local community representative. This committee will also oversee any future bauxite exploration and may potentially have an important role to play in procedural justice. However during our field work in Pôrto Trombetas, local community members did not identify this as a significant new opportunity for involvement (perhaps due to lack of awareness).

With respect to the sustainable development project on Brazil nuts, our interview data suggested that MRN paid occasional travel monies for the Quilombo groups pursuing the idea of exporting sustainable Brazil nuts. However there was no data to indicate any significant financial or technical support for grassroots Quilombo-led development initiatives.

Stakeholder perceptions of foreign minority investors

In general local community members were unaware of the identity and role of foreign investors in MRN. People were not aware of the CSR policies or practices of MRN's foreign multinational 'equity partners', nor were they aware of the participation of these partners in MRN operations (for example through the HSEC Committee). During the community focus group we

asked participants what they would like to say to investors, once we explained their existence. This response from a young Quilombo man seemed to crystallize local community perceptions: ‘This is what I think . . . have all these investors ever come here, like you did? Do they know the reality of the communities? I would imagine not, right?’

Nevertheless interviews with ARQMO and other civil society groups indicated that foreign investors had, in at least one situation with BHP-Billiton, improved the local situation. ARQMO (the Quilombo community organization) identified BHP-Billiton as having some impact on local CSR issues. Participants explained that a Billiton senior executive¹¹ met a representative of ARQMO in 1992 during a conference in the Netherlands on CSR. During this conference the ARQMO representative informed the Billiton executive about the situation at Pôrto Trombetas and identified some of the social problems from the mine, including the issue of prostitution of local Quilombo women and girls. ‘After one month, the chief of Billiton came here and we met him at Boa Vista which is a community closest to the mine with 130 families, 700 people. He visited the community. Since the chief came here, he pressured the MRN to make some changes and improved access to health care and provided more contractual jobs’.

Part III: Summary of Findings

‘MRN understands that we have a social responsibility for the Boa Vista [Quilombo] community’.

Interview with MRN Administration Advisor on CSR

‘There are not many positive things to point out. Every time the mine gives something, it’s behind a bigger project and what we get is very small’.

Local Quilombo man

‘As a global company, our impact on society is far reaching. We interpret social responsibility as conscientious cooperation with our communities, our employees and all other stakeholders’.

Alcan

‘Have these investors ever come here, like you did? Do they know the reality of the communities? I would imagine not, right?’

Local Quilombo youth

‘When [Norsk] Hydro is involved in business through minority interests . . . we will work to identify and minimise discrepancies in CSR standards and practices that might arise’.

Norsk Hydro

Overall corporate documents and company interviews present a ‘good news’ story, highlighting the positive contributions of the company to the local economy, the local environment and the local communities. Only Norsk Hydro publicly stated that social challenges existed at MRN and was the only minority investor that appeared to be actively promoting improvements in CSR within MRN. Norsk Hydro was also the only company which was actively open to our research questions. Despite their formal channel to address stakeholder comments and questions, Alcan and BHP-Billiton did not reply to our requests for information.

Despite numerous CSR claims by MRN that the mine brought an improved quality of life for local people, community perspectives voiced in the focus group and informal discussions illustrated deeply held concerns that the variety of negative impacts on local Quilombo communities (including gender impacts) were not being effectively or equitably addressed. Local people were also highly concerned about procedural and interactional justice issues. Despite the failure of most of the MRN-initiated community development projects, our field work identified a community-led initiative on the sustainable development (and export) of Brazil nuts which was not currently being financially supported by MRN.

Our findings suggest that many of the local Quilombo were not happy with their current or historical relationship with MRN and the Brazilian

government agency IBAMA. Despite numerous and ongoing community complaints, people felt that most things did not change at MRN. People said they felt ignored and not respected. Local people did not appear to trust the mine or IBAMA, particularly given their perceptions of the historical interactions around the establishment of MRN and the protected areas. The Quilombo were largely unaware of the role and responsibilities of MRN's equity partners and were not aware of their CSR commitments at the global level.

Implications for the minority investor

Multinational companies (MNCs), like those investing in MRN, are well aware of the need for public CSR commitments. Without fail the companies who have minority equity investment in MRN have strong corporate CSR policies, which typically acknowledge the need for community benefits as a result of natural resource development. A few companies, like Norsk Hydro, BHP-Billiton and Alcan, also acknowledge that global CSR commitments should apply to subcontractors, suppliers and/or minority investments. Yet companies also argue that they have less governance control in such situations and therefore face increased challenges in ensuring that local CSR practices fit with global CSR policies. At the end of the day, some argue, what can they do, when they are only minority investors?

