PERMANENT PEOPLES TRIBUNAL
Hearing on
Neo-liberal Politics and European Transnational Corporations in Latin America and the Caribbean
Vienna, Austria
10-12 May 2006

Case Report
Finances
Submitted by
Myriam Vander Stichele, SOMO researcher and TNI Fellow

The European financial industry in Latin America
Experiences and dangers of the EU demands for further liberalisation under GATS and Mercosur negotiations

By Myriam Vander Stichele, SOMO researcher and TNI Fellow

1. The EU's interest in investing financial services in Latin America

In 2000, the EU was the region from where the main investors in Mercosur came from with a total amount ("stock") of EU investment reaching more than €100 bn. This was equivalent to 7.2% of total EU foreign direct investment (FDI stock). The most significant investments were done in the services sector driven to a large extent by the privatization and liberalization process since the 1990s, including in the financial sector.[1] Some Mercosur companies have made comparatively few investments in Europe.[2]

After years of very large investments, CEPAL[3] calculated that European investment had fallen in 2005, particularly from Spain, which dropped to third place, with just over 6% of inflows. The Netherlands' investors stood in second place, with a 12% share of total FDI flowing into the region. The United States' multinationals have been the main investors in the region in 2005, accounting for almost 40% of flows. The decline of European investment since 2003 is probably because most privatised utilities have already been sold out, the lack of profitability in the region was more clear and the opposition to privatisation clearly widespread. The privatisation of public banks was also almost over and the most profitable markets (i.e. countries in which profit can be made) for financial services were already taken.

The foreign financial industry had increased its presence, through acquisitions etc., by 364% in four years (1996-2000). In Mexico, liberalisation has resulted in 82% of the banks being in foreign hands.[4] Large European financial conglomerates, especially the Spanish (e.g. Banco Santander, Banco Bilbao Viscaya Argentaria (BBVA)), Dutch (ABN Amro, ING, Rabobank), the British (e.g. HSBC[5]) and German ones (e.g. Deutsche Bank[6]) have invested in Latin American countries, especially in those countries regarded as "emerging markets" and with large domestic markets.

- **The EU is pushing for liberalisation of financial services**

In negotiations in which the EU is involved about liberalisation of financial services, such as in the GATS negotiations in the WTO and the EU free trade agreements with Chile and Mexico, financial services liberalisation is one of the top priorities of the EU. In GATS and free trade agreements, the definition of trade in (financial) services does not only mean that people can use financial services established abroad, e.g. through internet banking, but that foreign banks can establish a presence in other countries to offer financial services. In other words, trade in services

---

[1] MEBF Madrid Declaration, May 2002, p. 20.
[2] http://europa.eu.int/comm/external_relations/mercosur/intro/05_trade_merc_stats.xls
[3] Be aware that other sources can give other figures
[4] D. Domanski, Foreign banks in emerging market economies: changing players, changing issues, in BIS Quarterly Review, December 2005, p. 72. See also: Juan Cárdenas, Juan Pablo Graf, Pascual O'Dogherty, Group Foreign banks entry in emerging market economies: a host country perspective.
[5] See <http://www.hsbc.com/hsbc/about_hsbc/international-networks>
[6] See: <http://www.db.com/en/content/company/global_network.htm>

also covers investment, and GATS and FTAs should also be considered as investment liberalisation agreements.
It should be noted that at the same time, Latin American countries have signed bilateral investment agreements with individual EU countries for which the EU has not a mandate because they cover particular measures to protect investments and allow investors to take governments to an international court for the settlement of investment disputes (ICSID, managed by the world bank). The consequences of the BITs can far reaching and result in paying billions of dollars in compensation, as Argentina has discovered after it was sued by many multinationals who had taken over its privatised utilities and suffered financial damage due to the measures taken to stop the financial crisis.

- **How the EU has been negotiating with Mexico and Chile about the liberalisation of financial services**

In the agreements with Chile and with Mexico (i.e. the EU-Mexico decision on investment, 2001), financial services is covered by more than 10 specific articles in the agreements. They are examples of how the results of negotiations with Mercosur on financial services could look like. Some of the articles in the agreements are identical as those of the GATS agreement such as equal treatment of domestic companies and companies of the other parties (national treatment) and limitations on certain regulations because they are considered a barrier to market access, such as prohibitions of full foreign ownership or regulations that limit the number of service providers. Some articles go beyond what has been agreed in the GATS agreement. For instance, the EU-Mexico decision requires that there can be no obligation that top management should be composed by a majority of a country's nationals (Art. 16) and that money transfer related to profit repatriation cannot be limited by measures that safeguard financial stability in times of crisis (Art. 32). A few articles try to safeguard the right to regulate and are more specific than in the GATS, for instance regarding the permission of new financial services. When comparing these articles in the EU agreements with Chile and with Mexico, it shows how the counter party to the EU can loose room of manoeuvre to regulate as did Mexico. When negotiating somewhat more carefully like Chile it can avoid the worst financial and regulatory problems resulting from the agreement. Also, the agreement with Chili includes a list of financial services which services receive permanent market opening under the agreement and which ones are exempted from it. This is a much safer way to liberalise, as is also done in the GATS, than the "negative" list in the agreement with Mexico which states what is excluded from liberalisation under the agreement. Given the complexities of the sector, it is very easy to forget to list the needed exemptions from the agreement.

- **The EU is taken over positions by the business lobby**

As will be explained below, the EU is also very hard pushing for permanent market opening for financial services in the GATS negotiations. One of the reasons might be that the huge profits of the financial industry is making also provides a good tax income in the home countries. But from the beginning, the position by the EU has also been very much influenced by the well organised lobby by the services industry and financial services industry. The European Commission responded in detail to the Rio Declaration of the Mercosur European Union Business Forum (MEBF) issued in February 1999, stating that de declaration had a great impact on the negotiating agreement between the two regions and that "governments in general agreed to most of MEBFs proposals and committed themselves to include [MEBF's] issues on the agenda of their free trade negotiations".[7]

The MEBF has made several statements since 1999, in which "investment, privatizations and financial services" and "Services and Business

[7] MEBF Mainz Declaration, 23 November 1999, p. 2.

Development"[8] have received particular attention as they are themes of two of the three MEBF Working Groups. The recommendations made go very far regarding removal of any obstacles for foreign investors such as free transfer of profits[9], support (read: transfer of costs and risks) for infrastructure development by governmental financial institutions (IADB, EIB), and change by central banks in their prudential rules regarding credits provided by private banks.[10] The MEBF even makes recommendations related to the ongoing GATS negotiations.

Demands by the Business community

Already in 1999, the Mercosur European Union Business Forum (MEBF) was very demanding regarding investment.

Demands regarding Investment

MEBF urged the EU and the Mercosur governments to issue a comprehensive statement that expresses their commitment to strong foreign direct investment protection and to open investment regimes. It wanted the statement to include the following commitments:

- national treatment for investors/investments;
- common investment rules and procedures at all governmental levels;
- non-discriminatory access to government funds, civilian research and development programs;
- free movement of capital connected to an investment including free transfer of profits;
- elimination of tax legislation, policies, and practices which discriminate against foreign investors;
- modification of respective tax laws on the treatment of foreign earned income to encourage foreign investment and to prevent double taxation;
- national security exceptions in investment should be limited, narrowly circumscribed and applied in a transparent manner; foreign investment protection agreements should be speeded up.

Demands regarding financial services:

- The intensification of efforts for a full implementation of the commitment to the WTO agreement on financial services.
- The encouragement of the liberalization of trade in financial services
- The co-operation to develop and apply international prudential standards in the financial services field. These standards are essential for the existence of sound, efficient and transparent financial markets and for optimizing the allocation of financial resources.

In November 1999, the MEBF singled out financial services as a particular area of attention and made the following demands:

- strengthening supervision systems
- minimising privileged circuits of credits
- strengthening the main and complementary private systems of pensions
- reciprocity for setting up affiliated banks or opening branches for Mercosur banks in Europe, under the principle of consolidated supervision
- reviewing of the varying European national central bank policies requiring generic provisions for loan losses on the basis of geographical considerations in the case of Mercosur.

Source: MEBF Rio Declaration, February 23, 1999; MEBF Mainz Declaration, 23 November

[8] MEBF Brasilia Declaration, October 2003, p. 19; MEBF Madrid Declaration, May 2002, p. 20.
[9] MEBF Brazilia Declaration, October 2003, p. 19
[10] MEBF Madrid Declaration, May 2002, p. 20.

1999.

The European financial industry needs to expand abroad because it cannot make much more profit on the domestic and European market. The largest European banks in Latin America – Santander, BBVA, HSBC and ABN Amro – have gained a leadership position in their home markets through mergers and acquisitions, so that further acquisitions would be prohibited by the competition authorities. The European Commission openly admits that its aggressive stance is to ensure new markets for European financial services companies: "For EU financial services companies, the fast-growing emerging economies will become a major source of activity that will help to offset slower growth in the more mature financial services markets".[11] This is hardly a perspective in the interest of development and the constituency in developing countries. On the contrary, it is to allow the EU's financial industry to make enough profit in the fierce competition among the internationally operating banks and insurance companies. This international competition has lead to an ever more concentrated financial services industry in search of ever higher profits. A few big financial conglomerates now dominate in some countries and in some specific services world wide. Opening markets allows financial conglomerates to buy, sell and expand their financial business in the countries they wish and at the least expenses ('plug and play'). They seek to become part of the top-5 financial companies in certain sectors in each of the countries they enter. They easily leave the country when profits are insufficient. This for instance happening in Brazil after foreign banks did some spectacular and expensive take-overs, they left the country and sold their business to some of the large Brazilian banks. In 2001, various foreign banks sold their assets to Brazilian banks and in January 2003, BBVA withdrew from Brazil. Smaller countries might not have big and stable domestic banks as in Brazil which can buy the financial business which are for sale, which can lead to instability of financial services in poorer countries of Latin America.

One reason why the European industry is pushing the EU to negotiate far ranging liberalisation in financial services is because the US has been able to negotiate broader liberalisation of financial services and capital than the EU, for instance with Chile. European business and negotiators were very much dismayed by this because this means that the US financial industry has much more advantageous conditions to invest in Chile than the European one, which hampers the EU's financial industry to receive the same treatment as US financial services providers in Chile and to become as competitive as the US financial industry on the world market.

