

Economics from the Ground Up

Environmental costs and benefits of MNCs

Negative environmental effects of MNCs – and some company responses

- Some critics of MNCs have accused them of promoting the sale of luxuries in poorer countries, and marketing those products to create a demand and therefore **promoting consumer culture**. Since the rise of consumer culture has been blamed for increasing environmental damage around the globe, including the overuse of productive resources, critics of MNCs are very concerned about the environmental impacts of the spread of consumerism to poorer, highly populated countries.
- The arrival of MNCs in some developing countries has encouraged **changes to the focus on local production** by encouraging the reallocation of resources away from the production of necessities. For example, economic resources such as labour, land and capital might be diverted to the production of luxury goods for consumption by richer local people or for export, rather than production of basic necessities of life. One good example is the focus on growth of “cash crops” for export such as sugar, coffee, soy and palm oil. These crops are often bought by MNCs such as global food manufacturers for use in their food production processes. Cash crops are a way of earning export income, and because they are more profitable than the basic food items for everyday consumption in local communities, cash crops often replace local food crops as a focus on production. Not only can this cause hunger in those countries, but many of these crops are grown in such a way that they end up causing damage to the local environment. For example, the enormous global growth in demand for oil crops such as palm oil and soy has seen vast swathes of rainforest cleared through **deforestation** to make land for growing these crops. This **destroys the biodiversity** of the area, and the habitat for native animals, including endangered species such as the orang-utan in Borneo. Some companies have been responsive to pressure from the community to stop using products sourced from areas where rainforest has been cleared, as discussed in the example of Nestlé below, but others continue to deforest tropical rainforest areas in Latin America, Africa and South East Asia.



Mining practices in some African countries have been associated with the destruction of the native habitats of highland Gorillas. Rare earth minerals required in the production of mobile phones, such as coltan, are mainly only found in reserves in the Congo River Basin in Africa, which also happens to be the main habitat where the world's last remaining gorillas live. Mining in the area is contributing to forest loss and unrest in the region. In response, the Australian mobile phone industry set up Mobile Muster to encourage people to recycle their old mobile phones and thus reduce demand for these rare earth minerals.

- Many critics of MNCs point to the fact that many of them undertake **hazardous or highly polluting production** in developing countries (such as India or Brazil) to deliberately take advantage of the fact that those countries have less restrictive environmental protections than the countries in which the MNCs are based and sell most of their products.

While the mining and clearing being undertaken in these countries is not necessarily directly done by large MNCs, they buy the products which are sourced there for use in their production processes. However, in defence, it could be argued that the increasing environmental damage created by MNCs is simply a reflection of the insatiable appetites of the world's population for ever more and higher rates of consumption and material standards of living.

The potential for MNCs to positively impact on the environment

- As was discussed above, **Fairtrade is also about the environment.** Companies adopting Fairtrade principles commit not only to a fair price for their farmers of their raw materials, they also promote environmentally sustainable practices.
- Many multinational corporations have come under **increasing pressure from various stakeholders to improve their environmental and social record.** This includes customers who increasingly want to purchase “green” products, and shareholders who are concerned over potential damage to the company’s reputation and profitable from environmental scandals. Read the story about Nestlé’s Kit Kat below for an example of this type of pressure in action.