Our case study suggests that minority investors can have greater impact than their percentage of equity may imply. At MRN minority investors participate in the local management of the mine through its HSEC Committee – a potentially important mechanism for ensuring sound CSR governance. While most of the minority investors did not appear to take advantage of this mechanism, Norsk Hydro and, to a lesser extent, BHP-Billiton, had used it with some success in promoting improved CSR performance. In particular Norsk Hydro, despite having the smallest minority investment, demonstrated that a minority investor can have additional impact by sharing CSR know-how and expertise. Norsk Hydro provided MRN with a systematic CSR assessment and key recommendations on how to improve local CSR practices and develop longer-term sustainable development projects (rather than short-term company-directed projects). Norsk Hydro has also opened up direct communication with MRN's community and NGO stakeholders, albeit on an *ad hoc* informal basis. However Norsk Hydro has not gone as far as enacting processes to ensure compliance, which is a key outstanding weakness. From MRN's standpoint the active participation of Norsk Hydro in the HSEC has improved the mine's CSR performance. The field visit by BHP-Billiton – while *ad hoc* and not repeated – also resulted in important improvements from the community's standpoint. Our research suggests that

there are a number of additional opportunities for minority investors to improve CSR practices at MRN.

Building CSR capacity Our study identified a distinct lack of capacity among MRN staff with respect to developing social and gender impact assessments, establishing meaningful community consultation procedures, and soliciting and providing microfinancing support for grassroots Quilombo-led sustainable development initiatives. In addition our study suggests that most minority investors appear to have little understanding of their roles and opportunities for fostering improved CSR in minority investments. As a starting place MRN's HSEC Committee and staff may benefit from capacity building exercises, particularly on the roles, responsibilities and opportunities of foreign equity partners in promoting CSR at the mine site. Our findings also suggest that local Quilombo and Ribeirinho communities require capacity building in terms of understanding the governance roles and responsibilities of CSR-led companies and how to work for effective compliance of stated CSR commitments.

Implementing annual comprehensive CSR assessments Our findings indicate that MRN's approach to Social Impact Assessment – a key element of CSR – is weak and does not adequately identify the possibility of negative economic, ecological, socio-cultural (including gender) and health impacts of both the ongoing operations and the proposed expansion. An annual comprehensive CSR assessment is required in order to more effectively track MRN's CSR performance. Such assessments should also include ongoing stakeholder input and be publicly available for comment.

In addition, MRN's CSR strategy for sustainable development is weak and the company's understanding of community based development approaches was poor. To date, MRN has primarily utilized a top-down development approach (that is the company identified a project that they think will be good for the community) versus a more effective participatory development approach where community members are empowered to participate in a fundamental manner (for example, Chambers 1997). This approach also appears to be potentially problematic for the proposed expansion, since each of MRN's proposed mitigation plans for the affected Ribeirinho families rests upon changing their approach to traditional pursuits and/or rests upon long-term efforts such as replanting (or re-seeding) the area. While positively positioned on paper, our analysis questions the ability of MRN to develop successful local sustainable development plans based on their poor past performance with local Quilombo communities. A refocusing of MRN's sustainable development programme would re-orient it towards financing Quilombo or Ribeirinho-

led initiatives like the export of fair trade Brazil nuts. Direct compensation may also be an equitable option for those affected by the proposed expansion.

Finally MRN's CSR strategy and those of its equity partners do not adequately recognize gender. Despite key impacts and opportunities for Quilombo women and girls, gender is not on the radar screen of even the most active equity partner, Norsk Hydro. MRN has largely overlooked the gender impacts of its operations and the CSR programme does not include a gender specific focus despite the reality of gender specific impacts of corporate operations. Yet understanding the gender impact of mining operations is a critical yet often overlooked dimension of CSR. Research and experience has demonstrated that gender approaches to CSR can provide unique opportunities to provide real gains in poverty alleviation (Barrientos 2002). We recommend that MRN adopt the following CSR strategies (Barrientos 2002):

- Incorporate gender equity into core business activities: that is, MRN could promote greater opportunities in employment, training, promotion, and education among Quilombo women and girls within its main business operations (as opposed to simply providing indirect part-time employment as housekeepers) and also encourage female participation among the Sustainability Council to be set up by IBAMA to manage the future of the protected areas.
- Incorporate gender equity into social investment and philanthropy: MRN should seek to support social programmes that particularly enhance the lives of Quilombo women and girls by channelling specific resources to NGOs and community groups that address gender issues such as reproductive health, prostitution, girl-child education, and by establishing a microfinancing programme for Quilombo women entrepreneurs, etc. MRN should also ensure that Quilombo women and children have full access to health care regardless of marital status.
- Support gender equitable public policy.
- Provide gender equity in company reports and assessments: MRN should undertake gender impact assessments as part of their social impact assessment process and report upon and discuss these findings on a regular basis with local communities and foreign equity partners through the HSEC committee.