The EU financial industry will benefit much more from the new market opening in financial services than the Latin American financial service providers. Latin America is not yet competitive and developed enough to export much of its financial services, eventhough they have already started to do so and have the ambition to export more (see box on MEBF demands). The Brazilian Itau bank is active in the business lobby of MEBF (e.g. see sponsoring on MEBF website). In general, Latin America is not able to export as much services as it imports. In general, the imports of services exceeded the services' exports by $ 12.5 bn in 2005. This means that trade in services increases the capital outflow rather than help to solve the problem of net transfer of resources which stood at $ 34.3 bn in 2003. [12]

2. Problems with liberalisation of financial services and free trade agreements

Full liberalisation of financial services as asked by the business and the EU means, in practice, that countries should allow the foreign financial industry to fully take over the domestic private financial service providers. Experience has shown that as soon as developing country have opened their markets, foreign financial firms often rapidly take over a large part of the domestic

[11] Website of the EC, summary of collective requests: Collective requests in which the EU is participating under the DDA Trade in Services negotiations. Annex. Brussels, 28 February 2006
http://europa.eu.int/comm/trade/issues/sectoral/services/pr280206b_en.htm (viewed on 27 March 2005)
[12] Statistical yearbook for Latin America and the Caribbean, 2004, April 2005, p. 358, 407,408

financial industry. As already explained, in Latin America the foreign financial industry increased its presence, through acquisitions etc., by 364% in four years (1996-2000), huge acquisitions followed in the years thereafter which resulted in Mexico that 82% of the banks are in foreign hands.

It is often argued that foreign financial service providers increase efficiency and improve the quality of the financial services in developing countries. Also foreign banks are claimed to improve the allocation of savings, improve access to foreign capital, and provide capital in times of crisis. However, experiences show that the impact of liberalisation of financial services can have opposite results and even recent publications by mainstream institutions like the IMF and the BIS (bank of the Central Bankers of the rich countries) gives a much more nuanced view. The profit making strategies of foreign financial companies, and the pressure from their shareholders, means that they do not have the same behaviour as domestic banks, although the former want equal treatment as the latter, which is enshrined in the principle of "national treatment" in GATS, FTAs which include services, and bilateral investment treaties (BITS). Developing countries opening up to foreign banks are therefore faced with the following problems

- Lack of credit to smaller domestic firms[13], support for corporate globalisation: Foreign financial service providers first focus their services on rich clients and rich regions ('cherry picking') and only in a few more developed 'emerging market economies', foreign banks also try to make profit through broader lending.[14] However, in all countries, small and medium sized domestic companies and farmers have difficulties in obtaining credit from foreign banks. This restrictive lending leads to lack of financial support to a vital sector in many developing countries or even to stifling of a whole economy due to a lack of credit ('credit crunch') to the domestic industry as was the case in Mexico[15]. This has been the result of the introduction of standardised credit evaluation systems by foreign banks, and loss of capacity to assess local enterprises, as well as fears of lending that is considered risky by financial analysts who assess the banks' value on the stock market.

These practices stimulate the gap between rich and poor. The poor who need appropriate financial services are left out while rich get better more profit making services and can invest their money abroad instead of in the home country. Most important of all, the foreign banks in this way stimulate corporate globalisation because multinationals operating in developing countries are often the richest clients. By providing them services like loans, project financing, assistance in mergers and acquisitions, issuing of new shares ("investment banking"), and by allowing clients to invest in big companies through investment funds ("mutual funds") and pension funds, big corporations have enough financing to continue to grow, whatever their impact in the countries in which they operate.

- **What improvements in efficiency? The risks of negative impacts on the domestic financial industry:**

The proponents of foreign financial service liberalization often indicate that foreign banks provide an incentive for local banks to improve their operation[16]. However, actual experience shows that some local banks can have little chance to survive the foreign competition or acquisitions. Because foreign banks attract the richest clients, they leave the poorer clients to the domestic financial services providers. Although the latter are

[13] See M. Vander Stichele, Critical issues in the financial industry, April 2005; Dietrich Domanski, Foreign banks in emerging market economies: changing players, changing issues, in BIS Quarterly Review, December 2005, p. 77

[14] E. Detragiache, T. Tressel, P. Gupta, Foreign banks in poor countries: theory and evidence, IMF Working Paper, WP/06/18, January 2006; MVS report p. 191 : In Sub-Saharan Africa, the presence of foreign banks increases loans by both domestic and foreign banks, but the variability of the loan supply decreases.

[15] See for instance: Juan Carlos Moreno-Brid, Juan Carlos Rivas Valdivia, Jesús Santamaría, Mexico: Economic growth exports and industrial performance after NAFTA, CEPAL - Serie Estudios y perspectivas, N° 42, December 2005, p. 30 (seen on 27 March 2006 at: http://www.cepal.org/publicaciones/Mexico/0/LCMEXL700/L700.pdf)

[16] G. Bies, Financial liberalisation in Latin America, in Developing countries and GATS, Ed. C. Jepma & E. Kamphuis, University of Groningen, 2003, p. 64.

much better in serving local small companies and poorer clients, not all can make enough profit from such clients. China has calculated that 80% of the banks' profits come from the richest 20% of the clients.[17] In addition, new international standards about capital reserves that banks need to set aside when providing credit (Basle II) are making the big international banks much more competitive because they have their own risk assessment system which local banks often do not have. In order to survive the foreign competition, local banks might take too much risks, which can result in destabilisation of a country's banking system. Also, in order to operate well in new markets, foreign banks attract the best managers from local banks to the foreign banks. The result is that expertise goes from local to foreign banks, contrary to the claims of transfer of know how. In such cases, how much efficiency gains can be made?
Negotiations in financial services aim explicitly at the removal of discrimination between domestic and foreign suppliers and take away the capacity of developing countries to provide the domestic financial industry with special support to become competitive or to be able to finance poorer clients. Foreign suppliers can have advantages and financial support from their operations abroad.

- Profits to be made in the banking sector go abroad, more capital for the international financial markets:
Foreign firms provide rich clients in poor countries with more opportunities to channel their money to the North and invest in Western companies. In times of financial crisis, such as in Argentina, these are important factors that can increase a difficult situation. The argument that foreign banks will provide capital to their subsidiaries or branches in a country in a financial crisis, has not always proven to be so in practice, for instance during the financial crises in Argentina in the mid 1990s and beginning of this century. Foreign ownership of banks not only leads to other behaviour and less propensity to invest in the domestic economy while linking more with the international financial markets. It also means that a sector with potentially high profits is not developed at the national level and owned domestically. Profits made by the financial industry can so repatriated abroad by foreign financial services (Art. XI of GATS requires transfer of all current payments), taxes are paid to home country authorities and dividends paid to foreign shareholders. Profits made off rich clients in poorer countries are so siphoned off to the home countries in the North.
At the same time, foreign take over often involves losses of jobs and payments or working conditions for financial service employees can deteriorate as is the case at ABN Amro's bank in Brazil (Banco Real).

Liberalisation of financial services is a complex matter. European negotiators in the GATS and FTAs ignore that experience of previous financial crises in Asia and Latin America has shown that liberalisation needs to be gradual and well sequenced, underpinned by costly capacity building of financial authorities in developing countries. Contrary to the European arguments, opening to foreign financial services as such does not solve the problems of financial services in many developing countries. Risks of financial instability can only be avoided when there are enough institutions to monitor the financial system and regulate complex financial conglomerates. This is costly and takes time. Even in the home countries, supervision of the allfinanz conglomerates is not fully operational and adequate yet. The recent scandals of misbehaviour by international banks domestically (US authorities imposed fines of more than $ 1.5 bn over recent years!) and abroad also indicates the necessity of supervision and regulation. Interestingly, the business lobby requests better supervision (see box above) of financial services – a rare statement from the financial industry which mostly lobbies for less regulation and supervision, which indicates that financial supervision and regulation is far from sufficient in Mercosur countries. In such conditions, liberalisation of financial services in risky and might have negative effects.

[17] M. Vander Stichele, Critical issues in the financial industry, April 2005, p. 177.

In addition, the international financial "architecture" i.e. the system of international rules to regulate the behaviour of international financial conglomerates and control by the supervisors is still mostly on a voluntary basis and has not been reformed so as to be able to prevent a new financial crisis or to act very decisively against a speculative wave; this leaves a heavy burden on regulation and supervision at the national level.[18]

However, subsidiaries of foreign banks are supervised by both the home country and host country supervisors which implies good coordination and information exchange between the two authorities, which is not always the case. Because of decision-making at many foreign banks is being centralized at the headquarters and in order to reduce costs, many foreign banks just establish branches in other countries[19] – a practice that is reflected in the requests by the EU in the GATS negotiations. However, branches are only supervised by the home country authorities and subject to foreign financial standards and capital requirements. Because foreign authorities do not have the same objectives and knowledge about the impact on the local, economy domestic supervisors loose grip on foreign banks, which can have serious implications. Because foreign banks have global strategies that might be less adapted to the local needs of the host countries in which they operate, host country governments have less leeway in directing the development of their domestic market. They might have less influence in making sure that foreign banks integrate economic objectives of the country, let alone integrate sustainable development practices such as no lending to environmentally destructive projects.

GATS rules and negotiations reinforce the threats of financial instability, and both limit and challenge governments and central banks to develop independent policy. The few provisions under GATS to deal with the risks of financial services are subordinate to commitments to liberalize. The vagueness of financial prudential measures which GATS permits leave many developing countries' regulations open to challenges by WTO disputes, or bullying by the hardliners during the secret GATS negotiations. This could make countries refrain from introducing the necessary national legislation for poverty eradication, sustainability and financial stability. (see ANNEX)

Many of the financial services for which the EU has been asking market opening in the GATS, the FTAs with Chile and Mexico, and presumably also during Mercosur negotiations, require monitoring and regulation because they can be risky for the stability of the financial system, for instance:

- All money transmission services: in times of financial crisis, governments might need to have a control mechanism to avoid capital flight.
- Derivative products: Derivatives are speculative contracts about prices of commodities, shares or other assets. They can help to mitigate the risk of future unexpected price changes but they can also have very negative effects due to their speculative character and the fact that they are still largely unregulated. The key risk to derivatives trade is volatility, unknown spill over effects in different parts of the financial markets and the resulting financial instability.
- Investment banking: Investment bankers promote mergers and acquisitions without guarantees that the new company leads to value added, while many jobs are often shed. The underwriting of shares does not screen the social and environmental record of companies that will get additional funds. The combination at banks between investment banking and securities advisory functions has in lead to many scandals. In the US, top global banks had to pay more than $ 1bn of fines during the last 3 years because of such scandals.
- Asses management and pension fund management: lack of regulation in investment banking and securities' trading has lead to irrational investment and a bubble in the stockmarket, and its bursting at the end of 2001. In different countries, regulators issued new laws for pension fund managers to avoid too much losses due to too risky investment in shares.

---

[18] See for instance chapter 5 in M. Vander Stichele, Critical issues in the financial industry, April 2005MVS Re

[19] D. Domanski, Foreign banks in emerging market economies: changing players, changing issues, in BIS Quarterly Review, December 2005, p. 79.

- Financial leasing: for instance the hiring or “leasing” of shares has caused serious debt problems by some customers with serious loss of savings. Governments in the West had to intervene to allow for more warning against the risks of leasing.

In the GATS negotiations, in the secret (but leaked) bilateral “requests”, the EU has requested many countries to remove a lot national regulations that support financial stability or even poverty alleviation In order to improve market access. For instance, the EU has requested Chile to eliminate the measure that prior authorisation by the Central Bank is needed before transferring dividends from Chile abroad. The EU sees this as a restriction on payments and financial transfers which is forbidden under Article XI of GATS. The EU also requested to eliminate the Chilean measure that invested foreign capital can only be remitted abroad after 2 years, in practice 1 year, after it was invested in Chile, or otherwise pay a fine . This so-called “Chile tax” has been praised internationally as a good capital flow stabililisation measure that avoids a financial crisis. The reason why the EU has making these requests to Chile is because the US has been able to more or less negotiate this Chile tax away in its bilateral trade agreement with Chile and the EU wanted the same freedom of capital movement for the European financial industry. Other examples of the risks of the GATS negotiations are the EU request to Brazil to eliminate the case by case authorisation for the establishment of all kind of financial institutions and the request to Mexico to make commitments so that foreign financial companies can trade (for their own account or that of customers) in derivative products. In addition, the EU has requested to privatize and liberalize the state monopoly on reinsurance and retrocession services, in Brazil. Also, government procurement liberalisation is requested by the EU e.g. to allow foreign financial companies to provide certain financial services to state or municipal agencies, in Brazil and Argentina. However, government procurement liberalisation has been resisted by developing countries in the GATS negotiations because it should only be about "transparency".
In order to ensure that “requests” also leads to developing countries making binding agreements to keep their markets open for foreign financial services (GATS “commitments”), the EU has pushed for an other negotiation method in the WTO, the plurilateral requests whereby a group of countries ask another group of countries to open up their markets. In the plurilateral GATS request on financial services, which were submitted on the last day of February 2006, the EU was one of the demandeurs and targeted countries including Brazil, Uruguay, Argentina, Costa Rica.

If the targeted countries would agree to all these requests by the EU, there would be a real risks of a financial crisis as described above. Some Latin American countries involve their Ministry of Finance and Central Bank in the negotiations and try to avoid too risky commitments, e.g. bChile. But at the same time, in the bilateral negotiations with the EU, the Chilean and Mexican authorities have agreed to a high level of liberalisation of financial services with the EU. They think that such liberalisation can have many advantages.

3. Dutch banks in Latin America : an overview of issues mentioned in the specific case studies

The large Dutch financial conglomerates, that were allowed to first consolidate in their home market, have since long shown a large interest in Latin America. ABN Amro and ING have made large investments in the larger Latin American countries. Moreover, the Dutch government is discussing with the Dutch banks and insurance companies to encourage their investment in the region to “improve the financial infrastructure in the region”.[20]

When analyzing the operations of the ABN Amro, ING and Rabobank in the region, they mainly operate in the countries with a bigger market and they focus the higher scale of services for richer

[20] Ministry of Foreign Affairs, Verre buren, goede vrienden – Het Nederlands buitenlands beleid ten aanzien van Latijns-Amerika and de Cariben, June 2004, p. 14.

clients, including corporate banking and private banking, securities trade, etc. In Brazil, ABN Amro has bought Banco Real and other privatised banks. Although ABN Amro's Brazilian banks offer a large range of services for a wide range of clients, services to poor clients are discouraged by automated and computerized services. However, ABN Amro has a good reputation in Brazil for its behaviour in its lending practices that avoid destruction of the Amazone.
Lately, ABN Amro has set up a micro credit service for small entrepreneurs in the informal sector. However, the micro credit service needs to be self sustained and profitable after some years in order for ABN Amro to be willing to continue that service. The profit making strategy of ABN Amro is also clear from the behaviour of Banco Real and other ABN Amro units towards its employees. In recent years, when ABN Amro took over privatised banks, this resulted in loss of jobs and often in a manner without prior consultations as required by the OECD Guidelines for Multinational Enterprises. Also the bank engaged in a strategy of outsourcing many of its services such as security guards, but even for some of its core activities. The outsourced personnel works under more precarious working conditions with less payment and employee benefits. Cost saving in personnel had lead to the use of call centers. However, the employees of call centers had many problems due to the understaffing of the call center but when becoming ill, they were easily dismissed without due compensation for the illnesses they suffered. ABN Amro has since 2000 made major cuts in its numbers of its employees world wide, which also heavily affected the number of jobs in the Netherlands. Although the bank is making billions of profits, it wants to make more profits by cutting more jobs.

In order to avoid large projects that destroy the environment such as the Amazone and breach human rights, NGOs have been campaigning for years against banks that financed such projects. The banks responded by establishing the Equator Principles by which they agreed to use criteria and impact assessments as practiced by the IFC (an institution of the World Bank) before providing a loan to a project, in order to avoid negative impacts. The three Dutch banks operating in Latin America, ABN Amro, ING and Rabobank, have all signed up to these principles. However, ING has been very much critizised for financing the controversion pulp mill, an investment by Finish Botnia, in Uruguay which had disastrous environmental and social effects, especially in Argentina. ING withdrew its loan beginning April 2005 however claiming that this was not due to the Equator Principles which NGOs said it was not respecting. The Dutch banks ABN Amro, ING, Rabobank and Fortis also involved in the financing of the controversial large scale soy production that destroys the environment.
ING has also been criticised for providing financial services to companies who do not respect human rights such as International Waters in Cochabamba and investing in companies that breach labour rights such as Wal-Mart.

These are examples which show that Dutch banks in Latin America are supporting large scale exports rather than sustainable agriculture and find financial services for the many poor farmers who loose out in the export competition strategies of Brazil. The use Latin America as a means to increase their profits and competitiveness in the international financial services markets. This has allowed the to make huge profits over the last years: in 2005, the net profit of ABN Amro was Euro 4.44 bn, ING made Euro 7.21 bn net profits and the net profit of Rabobank was Euro 2.08 bn. But this has not always benefited the home countries. Apart form job losses the banks have drastically reduced their services for poorer Dutch clients. This means that the benefits go mostly to the bank managers (the top has received huge pay increasing in the 2000s) and the (foreign) share holders. Sustainable development and the poor who are most in need of new financial services, are left wanting.

Amsterdam
April 29, 2006
==

ANNEX 1

GATS articles promote cross-border capital flows and capital account liberalisation[21]

Some articles of the GATS agreement play a role in increasing the risks of destabilising financial flows related to foreign financial service providers.

GATS Art. XI.1.[22] does not allow countries to restrict international transfers and payments for current financial transactions that are related to services in sectors that were liberalised under the Agreement. That means, first of all, that a country cannot prevent profit repatriation by foreign service providers in sectors in which a country has made GATS commitments. For instance, the EU requests from Chile in the current financial services negotiations that Chile eliminates the "restriction" that prior authorization by the Central Bank is required before transferring dividends from Chile abroad because this is in breach of Article XI. Thus, if a country has liberalised the financial sectors, foreign banks and insurance companies can transfer their profits abroad without reinvesting them in the country. In countries that have small economies and/or large foreign investors in all sectors, profit transfers affect negatively the balance of payments and exchange rate.

Moreover, Art. XI.1. has a special effect in relation to financial services provided by foreign banks, insurers, investment bankers and asset managers which have established themselves in countries that made GATS commitments in these services (Mode 3). These financial service providers might view cross-border financial flows as "related to" or essential to their services in cases such as:

- lending in foreign currency;
- buying securities abroad to balance the risks in pension fund management or to increase the rate of return of asset management services (e.g. mutual funds) for local clients or insurance companies;
- providing investment bank services related to foreign stock exchanges (underwriting shares of domestic firms listed abroad) or related to foreign companies (acquisitions abroad);
- offering international derivatives; and
- using international credit risk mitigation mechanisms.

Such cross-border capital flows can go beyond current account transfers and undermine management of the capital account aimed at avoiding financial instability and crises (see box). If certain capital account restrictions frustrate the transactions of committed services sectors, they could be challenged under GATS XI (see also below). In countries that have already liberalised their capital account, GATS commitments in certain financial sub-sector will increase instable capital flows. They might also discourage reversing capital account liberalisation where considered necessary to avoid financial crises. Developing countries that keep a high level of

[21] Source: M. Vander Stichele, Criticial issues in the financial industry, SOMO Financial sector report, Amsterdam, 2005, p. 185-187

[22] Art. XI.1.: " Except under the circumstances envisaged in Article XII,"(see further below) "a Member shall not apply restrictions on international transfers and payments for current transactions relating to its specific commitments."

capital control are not likely to attract foreign financial firms as the latter avoid unpredictable local currency convertibility and capital withdrawals.[23]

Market opening in financial services and its impact on international capital movements and financial stability

Article XI of the GATS is intended to guarantee the primacy of IMF rules in the area of international capital movements. Obligations as to the liberalisation of cross-border transactions in the WTO are linked to the commitments to market access included in a country's schedule and are designed to prevent their frustration in practice through restrictions on the capital transactions necessary for their fulfilment. However, the decoupling in the GATS of market opening for financial services from liberalisation of capital-account transactions generally none the less leaves substantial scope for connections in practice. This is most easily seen for the hypothetical example of a country which enters into commitments to no limitations regarding Modes 1, 2 and 3 for all the activities mentioned in the Annex on Financial Services. To ensure effective implementation of such commitments the country would be obliged to undertake comprehensive liberalisation of capital-account transactions. Moreover a country - not the one just described in the hypothetical example - whose commitments were made through the Understanding on Commitments in Financial Services would also be making an open-ended commitment to the liberalisation of such transactions required by its obligation to "permit financial service suppliers of any other Member established in its territory to offer in its territory any new financial service". Although commitments as to market opening for financial services often carry associated obligations as to the liberalisation of capital transaction, the country making them will have to depend on guesswork for the estimation of the size of the capital movements which are likely to ensue.[24] The difficulty of reaching estimates here is increased by the pace of change in the financial sector, which is adding to the range of possible transactions under the different modes of delivery of the GATS.