Communication channels between minority investors and external stakeholders Our results suggest that a strengthened and formalized communication and decision-making channel between foreign equity investors (possibly through the HSEC Committee) and local community stakeholders would be an important tool to help address the current governance gap. The main internal company-based CSR governance body is MRN's HSEC Committee and its board of directors. While membership of these groups is open to corporate executives of MRN's equity partners, it is not open to members of the local communities.

However board or committee composition can have important implications for good governance. Pluralistic boards of directors who are comprised of external stakeholders are conceptualized as 'active and participative in determining the normative goals and objectives of the firm . . . [and being] sensitive and responsive first to society, followed by shareholders and lastly management' (Molz 1995, p. 792). Pluralistic, as opposed to managerial, boards have been identified as a potential mechanism for promoting stakeholder (not simply shareholder) interests within the corporation, thereby improving corporate social performance. A more pluralistic board and HSEC Committee, which include local community representation, may improve the governance of MRN's CSR activities. In addition gender diversity among these structures may help ensure that gender issues are more strategically and operationally addressed.

Fostering increased accountability of minority investors for local CSR practices Our study indicates that there is a strong disconnect between stated company policies on CSR and the on-the-ground realities of Quilombo life near Pôrto Trombetas. Yet none of the foreign or domestic equity partners publicly reported upon these issues in their CSR reports or statements. In addition the HSEC Committee of MRN did not publicly disclose these social issues and may not have been aware of the scope of the local problems. MRN also did not disclose or discuss important environmental monitoring information to local communities.

There is a clear need for increased accountability and transparency on the part of MRN and its foreign equity partners towards external stakeholders, particularly at the local level. Global and local accountability mechanisms which ensure that local Quilombo and Ribeirinhos have the ability to meaningfully participate in decisions affecting their lives is essential. In addition foreign minority investors need to ensure some level of local compliance with global CSR commitments.

CONCLUSION

This case study indicates that, while minority investment poses challenges for global corporate citizenship, with innovative approaches and local/global commitment the global corporate citizen can achieve positive outcomes that promote global welfare. In particular Norsk Hydro's approach demonstrates that, even with only a 5 percent interest, a globally committed company can actively participate in CSR issues at the local level through committee membership, independently conducting CSR audits and meetings with external stakeholders.

NOTES

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1. For some of the literature on this subject see Bosniak (2000); Allen (1996); Thelen (2000); Nussbaum (1994); Hutching and Dannreuther (1999); Vayrynen (1999); Langhorne (2001); Falk (1999); Hedley (2002); Hewson and Sinclair (1999).
2. MRN Powerpoint Presentation, July 2002.
3. 'Quilombo' was the term given to a settlement of runaway slaves. Today the term refers to the descendants of these slaves, most of whose settlements lie along the banks of rivers which were earlier impassable. The slaves' descendants have adopted the lifestyle of the local Indigenous peoples (Steen 1996). The Quilombos have existed in the Trombetas region since the nineteenth century (perhaps earlier) (Andrade 1993; Salles 1988). The Quilombos of Trombetas have been a historically important group: 'In due time the Trombetas Quilombo, located near Obidos, had more than two thousand members. With all due proportions, it became as famous in the Amazon as the Quilombo at Palmares, in the Northeast' (Goulart 1968, p. 156, cited in Andrade 1993). This group also had important trade links to the rest of Brazil (Andrade 1993).
4. A general term used to describe local communities (living by the side of the river). The Quilombo use this term to refer to groups other than themselves which are ethnically mixed, while MRN uses this term to describe all local peoples living such a lifestyle, including the Quilombo.
5. Available at <<http://www.jenmetz.com/mrnsocial.html>> (visited 7 July 2004).
6. See Alcan (2002c). External stakeholders are invited to send comments to sustainability@alcan.com.
7. Available at <<http://www.jenmetz.com/mrnsocial.html>> (visited 7 July 2004).
8. This figure is based on the best price commanded by Brazil nuts in recent years.
9. Notable examples of ISO-based activities include the recycling programme within Pôrto Trombetas, the use of solar panels on the roofs of employee houses, and also the nursery which grows hydroponic vegetables. Note that ISO certification is not a measure of the effectiveness of environmental management performance, but rather certifies that organizations have established a process for environmental management that conforms to ISO standards.
10. For instance community members voiced concerns about the air pollution caused at the port where dry bauxite is loaded onto ships. When we posed this question to MRN personnel, they said that there was no health issue. Yet community members remain unaware of this important information and MRN personnel remain unaware of such concerns.
11. Our interviewee was not sure of the name of the Billiton executive but believed that he was a senior executive – possibly 'the chief'. Our request for confirmation from BHP-Billiton received no reply.

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