Source: A. Cornford, The multilateral negotiations on financial services: current issues and future directions, 2003.

GATS Article XVI ("Market Access") includes **footnote 8** that commits a country to allow a number of cross-border flows when it has opened up its market for particular (financial) services: the country must allow *in*flows and *out*flows of capital that are considered "essential" for (financial) services in mode 1 (e.g. e-banking) and allow *in*flows "related" to mode 3 (i.e. foreign services provided by firms established in the country). Thus, countries can only regulate the

23 Yun-Hwan Kim, Financial opening under the WTO Agreement in selected Asian countries: progress and issues, Asian Development Bank, Economic and Research Department, Working Paper No.24, September 2002.

24 On the basis of his personal assessment for the activities in the Annex on Financial Services an IMF observer attributes "major importance " to "capital flows for virtually all financial services delivered through mode 3 (commercial presence), as such presence by its nature implies some form of cross-border investment". Indeed, the only activities under the heading of banking and financial services (excluding insurance) to which he does not attribute such importance are financial leasing, provision and transfer of financial information, and advisory, intermediation and other auxiliary services. See A.Kireyev, Liberalization of trade in financial services and financial sector (analytical approach), IMF Working Paper WP/02/138, August 2002, pp. 10-14.

*out*flow of capital except for mode 1, if they have not already deregulated capital flows by liberalizing the capital account as many developing countries have done.

So far, the interpretation and impacts of Art. XI.1. and footnote 8 of Art. XVI in relation to financial services are a little discussed area about which experts do not always have a clear answer. This is reflected in discussions that have taken place[25] in the WTO about opening up financial services that do not have a presence in the country but rather provide their services from abroad (mode 1). Financial "products" such as lending of all types and asset management provided by financial firms abroad can have a destabilizing effect because they involve cross-border financial flows in foreign currency. In the view of Brazil, the above mentioned footnote 8 of the GATS agreement could be tantamount to capital account liberalisation and deregulation of major transfers of money, even if a country has not fully liberalised its capital account system. Such cross-border capital transfers could affect the balance of payments and the whole financial stability of a country. The European Union, the US and other western countries downplay the importance of the impact of opening up Mode 1 in financial services, but too little research has been done to date on this issue.

GATS articles undermine measures to deal with destabilizing capital flows

Financial authorities need to have the capacity to carefully monitor changes in cross border capital flows that result from financial services liberalisation. They may want to take measures to prevent too much financial instability, especially in small countries where swift flows can have a major impact. But GATS rules do not only influence what cross-border capital flows are permitted, they also influence how restrictions on those flows are managed.

Formally, GATS does not prevent any country from taking prudential measures to protect depositors, investors or to ensure the integrity and stability of the financial system.
Art. XI.2. states that *"nothing in the GATS agreement shall affect the rights and obligations of the members of the international Monetary Fund under the Articles of Agreement of the Fund".* This legitimates controls over capital transactions since the IMF's articles continue to permit policy autonomy regarding such controls.[i] These rights and obligations, however, are subject to the condition that "*a member shall not impose restrictions on any capital transactions inconsistently with its specific commitments regarding such transactions".* In other words, IMF rights cannot undermine GATS commitments.

WTO members are allowed to **not** apply Art. XI.1-2. In case of serious balance of payment problems, **Art. XII** allows countries to restrict their market opening in (financial) services sectors (financial or other services sectors) for which they made liberalisation commitments, and to restrict cross-border money transactions related to committed sectors. However, a country that invokes these restrictions is bound to fulfil a number of **conditions**, including:

- use criteria of non-discrimination and least-harmful effects on foreign service providers;
- be consistent with the Articles of the IMF;
- limit the period the measures are in place;

[25] See WTO - Committee on Trade in Financial Services, Report of the meeting held on 2 December 2002; IDEM, Report of the meeting held on 26 February 2003.

- undertake consultations with WTO members.

Ultimately, the assessment of the IMF of the financial situation of the country determines whether the restriction measures are to be allowed (Art. XII.5.(e)).

GATS articles undermine prudential measures and regulations

Art. 2 of the GATS Annex on Financial Services (see above) permits domestic regulations and prudential measures that protect a country against financial instability and foreign exchange exposure. This article does not define prudential measures but stipulates that such measures are authorised to contravene other GATS provisions ("prudential carve-out"). However, the article states that prudential measures should not be used to avoid market openings or obligations under the GATS agreement. These conditions attached to the prudential carve-out measures may prevent countries from taking measures, which, while contravening GATS commitments, are nevertheless the most effective for dealing with financial instability.

The vagueness of what a prudential regulation may entail allows a WTO member to challenge a measure of another WTO member as being not a prudential measure, but rather a way to avoid GATS commitments or obligations. For instance, Western countries robustly challenge prudential measures by China during current negotiations and WTO reviews with the argument that they undermine financial services commitments.[ii] In case of disputes brought before the WTO, a panel must in such case decide what prudential measure is permitted or trade restrictive to the foreign financial industry. Although the GATS Annex on Financial Services (Art. 4.) specifies that a panel must have the financial expertise necessary for the dispute, still, central banks and other regulators lose their full freedom to impose the prudential regulations they see as essential.

The case of Rabobank[26] and agribusiness in Latin America

Myriam Vander Stichele, SOMO/TNI

Founded as a cooperative bank for farmers in the Netherlands, Rabobank is now one of the largest financial services providers in the Netherlands to a wide range of clients, including individuals and small business. At the international level, Rabobank has grown into one of the 25 largest banks and is specialised world wide in financing agribusiness, food and beverage businesses and large agricultural projects, as well as some other large corporations and institutions. Other core activities include asset management and investment, insurance, leasing and real estate. Rabobank aims at a strong presence in the world's major food and agriculture countries and in some of these countries, such as the US, Rabobank has the intention to become the leading finance provider for farmers[27]. Rabobank has offices in at least 29 countries which have profitable markets and which do not belong to the list of poorest countries.[28] In total, Rabobank is represented in 37 countries.[29]

In 2005, the net profits of Rabobank Group were up 16% to Euro 2.08 bn.

In Latin America Rabobank has offices in Argentina, Brazil, Chile, Curaçao and Mexico. Interestingly, Rabobank Curaçao only operates as a service center with off-shore booking[30] for the activities of the Latin American offices which could mean that Rabobank takes advantage of the lower taxes in Curaçao and uses a kind of mechanism to, legally, evaded taxes in Latin America. In Brazil[31], Rabobank is a specialised food and agriculture bank with (large) business customers in such areas as edible oils (see also below), frozen concentrated orange juice, the branded food and beverage industry, and meat producers. These businesses have access to financial services in the fields of corporate banking, trade finance, corporate finance, and investment banking (e.g. support for mergers and acquisitions).

Financing poor communities and poor farmers is not part of Rabobank's core business when operating in developing countries. Rabobank has been doing some development of financial services, and financing of cooperatives for the poor in developing countries where often the Rabobank mostly does not operate because of lack of profitability. This was done through a programme, and not through its normal activities, by special Rabobank agencies such as Rabo International Advisory Services and the Rabobank Foundation that is financed by net profits of local cooperative Rabobanks and the central Rabobank in the Netherlands.[32] In Mercosur, the Rabobank Foundation only supports technical assistance for the audit department of Cre$ol in Brazil (federal states of Parana, Santa Catarina and Rio Grande do Sul). In the rest of Latin America, the Rabo Foundation was active in Bolivia, Colombia, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Peru.

The Rabobank has a good reputation for having a corporate socially and environmentally responsible behaviour. It has different internal systems in place and participates in different initiatives to promote sustainable development and agriculture. However, the bank's profitability remains the main goal which means that the bank's decisions do not always prioritise sustainable

[26] When no reference is made, the information is based on SOMO research and internal documents
[27] Annual Report 2004, p.7.
[28] http://www.rabobank.com/content/offices/
[29] http://www.rabobank.nl/particulieren/servicemenu/english_pages/rabobankprofile/default
[30] http://www.rabobank.com/content/offices/curacao.jsp; Definition of Offshore Booking Centers by http://www.managedinvestments.com/alternative_investments_glossKO.html: An offshore financial center used by international banks as a location for "shell branches" to book certain deposits and loans. Such offshore bookings are often utilized to avoid regulatory restrictions and taxes
[31] http://www.rabobank.com/content/offices/sao_paulo_en.jsp
[32] http://www.rabobank.com/content/rabobank/foundation/EN_Rabobank_Foundation.jsp; See also the Rabobank publication: Access to financial services in developing countries - The Rabobank view, http://www.rabobank.com/Images/Rabo_MVO_050927_tcm25-16658.pdf

and equitable business operations. The Rabobank is involved in financing large agribusiness' operations and projects for export rather than wide spread support for small farmers and sustainable agriculture.

Some examples of controversial activities by Rabobank in Mercosur and Latin America

Rabobank is heavily involved in financing the expansion of large scale export driven soybean production in Latin America, and in Brazil and Argentina in particular. The rise of this large-scale soybean farming for export has resulted in severe social and environmental problems[33]. The EU as a whole is by far the most significant importer of Latin American soy beans with almost 33 million tonnes imported per year and the Netherlands is a key importer. Europe is an important export market for soybeans because of the soybean crushing facilities (which are 80% owned by US agribusiness) and their use as animal feed and many consumer food products produced by the processed food industry such as Unilever.[34] The large scale export production of soybeans in Latin Amerca has caused rapid deforestation of the savannahs and destruction of the Amazon rainforest because of expansion of land for soybean production, as well as climate change and disruption of the hydrological balance because of monoculture and loss of rich biodiversity. It has also augmented social problems and land conflicts because of expulsion of small peasants and indigenous groups from their land and unacceptable conditions of the farm workers on the large soy estates. Local food supply is decreasing because soy production is replacing subsistence crops, resulting in poverty and hunger.

This rapid expansion of export soy production has been possible because of the involvement of the world's largest agribusiness companies such as Archer Daniel Midlands (ADM, US), Bunge (US), Cargil (US), and Louis Dreyfus (Fr), and huge local producers such as Grupo André Maggi. Their expansion activities are however financed by large internationally operating banks, including Rabobank and other Dutch banks (ABN Amro, ING, Fortis), providing large working capital facilities and investment loans for production, handling and transport facilities.

Some examples of financing by the Rabobank, and other Dutch banks, of export soy product are:

A. Important loans and credit to the Grupo André Maggi, the largest soybean producer in the world. The Grupo André Maggi is owned by the controversial Blairo Maggi who became governor of the state Mato Groso but remained chairman of the company. Apart from its own production, Grupo André Maggi buys about 85% from other soy farmers and transports these to export markets.

In 2001 the Rabobank arranged a loan of US$ 100 million for Grupo André Maggi. Nine banks were financing the loan including Rabobank itself ($ 20 m), ABN Amro ($ 10 m) and Fortis ($ 10m).[35]

In 2004, the Rabobank arranged a loan of $ 230 million by 11 banks of which Rabobank as well as ING were among the banks lending the money[36]. This loan was a working capital facility that allowed Grupo André Maggi to build up its soybean stocks and supply soybean farmers with inputs. The social and environmental checks for providing the loan and monitoring its impact have been very weak.[37]

---

[33] For a description of the problems see amongst others: Seminar Report, Sustainable Production of Soy: a view on the future - A sense of urgency [March 2006]], http://www.profundo.nl/downloads/soy3.pdf

[34] . W. van Gelder, J.M. Dros, Corporate actors in the SouthAmerican soy production chain – a research paper prepared for the World Wide Fund for Nature Switserland, (final draft) 4 June 2003.

[35] J. W. van Gelder, Bank loans and credits to Grupo André Maggi – A research paper prepared forFundação CEBRAC, June 2004, p. 4.

[36] J. W. van Gelder, Bank loans and credits to Grupo André Maggi – A research paper prepared forFundação CEBRAC, June 2004, p. 5.

[37] J. W. van Gelder, Bank loans and credits to Grupo André Maggi – A research paper prepared forFundação CEBRAC, June 2004, p. 7-8.

B. Important loans to Archer Daniel Midlands (ADM, US) between 2000 and 2003[38]
In March 2000, Archer Daniels Midland secured a one-year US$ 1,250 million revolving credit facility financed among others by the Rabobank.

In March 200, a new revolving credit facility for one year of US$ 1,150 million was financed among others by ABN Amro, ING Barings (which was part of ING Group), and the Rabobank

The US$ 900 million revolving credit facility of March 2002 was financed among others by ABN Amro, ING and Rabobank.

C. Important loans to Bunge between 2000 and 2003[39]
Rabobank but also ABN Amro and ING have been part of loan syndicates to Bunge or one of its companies since 1994.

In July 2001 Bunge received a one-year US$ 750 million revolving credit facility that was financed among others by ABN Amro, ING Barings (part of ING Group), and Rabobank.

In September 2001 Cereol, that was bought up by Bunge, obtained a three-year US$ 687.3 million revolving credit facility that was financd among others by ING and Rabobank.

In March 2002 Bunge was provided with a US$ 420 million revolving credit that was financed among others by ABN Amro (US$ 10 m), Fortis (US$ 10 m), ING (US$ 30 m) and Rabobank (US$ 60 m)

In July 2002 Bunge obtained a US$ 600 million revolving credit facility in which the following banks were among the financing banks: ABN Amro, Fortis Bank, ING and Rabobank

Involvement in emissions trading[40]

Apart from its focus on agribusiness, the Rabobank has taken a keen interest in the development of emission trading from the very start. Although emission trading and its impact are still questionable and controversial [41], Rabobank has invested in it as early as 2000. The Rabobank foresees that emission regulation will affect the financial means of companies and that emission rights will play a role in financing environmental investments.

Rabobank has therefore developed a range of new financial products and services in the field of the Rabobanks 'environmental markets':

(1) Environmental Financial Products (EFP)

(2) the Rabobank Carbon Procurement Department "for the purchase of project-related greenhouse gas reductions ("GHG Reductions") from sustainable projects in developing countries, e.g. Asia, China, Latin America and Africa. These GHG Reductions fall under the Clean Development Mechanism ("CDM") of the Kyoto Protocol (article 12). Through its international network, the Rabobank may also participate as financier in these sustainable projects." The Rabobank is concluding "bilateral agreements for the purchase of GHG Reductions with the owners of sustainable projects, pursuant to the CDM. These projects include, amongst manure management project in Brazil."

---

[38] J. W. van Gelder, J.M. Dros, Corporate actors in the SouthAmerican soy production chain – a research paper prepared for the World Wide Fund for Nature Switserland, (final draft) 4 June 2003, p. 57-58
[39] J. W. van Gelder, J.M. Dros, Corporate actors in the SouthAmerican soy production chain – a research paper prepared for the World Wide Fund for Nature Switserland, (final draft) 4 June 2003, p. 59-64.
[40] See: http://www.rabobank.com/content/rabobank/sustainability/productsandservices_5.jsp
[41] See for instance: http://www.carbontradewatch.org/pubs/index.html

(3) Electronic trading platform New Values for trading emission rights, renewable energy certificates and CO2 emission rights amongst others. In addition companies, politicians, consultants and the press can meet online to exchange information and share experiences.

Conclusion

In Brazil and elsewhere in Latin America, Rabobank is mostly involved in supporting the activities of agribusiness, including in their take overs, with very weak mechanisms to support sustainable practices and sustainable agriculture.

Amsterdam
April 29, 2006

Annex 1: The case of job cuts at ABN Amro

By Myriam Vander Stichele, SOMO/TNI

The case below does not provide a total overview of ABN Amro's activities and behaviour towards society.

ABN Amro is an internationally operating bank, with all kind of banking, other financial and insurance services. In 2005, the net profit of ABN Amro was EURO 4.44 billion. World wide, ABN Amro has more than 3000 local bank offices in around 60 countries.[42] Over the last years, ABN Amro has focused more on services to small and medium sized enterprises in the Netherlands, Brazil and US, while at the same time still providing financial services in other countries to the largest companies such as lending for large projects.

Since 2000, ABN Amro has withdrawn from from 10 countries, including Panama, and has stopped its activities to individual clients in 30 countries, including Argentina,[43] because of lack of sufficient profit making. In Latin America, ABN Amro has now different kind of services in Argentina, Brazil, Chile, Colombia, Ecuador, Netherlands Antilles, Paraguay, Uruguay and Venezuela.

In Brazil, ABN Amro is present with services ranging from micro-finance and retail banking to banking for rich and large clients. Its presence in Brazil is mostly based on its acquisition of the large Banco Real as well as privatised or regional banks such as Pernambuco, Banco do Estado da Paraiba and Banco Sudameris.

ABN Amro has been working on its reputation to be a responsible bank and has been one of the leading banks who signed the Equator Principles. In Brazil, the bank has launched different products that promote sustainable entrepreneurship and has clear social and environmental criteria to assess its clients and large loans for projects.[44] ABN Amro is considered by some Brazilian NGOs to be one of the better banks relating to lending and avoiding destruction of the Amazone. However, in the case written by Myriam Vander Stichele about Rabobank indicates the amounts lent by ABN Amro to the large destructive soy bean producers in Brazil. ABN Amro is also being for financing controversial and environmentally destructive projects such as the Shakalin II project of oil digging by Shell in Russia and the the Baku-Tblisi-Ceyha oil pipeline that is built in Azerbeidzjan, Georgie and Turkey.

The Equator principles do not deal with how the bank behaves towards its employees. ABN Amro has been pressed to increase share holder value and therefore cut costs, including personnel costs. This has had far reaching consequences for the number of employees but also the way personnel in Brazil has been treated, which is different than in the Netherlands.

Cutting jobs

Since 2000, ABN Amro has regularly been cutting jobs and outsourcing some of its activities to other companies such as those related to its information technology (IT). This is part of a strategy of cutting costs in order to increase the profitability and "shareholder value", a major focus of ABN Amro. Even when high profits are made, ABN Amro announces big job cuts. In the same period, the remuneration of top management has increased considerably

[42] ABN Amro, Annual Report, 2005.
[43] K. Van Gilst, We zijn niet arrogant meer, Intermediair, 16 October 2003; Ondernemingen - profiel & prognose, 2001.
[44] FNV monitoring project, 2005.

In the Netherlands, employees who got dismissed received support to find another job and if another job was not found, they received a payment when having to leave the bank.[45] For those who can stay, ABN Amro is in the Netherlands one of the best employers and provides good pay and working conditions for its employees.
In other countries, the job cut and job dismissal has not been so nice to employees.

Job cuts since 2000 are amongst others[46]:

In January 2000: 2500 jobs lost in the Netherlands, amongst others to close many bank branches; also 2000 dismissals abroad because ABN Amro is withdrawing from 10 countries.

In February 2001: 500 jobs scrapped at Wholesale banking division

In May 2001: ABN Amro announces that it want to scrap 6250 jobs over the coming years. The board of Directors is reduced by 3 seats.[47]

In March 2002: ABN Amro dismisses 550 employees in the US because the bank ends its activities of trading in US shares and advising smaller US companies about mergers and aquisitions.[48]

In August 2002: 500 of the 3000 jobs cut in France.

In October 2002: 2000 IT jobs were transferred to another company and 500 IT jobs were lost.

In October 2003: ABN Amro wants to reduce pension costs of its Dutch employees but guarantees that employees above 57.5 years can continue to work at the bank until their pension age and will not be dismissed.

In December 2004: The bank reduces 2850 jobs worldwide and in the Netherlands, and outsources another 2500 jobs (i.e. transferred another 2500 jobs to do work for ABN Amro at another company in other countries such as India). At the same time, ABN Amro wants the Dutch employees to work 40 hours in stead of 36 hours.[49]

As a result, ABN Amro reduced its employees in the Netherlands by more than 10,000 between 2000 and 2004.

In April 2006, ABN Amro announced it would reduce the number of its employees worldwide by 2400 of which 650 in the Netherlands and around the same number in Brazil, the US and the UK. At the same time it would create 900 jobs in India. ABN Amro is reducing its workforce in the IT and service jobs in order to cut costs but will invest time and money (Euro 245million) in the process, including for schemes to for retraining and finding new jobs and providing retraining schemes. The cost cutting exercise was announced because the value of the ABN Amro shares went down, because of relative high costs at the bank, even though it came at a time that ABN Amro declared a quarterly profit of Euro 1 billion, 12% more than the year before amongst others because of better results in Brazil and the Netherlands.

Malpractices towards personnel in Brazil

After ABN Amro made acquisitions of regional and privatized banks in Brazil, restructuring with lay offs have taken place. Since October 2003, after Sudameris was purchased, 2500 workers

---

[45] Duizenden banen weg bij ABN, meer ontslagen bij IT en zakenbank, De Volkskrant, 17 December 2004.
[46] Groenink blijft snijden tot alleende kern overblijft
[47] ABN Amro snijdt ook in de top, Volkskrant , 17 August 2001.
[48] ABN Amro ontslaat 550 mensen in New York, Volkskrant, 26 maart 2002
[49] M. Rengers, ABN Amro meer winst, banen weg, De Volkskrant 3 August 2004.

have been laid off. In 2004, at the divisions of Banco ABN Real alone, more people were laid off than new people hired.[50]

ABN Amro has also been trying to cut personnel costs in Brazil in the following ways[51].

Illegal overtime hours: In 2004, labour inspectors filed a complaint because the bank did not comply with the collective labour agreement concerning legal working hours and the remuneration of overtime at the headquarters. This complaint has also been raised by union representatives as a major problem for the entire bank network throughout the country. The bank has been sued by the Public Labour Ministry and fined by the labour court because it required its employees to work shifts of more than six hours a day and beyond the legal limit of two overtime hours per day. Using the same staff doing more hours is cheaper than hiring and training new staff. Union representatives see very little willingness and progress by the bank to take on issues such as respect for work shifts, payment of overtime, union representation and activity, and better information about and payment from the program relating to profit sharing.

Undue dismissal: At the Call Center, which is claimed to be understaffed, sickness leave twice in the same month can lead to dismissal. Others are laid off at the end of a "stability period". Most employees that get sick are laid off, only a few remain. The bank has no rehabilitation program for these employees which would add costs to the bank's operational expenses.

Non-compliance with legal requirements about diversity of staff: Although ABN Amro has taken measures to increase the diversity of its staff regarding gender and race, in 2005, the Public Labor Ministry filed a public civil action suit against the bank. It accused the bank of promoting discrimination of workers by sex, color and age and refusing to participate in the "Program for Promotion of Equality of All" by the labour authorities in April 2005. In November 2005, ABN AMRO failed to reach an agreement about this case with the Public Labor Ministry because the governmental programme goals did not match the banks own selection criteria and plans. The latter are based on profit making strategies which cannot be easily changed.

More and more outsourcing to cheaper labour: Outsourcing, or subcontracting, of specialized activities has been adopted as an important management strategy to reduce costs. The outsourcing started since 1994 with some administrative tasks. Currently, three –sometimes four- staff for every 6 employees at a branch of ABN Real are employed through outsourcing for tasks such as security, cleaning and transport of money. According to the union some subcontracted persons are doing jobs that belong to the core business of the bank, such as processing of checks, which by law should not be done through outsourcing. The bank maintains that outsourcing, or subcontracting, is done according to the law and based on proven specific or temporary needs although there is no specific period defined for subcontracting. Union representatives consider the outsourced or subcontracted jobs to be more precarious than regular ABN Real employees because they are for instance more exposed to repetitive strain injuries and can be more easily dismissed at lower costs for the bank. Temporary subcontracted workers also do not participate in the profit sharing program of the bank. The low salaries and benefits of the subcontracted staff puts pressure on what has been gained socially gained by the ABN Real employees.

Conclusion

[50] FNV monitoring project, 2005.
[51] All information in the following paragraphs is based on the FNV monitoring project in which FNV, local researchers and SOMO are involved.

The cutting of personnel costs, as a strategy to cut costs of the bank world wide and increase profits and share holder value, has negative consequences for the level of employment and the labour benefits of ABN Amro as an investor in Brazil.

Amsterdam
May 2, 2006

Annex 2: The case of ING and its profit making strategy in Latin America

By Myriam Vander Stichele, SOMO/TNI

ING Group is a financial conglomerate that operates in over 50 countries providing a very wide range of banking, insurance and asset management services. ING Group is the world's 13th largest financial corporation based on its market value of Euro 71.9 bn and belongs to the top 10 in Europe.[52] ING's clients range from individuals and small businesses to large multinationals, institutions and governments. ING's has currently a strategic focus is on growth in pension & retirement services, banking through internet and life insurance in countries with developing markets.

In 2005, ING made a net profit (after tax payments) of Euro 7.2 bn. INGs net profit rose from Euro 5.7 bn in 2004 and Euro 4.5 bn in 2001.[53] In 2005, the total Assets under ING management was Euro 547.4 bn of which only 3.8% were sustainable assets.[54]

Total employment at ING increased, due to aquisitions and expansion, from 112,000 in 2001 to 115,300 in 2005 calculated in full time employees (FTEs).[55] Notwithstanding ING's growth in total employees and profit, the number of employees in the Netherlands did not increase at the same rate. Between 1994 and 2004, employment rose only by 3000 FTEs while the operating profit increased from Euro 1 bn in 1994 to Euro 5.4 bn in 2004.[56] In 2005, 12% of the employees were based in Latin America, up from 5.2% in 2002 and 10.3% in 2003.[57] In general, cost cutting strategies have also impacted the number of jobs.

ING in Latin America

While ING is a large retail banker for individuals in its home country the Netherlands (due to privatisation of the post bank) as well as in Belgium, and offers internet retail banking in some other countries, it offers no retail banking services in Latin America.

ING's main area of operation in Latin America is insurance. ING has mportant, sometimes leading, operations in life insurance or health insurance in Chile, Peru and Mexico. In Brazil, ING participates by 49% in SulAmerica, one of the leading insurance companies in Brazil and one of the largest companies in this industry in Latin America, and is interested in developing pension products.[58] In Chile it also some other personal financial services such as mortgaged housing credit.[59] Private banking, it is servicing rich clients, is also one of the services provided in Latin America. ING has also contact addresses in Argentina, Aruba and Netherlands Antilles, Cuba, and Venezuela.[60]

ING's strategy in Latin America is one of growth and expansion of sales in countries where it has a market leader position (e.g. in Mexico, Peru), and a strong strategy of making profit by driving

[52] In april 2006: http://www.ing.com/group/showdoc.jsp?docid=092825_EN&menopt=abo%7Cfct#P646_7174; at the end of 2005,ING's market value was Euro 65 bn
[53] http://www.ing.com/group/showdoc.jsp?docid=092825_EN&menopt=abo%7Cfct#P646_7174
[54] ING Corporate Responsibility Report 2005, p.2, 18-19; see especially the version on the website via: http://www.ing.com/group/ingpublication.jsp?lang=NL&docid=074179_NL&menopt=
[55] http://www.ing.com/group/showdoc.jsp?docid=092825_EN&menopt=abo%7Cfct#P646_7174 (see also ING Annual Report)
[56] ING Annual Review 2004, p. 1
[57] ING Annual Reports of 2002, 2003, 2005.
[58] Annual report, 2005, p 21,22; http://www.vanguardms.com/clients/success_stories/ss_sulamerica.pdf; "Pensioenen voortaan topprioritieti van ING", het Financieele Dagblad, 6 June 2003.
[59] http://www.ing.cl/wps/portal/Home; http://www.ing.com/group/index.jsp
[60] http://www.ing.com/group/offices.jsp?country=cub&menopt=off|sam|cub

costs down, increase profit margins and by having an “aggressive” risk management.[61] In previous years, ING has sold (parts of its) business and has left countries in Latin America where there was insufficient “return on investment” compared with the profit objectives of ING. This was the case of ING insurance activities in Argentina (650 staff dismissed), ING’s property-and-casualty insurance and life insurance operations in Chile and banking in Uruguay.[62]

ING and problematic behaviour in Latin America

ING has some policy and instruments in place[63] to promote corporate social responsibility (CSR) in its operations, such as using green energy, and its lending, such as signing the Equator Principles. It also participated in, and signed, some CSR initiatives in the financial sector. ING publishes some of the effects of its operations such as energy and CO2 consumption and the small amount of sustainable assets, according to its own definition, its manages (3.8% of total assets).[64]
However, ING is not very transparent about its concrete application of CSR which makes it difficult to judge whether its CSR policy makes a difference. Civil society organisation have criticised some of the financial services it has provided to large corporations. Below are some examples of damaging effects of these services in Latin America.

ING cases in Latin America

1. Support for destructive pulp mill in Uruguay[65]

ING had an advisory and coordinatory role for financing the Finish company Botnia to start building a pulp mill in Fray Bentos, Uruguay. The project has been the subject of hot protests and strong criticisms by environmental and human rights groups, and other civil society groups, for its potential destructive impact such as:

- destruction of livelihoods and health problems of the communities around the mill and the downstream river
- depletion of biodiversity and local farming by a huge increase in monoculture tree plantations to supply wood to the mill
- depletion of ground water levels
- destruction of grazing meadows
- air polution and water pollution by dumping of toxic chemicals including dioxin and furan

The project was also criticised for having flawed impact assessments before the start of the building.

An equally serious negative result of the project is that it brought relations between the governments of Argentina and Uruguay to a breaking point, with both governments indicating that they wanted to bring the case to the International Court of Justice in the Hague for violation of an international treaty governing the Uruguay river. Botnia undermined an amicable solution and presidential negotiations about the conflict between Argentina and Uruguay by its refusal to accept stopping construction of its mill for 90 days while Uruguay and Argentina were further

---

[61] see Annual report 2005, p. 23.
[62] Annual report 2005, p. 22; Reorganisatie ING Verzekeringen in Argentinie, ING press statement, 17 february 2004; http://sigbiz.com/en/charlie/getitemz.mv?nrec=2759
[63] See for instance: SOMO, The ING group: CSR and practices, with a case study of Indonesia, 2004 (to download at: http://www.somo.nl/html/paginas/pdf/ING_Rapport_2004_EN.pdf)
[64] ING Corporate Responsibility Report 2005, p.2, 18-19; see especially the version on the website via: http://www.ing.com/group/ingpublication.jsp?lang=NL&docid=074179_NL&menopt=
[65] See: www.cedha.org.ar

examining the case. The Botnia President and CEO claimed they would not stop construction as this hurt stock market prices in New York and Helsinki.

ING intended to financially support Botnia's project with US$480 million. However, after long protests by civil society organisations made to ING, ING announced its decision on 12 April 2006 to finalise its advisory and coordinatory role as well as potential financing. ING stated that its withdrawal was not based on its application of the Equator principles[66] even though NGOs have showed many breaches of the Equator principles.

2. Support for Wal-Mart that violates of workers' rights[67]

ING invests more than US$ 600 million in **Wal-Mart, by owning** 14,096,764 of the total shares of Wal-Mart. Wal-Mart is the biggest supermarket chain in the world, with profits of profits US$ 11.23 bn in 2005 and revenues of US$315.65.[68] In 2005, it was the biggest US company according to the Fortune 500 list. The company has 1.6 million employees in 2004, primarily in the United States. In Latin America, Wal-Mart has large businesses in Mexico[69] and Brazil and different kind of food and supermarket operations in Argentina, Brazil, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Puerto Rico.
Wal-Mart is widely known for its continued breaches of basic workers' rights. Netwerk Vlaanderen criticises ING because Wal-Mart has been "condemned for breaching the child labour laws in its warehouses. In the United States there are still dozens of cases pending against the company for 'union-busting'. The management registers, threatens and illegally fires trade union activists. Trade unions are not welcomed by Wal-Mart, and Wal-Mart has already been found guilty of 'union busting' on a number of occasions. Poor conditions are also routine in the subcontractors of Wal-Mart, which advertises itself using the slogan 'Always Low Prices'. Wal-Mart doesn't seem to take much notice of these criticisms. The company has hardly taken any action to improve these terrible working conditions. Wal-Mart continues to be far behind other companies in this respect. However, ING believes that investing in Wal- Mart is perfectly reasonable."[70] Wal-Mart has already attributed the unenviable award of 'Sweatshop retailer of the Year' three times by the Maquila Solidarity Network.

Wal-Mart is not a bad investment for the banks, even if ING's part only represents only 0,33% of the total shares of Wal-Mart. Wal-Mart profits in 200r rose by 9.4%.[71]

3. ING trust services to privatised water company in Cochabamba

ING Trust Nederland provides trust services to the international consortium led by Bechtel (U.S.) and Edison (Italy), called 'International Water', that took over the state-controlled water supply of the Bolivian city of Cochabamba in 1999. Trust services include basic admistrative and reporting activities for companies who are officially registered in the Netherlands for tax evasion reasons and in order to benefit from investment protection under the many bilateral investment agreements signed by the Netherlands. The privatisation of the water supply in Cochabamba had major economic and social consequences for the population because prices of drinking water reached unprecedented high levels after liberalisation, causing violent demonstrations, riots and general social unrest in Bolivia. In 2000, after continuing protests from the local and international

---

[66] http://www.cedha.org.ar/en/initiatives/paper_pulp_mills/ing-pullout-letter-april-12-2006.pdf
[67] See amonst others:
http://www.netwerkvlaanderen.be/en/files/documenten/campaigns/banksandhumanrights/Short_Summary_Report_Nov.2005.pdf
[68] http://money.cnn.com/magazines/fortune/fortune500/snapshots/1551.html
[69] http://www.latintrade.com//dynamic/site_en/ltranking/Top500Companies.en-July05.pdf: Wal-Mart de Mexico was ranked 8th biggest company in Latin Amerika ranked by sales
[70] http://www.netwerkvlaanderen.be/nl/index.php?option=com_content&task=view&id=263&Itemid=202
[71] http://money.cnn.com/magazines/fortune/fortune500/snapshots/1551.html

communities, the privatisation had to be reversed, returning control over the water supply to the Bolivian government.[72]

Bechtel, the driving force behind the International Water project filed in Novwmber 2001 a $ 25 million claim at the World Bank's dispute settlement commission ICSID[73] as a compensation for the failed investment. This claim was two thirds higher than the amount invested. The legal demand was made by the international holding company International Water, via the Amsterdam-based company Intra Beheer B.V., that was taken over by ING Trust in 2001. International Water is registered in the Netherlands, not only providing tax benefits to the holding company, but also including them in the bilateral investment protection treaty that has been concluded between Boliva and the Netherlands. After a long and untransparent litigation period, International water seemed in 2005 to want to settle the case.[74]

International NGO's find ING's relation with the highly controversial privatisation project rejectable. ING itself claims that it cannot be held accountable for the results of the privatisation project nor the actions of the multinational water company, because it is not involved in decision making but is only offering trust and administrative services to the consortium. In a letter to the Dutch based NGO XminY, ING spokesman P.M. Kroon said that ING believes that International Water's registration and administration in the Netherlands is completely legal and that its trust services to this company are in line with ING's own Business Principles[75].

4. Supporting the destructive Brazilian soybean industry

The large scale export production of soybeans in Latin Amerca has caused rapid deforestation of the savannahs and destruction of the Amazon rainforest because of expansion of land for soybean production, as well as climate change and disruption of the hydrological balance because of monoculture and loss of rich biodiversity. It has also augmented social problems and land conflicts because of expulsion of small peasants and indigenous groups from their land and unacceptable conditions of the farm workers on the large soy estates. Local food supply is decreasing because soy production is replacing subsistence crops, resulting in poverty and hunger.

This rapid expansion of export soy production has been possible because of the involvement of the world's largest agribusiness companies such as Archer Daniel Midlands (ADM, US), Bunge (US), Cargil (US), and Louis Dreyfus (Fr), and huge local producers such as Grupo André Maggi. Their expansion activities are however financed by large internationally operating banks, including ING group and other Dutch banks (ABN Amro, Rabobank and Fortis), providing large working capital facilities and investment loans for production, handling and transport facilities.

Some examples of financing by the Rabobank, and other Dutch banks, of export soy product are:

A. Important loans and credit to the Grupo André Maggi

In 2004, ING was among the 11 banks that provided a loan of $ 230 million to the Maggi group[76]. This loan was a working capital facility that allowed Grupo André Maggi to build up its soybean

---

[72] Sources: Homepage 'Solidariteit met strijd tegen waterprivatisering in Cochabamba', http://www.xs4all.nl/~arenaria/water/index.html and http://www.democracyctr.org/bechtel/index.htm
[73] ICSID = International Centre for the Settlement of Investment Disputes.
[74] See: http://www.iisd.org/pdf/2005/investment_investsd_nov2_2005.pdf
[75] Source: 'Solidariteit met strijd tegen waterprivatisering in Cochabamba', http://www.xs4all.nl/~arenaria/water/INGbrief030402.html
[76] J. W. van Gelder, Bank loans and credits to Grupo André Maggi – A research paper prepared forFundação CEBRAC, June 2004, p. 5.

stocks and supply soybean farmers with inputs. The social and environmental checks for providing the loan and monitoring its impact have been very weak.[77]

One of the controversial issues is that the Maggi Group is said to run a political lobby which aims to eliminate the state of Mato Grosso, where the company operates, from the list of nine states that constitute the Amazonia Legal. The states on this list are not allowed to have less than 80% of forested area, while other states only need 50% of forest coverage[78].

The chair of the Maggi Group has much political leverage since he was installed as the Governor of the State of Mato Grosso in January 2001. Blairo Maggi indeed seems successful at boosting the regional economy, mainly by improving Mato Grosso's infrastructure[79]. Yet indigenous people have voiced concerns over Blairo Maggi's ambitious economic development plans, which include a doubling of Brazil's soybean production in the near future. They argue that agricultural expansion will lead to further deforestation, because already existing is much more expensive than uncleared forest, making (illegal) deforestation an attractive option. Between 2001 and 2002, deforestation in Mato Grosso increased by 30% compared to the previous year[80].

B. Important loans to Archer Daniel Midlands (ADM, US) between 2000 and 2003[81]

In March 200, a new revolving credit facility for one year of US$ 1,150 million was financed among others by ABN Amro, ING Barings (which was part of ING Group), and the Rabobank

The US$ 900 million revolving credit facility of March 2002 was financed among others by ABN Amro, ING and Rabobank.

C. Important loans to Bunge between 2000 and 2003[82]

ING has been part of loan syndicates to Bunge or one of its companies since 1994.

In July 2001 Bunge received a one-year US$ 750 million revolving credit facility that was financed among others by ABN Amro, ING Barings (part of ING Group), and Rabobank.

In September 2001 Cereol, that was bought up by Bunge, obtained a three-year US$ 687.3 million revolving credit facility that was financd among others by ING and Rabobank.

In February 2002 a revolving credit facility of US$ 180 million was secured by Bunge Asset Funding and financed among others ING and Fortis.

In March 2002 Bunge was provided with a US$ 420 million revolving credit that was financed among others by ING (US$ 30 m).

In July 2002 Bunge obtained a US$ 600 million revolving credit facility in which the following banks were among the financing banks: ABN Amro, Fortis Bank, ING and Rabobank

Conclusion

---

[77] J. W. van Gelder, Bank loans and credits to Grupo André Maggi – A research paper prepared forFundação CEBRAC, June 2004, p. 7-8.
[78] Source: Milieudefensie Magazine, May 2004, page 4.
[79] Source: Star Tribune archive / stories: http://www.startribune.com/stories/354/4649623.html
[80] Source: forest conservation portal: http://forests.org/articles/reader.asp?linkid=29226
[81] J. W. van Gelder, J.M. Dros, Corporate actors in the SouthAmerican soy production chain – a research paper prepared for the World Wide Fund for Nature Switserland, (final draft) 4 June 2003, p. 57-58
[82] J. W. van Gelder, J.M. Dros, Corporate actors in the SouthAmerican soy production chain – a research paper prepared for the World Wide Fund for Nature Switserland, (final draft) 4 June 2003, p. 59-64.

In Brazil, Uruguay and elsewhere in Latin America, ING is financially supporting big multinationals that are presumably providing a good returm on investment. Also in its choice and restructuring of services provided in Latin America, profit making is the most important purpose. By doing so, societies and communities experience the negative and often destructive consequences of the companies ING supports, which proves that ING's corporate social responsibility mechanisms are not yet able to avoid such effects.

Amsterdam,
April 29, 2006

Annex 3: The case of Rabobank[83] and agribusiness in Latin America

Myriam Vander Stichele, SOMO/TNI

Founded as a cooperative bank for farmers in the Netherlands, Rabobank is now one of the largest financial services providers in the Netherlands to a wide range of clients, including individuals and small business. At the international level, Rabobank has grown into one of the 25 largest banks and is specialised world wide in financing agribusiness, food and beverage businesses and large agricultural projects, as well as some other large corporations and institutions. Other core activities include asset management and investment, insurance, leasing and real estate. Rabobank aims at a strong presence in the world's major food and agriculture countries and in some of these countries, such as the US, Rabobank has the intention to become the leading finance provider for farmers[84]. Rabobank has offices in at least 29 countries which have profitable markets and which do not belong to the list of poorest countries.[85] In total, Rabobank is represented in 37 countries.[86]

In 2005, the net profits of Rabobank Group were up 16% to Euro 2.08 bn.

In Latin America Rabobank has offices in Argentina, Brazil, Chile, Curaçao and Mexico. Interestingly, Rabobank Curaçao only operates as a service center with off-shore booking[87] for the activities of the Latin American offices which could mean that Rabobank takes advantage of the lower taxes in Curaçao and uses a kind of mechanism to, legally, evaded taxes in Latin America. In Brazil[88], Rabobank is a specialised food and agriculture bank with (large) business customers in such areas as edible oils (see also below), frozen concentrated orange juice, the branded food and beverage industry, and meat producers. These businesses have access to financial services in the fields of corporate banking, trade finance, corporate finance, and investment banking (e.g. support for mergers and acquisitions).

Financing poor communities and poor farmers is not part of Rabobank's core business when operating in developing countries. Rabobank has been doing some development of financial services, and financing of cooperatives for the poor in developing countries where often the Rabobank mostly does not operate because of lack of profitability. This was done through a programme, and not through its normal activities, by special Rabobank agencies such as Rabo International Advisory Services and the Rabobank Foundation that is financed by net profits of local cooperative Rabobanks and the central Rabobank in the Netherlands.[89] In Mercosur, the Rabobank Foundation only supports technical assistance for the audit department of Cre$ol in Brazil (federal states of Parana, Santa Catarina and Rio Grande do Sul). In the rest of Latin America, the Rabo Foundation was active in Bolivia, Colombia, Dominican Republic, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Peru.

The Rabobank has a good reputation for having a corporate socially and environmentally responsible behaviour. It has different internal systems in place and participates in different initiatives to promote sustainable development and agriculture. However, the bank's profitability

[83] When no reference is made, the information is based on SOMO research and internal documents
[84] Annual Report 2004, p.7.
[85] http://www.rabobank.com/content/offices/
[86] http://www.rabobank.nl/particulieren/servicemenu/english_pages/rabobankprofile/default
[87] http://www.rabobank.com/content/offices/curacao.jsp; Definition of Offshore Booking Centers by http://www.managedinvestments.com/alternative_investments_glossKO.html: An offshore financial center used by international banks as a location for "shell branches" to book certain deposits and loans. Such offshore bookings are often utilized to avoid regulatory restrictions and taxes
[88] http://www.rabobank.com/content/offices/sao_paulo_en.jsp
[89] http://www.rabobank.com/content/rabobank/foundation/EN_Rabobank_Foundation.jsp; See also the Rabobank publication: Access to financial services in developing countries - The Rabobank view, http://www.rabobank.com/Images/Rabo_MVO_050927_tcm25-16658.pdf

remains the main goal which means that the bank's decisions do not always prioritise sustainable and equitable business operations. The Rabobank is involved in financing large agribusiness' operations and projects for export rather than wide spread support for small farmers and sustainable agriculture.

Some examples of controversial activities by Rabobank in Mercosur and Latin America

Rabobank is heavily involved in financing the expansion of large scale export driven soybean production in Latin America, and in Brazil and Argentina in particular. The rise of this large-scale soybean farming for export has resulted in severe social and environmental problems[90]. The EU as a whole is by far the most significant importer of Latin American soy beans with almost 33 million tonnes imported per year and the Netherlands is a key importer. Europe is an important export market for soybeans because of the soybean crushing facilities (which are 80% owned by US agribusiness) and their use as animal feed and many consumer food products produced by the processed food industry such as Unilever.[91] The large scale export production of soybeans in Latin Amerca has caused rapid deforestation of the savannahs and destruction of the Amazon rainforest because of expansion of land for soybean production, as well as climate change and disruption of the hydrological balance because of monoculture and loss of rich biodiversity. It has also augmented social problems and land conflicts because of expulsion of small peasants and indigenous groups from their land and unacceptable conditions of the farm workers on the large soy estates. Local food supply is decreasing because soy production is replacing subsistence crops, resulting in poverty and hunger.

This rapid expansion of export soy production has been possible because of the involvement of the world's largest agribusiness companies such as Archer Daniel Midlands (ADM, US), Bunge (US), Cargil (US), and Louis Dreyfus (Fr), and huge local producers such as Grupo André Maggi. Their expansion activities are however financed by large internationally operating banks, including Rabobank and other Dutch banks (ABN Amro, ING, Fortis), providing large working capital facilities and investment loans for production, handling and transport facilities.

Some examples of financing by the Rabobank, and other Dutch banks, of export soy product are:

A. Important loans and credit to the Grupo André Maggi, the largest soybean producer in the world. The Grupo André Maggi is owned by the controversial Blairo Maggi who became governor of the state Mato Groso but remained chairman of the company. Apart from its own production, Grupo André Maggi buys about 85% from other soy farmers and transports these to export markets.

In 2001 the Rabobank arranged a loan of US$ 100 million for Grupo André Maggi. Nine banks were financing the loan including Rabobank itself ($ 20 m), ABN Amro ($ 10 m) and Fortis ($ 10m).[92]

In 2004, the Rabobank arranged a loan of $ 230 million by 11 banks of which Rabobank as well as ING were among the banks lending the money[93]. This loan was a working capital facility that allowed Grupo André Maggi to build up its soybean stocks and supply soybean farmers with

---

[90] For a description of the problems see amongst others: Seminar Report, Sustainable Production of Soy: a view on the future - A sense of urgency [March 2006]], http://www.profundo.nl/downloads/soy3.pdf
[91] . W. van Gelder, J.M. Dros, Corporate actors in the SouthAmerican soy production chain – a research paper prepared for the World Wide Fund for Nature Switserland, (final draft) 4 June 2003.
[92] J. W. van Gelder, Bank loans and credits to Grupo André Maggi – A research paper prepared forFundação CEBRAC, June 2004, p. 4.
[93] J. W. van Gelder, Bank loans and credits to Grupo André Maggi – A research paper prepared forFundação CEBRAC, June 2004, p. 5.

inputs. The social and environmental checks for providing the loan and monitoring its impact have been very weak.[94]

B. Important loans to Archer Daniel Midlands (ADM, US) between 2000 and 2003[95]
In March 2000, Archer Daniels Midland secured a one-year US$ 1,250 million revolving credit facility financed among others by the Rabobank.

In March 200, a new revolving credit facility for one year of US$ 1,150 million was financed among others by ABN Amro, ING Barings (which was part of ING Group), and the Rabobank

The US$ 900 million revolving credit facility of March 2002 was financed among others by ABN Amro, ING and Rabobank.

C. Important loans to Bunge between 2000 and 2003[96]
Rabobank but also ABN Amro and ING have been part of loan syndicates to Bunge or one of its companies since 1994.

In July 2001 Bunge received a one-year US$ 750 million revolving credit facility that was financed among others by ABN Amro, ING Barings (part of ING Group), and Rabobank.

In September 2001 Cereol, that was bought up by Bunge, obtained a three-year US$ 687.3 million revolving credit facility that was financd among others by ING and Rabobank.

In March 2002 Bunge was provided with a US$ 420 million revolving credit that was financed among others by ABN Amro (US$ 10 m), Fortis (US$ 10 m), ING (US$ 30 m) and Rabobank (US$ 60 m)

In July 2002 Bunge obtained a US$ 600 million revolving credit facility in which the following banks were among the financing banks: ABN Amro, Fortis Bank, ING and Rabobank

Involvement in emissions trading[97]

Apart from its focus on agribusiness, the Rabobank has taken a keen interest in the development of emission trading from the very start. Although emission trading and its impact are still questionable and controversial [98], Rabobank has invested in it as early as 2000. The Rabobank foresees that emission regulation will affect the financial means of companies and that emission rights will play a role in financing environmental investments.

Rabobank has therefore developed a range of new financial products and services in the field of the Rabobanks 'environmental markets':

(1) Environmental Financial Products (EFP)

(2) the Rabobank Carbon Procurement Department “for the purchase of project-related greenhouse gas reductions ("GHG Reductions") from sustainable projects in developing countries, e.g. Asia, China, Latin America and Africa. These GHG Reductions fall under the Clean Development Mechanism ("CDM") of the Kyoto Protocol (article 12). Through its international network, the Rabobank may also participate as financier in these

---

[94] J. W. van Gelder, Bank loans and credits to Grupo André Maggi – A research paper prepared forFundação CEBRAC, June 2004, p. 7-8.
[95] J. W. van Gelder, J.M. Dros, Corporate actors in the SouthAmerican soy production chain – a research paper prepared for the World Wide Fund for Nature Switserland, (final draft) 4 June 2003, p. 57-58
[96] J. W. van Gelder, J.M. Dros, Corporate actors in the SouthAmerican soy production chain – a research paper prepared for the World Wide Fund for Nature Switserland, (final draft) 4 June 2003, p. 59-64.
[97] See: http://www.rabobank.com/content/rabobank/sustainability/productsandservices_5.jsp
[98] See for instance: http://www.carbontradewatch.org/pubs/index.html

sustainable projects." The Rabobank is concluding "bilateral agreements for the purchase of GHG Reductions with the owners of sustainable projects, pursuant to the CDM. These projects include, amongst manure management project in Brazil."
(3) Electronic trading platform New Values for trading emission rights, renewable energy certificates and CO2 emission rights amongst others. In addition companies, politicians, consultants and the press can meet online to exchange information and share experiences.

Conclusion

In Brazil and elsewhere in Latin America, Rabobank is mostly involved in supporting the activities of agribusiness, including in their take overs, with very weak mechanisms to support sustainable practices and sustainable agriculture.

---

[i] A. Cornford, The WTO negotiations on financial services: current issues and future directions, Paper for Financial Markets Center, [2004], p. 6.

[ii] WTO, Committee on Trade in Financial Services, Report of the meeting held on 1 December 2003, part D: