

GERMAN YEARBOOK  
OF INTERNATIONAL  
LAW

VOLUME 22 · 1979

DUNCKER & HUMBLOT · BERLIN

GERMAN YEARBOOK OF INTERNATIONAL LAW  
Volume 22



GERMAN YEARBOOK  
OF INTERNATIONAL LAW

JAHRBUCH FÜR INTERNATIONALES RECHT

Volume 22 · 1979

founded by

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DUNCKER & HUMBLOT / BERLIN

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This Yearbook may be cited:

GYIL 22 (1979)

Communications should be addressed to:

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German Yearbook of International Law  
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an der Universität Kiel  
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Printed 1980 by Vollbehrr u. Strobel, Kiel, Germany  
ISBN 3 428 04633 1

## CONTENTS

In Memoriam Eberhard Menzel . . . . .	9
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### *Articles*

HANS W. BAADE: The Legal Effects of Codes of Conduct for Multinational Enterprises . . . . .	11
HUGO J. HAHN: Value Clauses and International Monetary Law . . . . .	53
DAMIAN HUBBARD: The International Law Commission and the New International Economic Order . . . . .	80
CARL AUGUST FLEISCHER: The Northern Waters and the New Maritime Zones	100
CHOON-HO PARK: China and Maritime Jurisdiction: Some Boundary Issues	119
JORGE A. VARGAS: The Legal Nature of the Patrimonial Sea — A First Step Towards the Definition of the EEZ . . . . .	142
THOMAS A. CLINGAN, JR.: The United States and Unilateral Action: Changing Patterns of Fisheries Conservation and Management . . . . .	178
GEOFFREY S. YAREMA: The Impact of Cargo Preference Legislation on the International Obligations of the United States . . . . .	200
JEAN-PIERRE BEURIER: La conservation des stocks halieutiques et la CEE . .	221
UWE JENISCH: Probleme der Anwendung des Europäischen Rechtes in den Meereszonen der EG-Staaten . . . . .	239
ATLE GRAHL-MADSEN: Decolonization: The Modern Version of a 'Just War'	255
ISI FOIGHEL: Grönlands Selbstverwaltung . . . . .	274
PAUL P. HELLER: From Unification to Fragmentation in International Civil Aviation . . . . .	292
KAY HAILBRONNER: Völkerrechtliche und staatsrechtliche Aspekte fiskalischer Immunität im Sitzstaatabkommen des Europäischen Laboratoriums für Molekularbiologie . . . . .	313
MICHAEL BOGDAN: The International Legal Status of Governing Political Parties in One-Party States . . . . .	335

YVES SANDOZ: Le droit d'initiative du Comité international de la Croix-Rouge	352
A. A. CANÇADO TRINDADE: Exhaustion of Local Remedies under the United Nations International Convention on the Elimination of All Forms of Racial Discrimination . . . . .	374
JOST DELBRÜCK: Menschenrechte im Schnittpunkt zwischen universalem Schutzanspruch und staatlicher Souveränität . . . . .	384

### Reports

SIEGFRIED MAGIERA: Die Rechtsprechung des Internationalen Gerichtshofes in den Jahren 1977 und 1978 . . . . .	403
HANS-JOACHIM SCHÜTZ: Die Tätigkeit der International Law Commission im Jahre 1978 . . . . .	414
JOACHIM KÖNIG: Die Tätigkeit des Europarates im Jahre 1978 . . . . .	434
EIBE H. RIEDEL: Die Europäischen Gemeinschaften im Jahre 1978 . . . . .	456
LOTHAR BLATT: Die Tätigkeit der Organisation der Amerikanischen Staaten (OAS) in den Jahren 1977 und 1978 . . . . .	478
WOLFGANG STEINIGER: Die Tätigkeit des Nordischen Rates im Jahre 1978 . . . . .	495

### Book Reviews

Law of the Sea and Antarctica . . . . .	508
Beiträge zur Dritten Seerechtskonferenz der Vereinten Nationen ( <i>Lagoni</i> )	
Modernes Seevölkerrecht. Die Rechtsordnung der Gewässer und des Bodens des Weltmeeres ( <i>Lagoni</i> )	
Recht über See. Rolf Stödter zum 70. Geburtstag ( <i>Lagoni</i> )	
SCHENK: Kontiguität als Erwerbstitel im Völkerrecht ( <i>Lagoni</i> )	
OTTMÜLLER: Die Anwendung von Seekriegsrecht in militärischen Konflikten seit 1945 ( <i>Jenisch</i> )	
BUTLER: Northeast Arctic Passage ( <i>Auburn</i> )	
LOVERING / PRESCOTT: Last of Lands . . . Antarctica ( <i>Auburn</i> )	
Global and Regional Aspects of Human Rights ( <i>Riedel</i> ) . . . . .	521
HENKIN: The Rights of Man Today	
FLORETTA / ÖHLINGER: Die Menschenrechtspakte der Vereinten Nationen	
JOYCE: Human Rights — International Documents	
Human Rights: Thirty Years after the Universal Declaration	
EGGERS: Die Staatenbeschwerde	
Grundrechtsschutz in Europa	
Die Grundrechte in den Europäischen Gemeinschaften	

Volkgruppenrecht und Minderheitenschutz ( <i>Schütz</i> ) . . . . .	529
VEITER: Nationalitätenkonflikt und Volkgruppenrecht im 20. Jahrhundert	
ERMACORA: Nationalitätenkonflikt und Volkgruppenrecht	
System eines internationalen Volkgruppenrechts	
GÜTERMANN: Das Minderheitenschutzverfahren des Völkerbundes	
Arms Control and Disarmament ( <i>Schütz</i> ) . . . . .	534
Arms Control: A Survey and Appraisal of Multilateral Agreements	
SIPRI Yearbooks 1978 und 1979	
Europäisches Gemeinschaftsrecht ( <i>Fiedler</i> ) . . . . .	537
CONSTANTINESCO: Das Recht der Europäischen Gemeinschaften	
BLECKMANN: Europarecht	
KRÜCK: Völkerrechtliche Verträge im Recht der Europäischen Gemeinschaften	
ZORGBIBE: Rechtliche Probleme der Einigung Europas	
Vertragsbeziehungen zwischen EG und RGW ( <i>Seiffert</i> ) . . . . .	544
Die Möglichkeiten vertraglicher Beziehungen zwischen EG und RGW	
KUZNEZOW: RGW und ‚Gemeinsamer Markt‘	
Völkerrecht und Sozialismus ( <i>Seiffert</i> ) . . . . .	545
SCHWEISFURTH: Sozialistisches Völkerrecht?	
KRÖGER u. a.: Sozialistische Staatengemeinschaft und Völkerrecht	
KRÖGER / SEIDEL: Freundschaftsverträge — Verträge des Sozialismus	
Nordischer Rat . . . . .	550
WENDT: Nordisk Råd 1952—1978 ( <i>Schütz</i> )	
SOLEM: The Nordic Council and Scandinavian Integration ( <i>Hermann</i> )	
Positivismus im Common Law ( <i>Riedel</i> ) . . . . .	552
Law, Morality, and Society. Essays in honour of H. L. A. Hart	
DWORKIN, ed.: The Philosophy of Law	
CROSS: Precedent in English Law	
*	
Decisions of German Courts Relating to Public International Law ( <i>Kausch</i> ) . . . . .	555
Digest of the Decisions of the International Court of Justice ( <i>Magiera</i> ) . . . . .	556
DIETL / MOSS / LORENZ: Dictionary of Legal, Commercial and Political Terms ( <i>Riedel</i> )	557
GELBERG: Normalisierung der Beziehungen zwischen der Volksrepublik Polen und der Bundesrepublik Deutschland ( <i>Pusylewitsch</i> ) . . . . .	558
GIESE: Das Staatsangehörigkeitsrecht von Großbritannien ( <i>Riedel</i> ) . . . . .	559
GOLDSCHMIDT: Das Problem einer völkerrechtlichen Gefährdungshaftung ( <i>Willisch</i> ) . . . . .	560
KRÜGER: Fetwa und Siyar ( <i>Kewenig</i> ) . . . . .	562
LAMMICH / SCHMID: Die Staatsordnung der Tschechoslowakei ( <i>Bernert</i> ) . . . . .	564
VON MANGOLDT: Die Schiedsgerichtsbarkeit als Mittel internationaler Streitschlichtung ( <i>Kewenig</i> ) . . . . .	565



MENZEL / IPSEN: Völkerrecht ( <i>Kimminich</i> ) . . . . .	567
ROGGEMANN / LAMMICH: Die Verfassung der Volksrepublik Polen ( <i>Pusylewitsch</i> ) . . . . .	568
SILAGI: Von Deutsch-Südwest zu Namibia ( <i>Meyer</i> ) . . . . .	569
Verzeichnis rechtswissenschaftlicher Zeitschriften und Serien ( <i>Meyer</i> ) . . . . .	570

\*

*Publications of the Institute for International Law at the University of Kiel*

WILDBERG: Die internationale Meeresbodenbehörde (ISA) ( <i>Graf Vitzthum</i> ) . . . . .	570
SOYKE / WEHSE: Bibliographie des deutschen Schrifttums zum internationalen und ausländischen Privatrecht 1945—1970 ( <i>Baade</i> ) . . . . .	573
Books Received . . . . .	575
List of Contributors . . . . .	579

## In Memoriam Eberhard Menzel

Eberhard Menzel, professor of constitutional and international law and former director of the Institute for International Law at Kiel University, passed away after long illness on June 1, 1979 at the age of 68.

Since 1955 Menzel taught the subjects constitutional law, international law, and political theory at Christian-Albrechts-Universität and directed the Institute for International Law until illness compelled him to withdraw from his academic work in 1973. His academic career began while he was a student of Friedrich Giese in Frankfurt. Here he earned his doctorate with a fundamental thesis on "The English Theory of the Essence of the International Law Norm". Following temporary practical court work as *Justizassessor* and further extensive research papers, — interrupted by military service in 1940 — Eberhard Menzel finished his *Habilitation* in the field of public law in 1943.

Upon his return from an American prisoner of war camp in 1947, he took up his work again at the Research Center for International Law and Foreign Public Law in Hamburg. After his appointment to a professorship in Hamburg in July, 1952, he received tenure at Kiel University in the spring of 1955. Here Eberhard Menzel could develop his constitutional law and international law interests excellently. After only a few years of work at Kiel he finished his widely respected treatise on international law in 1962. The academic work of Eberhard Menzel covers an abundance of subjects of partly fundamental importance and partly current interest, such as the report before the German Association of Public Law Teachers in 1953 concerning the foreign affairs power, the commentary on the articles of the Basic Law with reference to international law, and his numerous works which foresaw the current problems in the new law of the sea and the relationship of national and international administration.

In the area of constitutional law, Eberhard Menzel strongly took position on a variety of topical questions, such as the problem of reorganization of the civil service, the emergency provisions in the Basic Law, the control of public finances and legal questions of higher education. Characteristic of his work is on the one hand his critical acumen in analysis, including the sociopolitical environment and on the other hand his creative, careful outline of possible new solutions.

These elements characterize finally a further emphasis in Eberhard Menzel's research — the occupation with the German Question and *Ostpolitik*. Critical in his analysis of the existing international law, constitutional law and political dogmas and taboos of official policy concerning Germany and the relations with its neighbours to the East, he made himself an advocate of a policy of European security and cooperation, the nucleus of which consisted in the confirmation of Germany as a partner and good neighbour. In the *Festschrift* by his students and colleagues honoring Menzel on his 65th birthday it is justly said that he has participated in the discussion of his time in a way which corresponds to his entire being: "Extremely critical towards the inside and protective towards the outside".

A large number of students, doctoral candidates and research assistants received manifold stimuli from his world-open, interested function as a teacher. Beyond that, he dedicated his entire energy to the Institute for International Law, the respect of which he knew to expand at home and abroad according to the tradition set by Theodor Niemeyer, Walter Schücking and Hermann von Mangoldt.

His close association with international law practice and foreign politics became manifest in the years of his successful international law training of foreign service candidates and in his participation in many international conferences, including those of the Pugwash Movement, to which he had a strong allegiance because of its peace-oriented goals. A highpoint of the combination of research and practical work was his participation as adviser for the German agents in the North Sea Continental Shelf Case at the International Court of Justice in 1968.

The German Yearbook of International Law is deeply indebted to Eberhard Menzel who dedicated to it so much of his energy and idealism during his years as a co-editor and editor until 1973. We have lost a profiled, scholarly personality, whose richness of ideas, constant readiness to step in and help, and tireless efforts beyond expectation will always remain a model for his students and colleagues.

Jost Delbrück

Wilfried Fiedler

Wilhelm A. Kewenig

## ARTICLES

# The Legal Effects of Codes of Conduct for Multinational Enterprises

Hans W. Baade\*

### Outline

- I. The Legal Setting and the Basic Legal Issues
  - A. The Setting
  - B. The Issues
    - 1. Non-State Actors as "Subjects" of International Law and Objects of Regulation
    - 2. The Characterization of Instruments as "Voluntary" and "Not Legally Enforceable"
    - 3. Codes of Conduct as International Standards of Public Policy
    - 4. "Voluntary" Guidelines and International Follow-Up Procedures
  - C. Summary and Outlook
- II. The Legal Effects of Government Declarations on MNE Conduct
  - A. Good Faith as a Source of Legal Obligations
  - B. A Case in Point: The Declaration and Guidelines of June 21, 1976
    - 1. "Voluntary and Not Legally Enforceable" Guidelines as a Shield
      - a. Immunity from Domestic Enforcement?
      - b. Immunity from Binding Rules of International Law?
    - 2. "Voluntary and Not Legally Enforceable" Guidelines as a Sword: "Legitimation"
- III. The Affirmative Thrust of International Public Policy
  - A. Springboard for Legally Creative Action
  - B. Standards and Data in Aid of Interpretation
- IV. Conclusions and Prospects
  - A. Conclusions
  - B. A Preview: The Eclipse of *Barcelona Traction*

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\* A German version, entitled "Verhaltensleitsätze für multinationale Unternehmen", was presented at the Center for Interdisciplinary Research at the University of Bielefeld in January 1979, at the Max Planck Institut für ausländisches und internationales Privatrecht in Hamburg and at the Institut für Internationales Recht in Kiel in March 1979, at a meeting of the German - American Lawyers' Association in Munich in May 1979, at the Max Planck Institut für ausländisches öffentliches Recht und Völkerrecht in Heidelberg in May 1979, and at the University of Bremen in June 1979. There remains the pleasant task of thanking the learned audiences who have suffered through the previous versions of this paper. Their critical comments have proved invaluable, but ultimate responsibility must rest, as always, with the author.

## I. The Legal Setting and the Basic Legal Issues

### A. The Setting

Multinational enterprises (MNEs) are enterprises which are directed from their countries of origin (or home countries) and engage in economically significant activities within other states, known as host countries<sup>1</sup>. What distinguishes them from other business enterprises is their ability to exercise market power and influence in host countries by what may be termed remote control. In a world divided into territorial sovereignties and thus compartmentalized jurisdictionally, such exercises of market influence and power are largely extraterritorial so far as the host countries are concerned, *i. e.*, not subject to their supervision and regulation in the same manner as are the business decisions of domestic enterprises. Moreover, the decisional nerve centers of MNEs are subject to home country regulation and guidance even as to business decisions designed to take effect within host countries.

Codes of conduct for MNEs are, in essence, devices for the protection of the economy of the host country (and of host-country workers, customers, competitors, and creditors) from unilateral action by MNE headquarters, especially if influenced by economic or policy factors indigenous to the home country<sup>2</sup>. The OECD Guidelines for MNEs, for instance, are expressly intended "to ensure that the operations of these enterprises are in harmony with the national policies of the countries where they operate"<sup>3</sup>. Almost identical terminology pervades the draft UN Code of Conduct for Transnational Corporations<sup>4</sup>.

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<sup>1</sup> *John K. Galbraith*, *The Defense of the Multinational Company*, *Harvard Business Review* 1978, 83—93 (86). See also, e. g. *Henri Schwamm*, *Origins, Nature, Economic and Political Significance of Codes of Conduct*, in: *Henri Schwamm and Dimitri Germidis* (eds.), *Codes of Conduct for Multinational Companies: Issues and Positions* (European Centre for Study and Information on Multinational Corporations), 1977, 1.

<sup>2</sup> See *Hans W. Baade*, *Codes of Conduct for Multinational Enterprises: An Introductory Survey* (hereinafter cited as *Baade Survey*), to be published in: *Norbert Horn and E. R. Lanier* (eds.), *Legal Problems of Codes of Conduct for Multinational Enterprises*, text at n. 9—12.

<sup>3</sup> Annex to the Declaration of June 21, 1976 by Governments of OECD Member Countries on International Investment and Multinational Enterprises, *Guidelines for Multinational Enterprises* (hereinafter cited as *OECD Guidelines*), Department of State Bulletin (DptStBull) 1976, 83—87, *Introductory Considerations and Understandings*, § 6. In the text distributed by the West German Ministry of Economics, "countries where they operate" is translated, quite appropriately, as "jeweilige Gastländer" or host countries. *BMWi Tagesnachrichten* No. 7251, July 13, 1976, 4.

<sup>4</sup> Commission on Transnational Corporations, *Transnational Corporations: Code of Conduct; Formulations by the Chairman*. UN Doc. E/C. 10 2/8, December 18, 1978. The expression there used is "countries in which they [i. e., the transnational corporations] operate".

The call for such a code of conduct was apparently first articulated by the International Confederation of Free Trade Unions in December 1970<sup>5</sup>. The term itself gained general currency in the ensuing decade, especially after being endorsed by the Group of Eminent Persons in May 1974<sup>6</sup>. Yet its legal significance continues to remain somewhat less than precise, even in United Nations practice. It seems clear that a code of conduct is not as such incompatible with the notion of legally binding obligations. This is demonstrated by a General Assembly resolution of December 1972, regarding a "convention or other multilateral *legally binding* instrument on a code of conduct for liner conferences"<sup>7</sup>. On the other hand, as shown by the language just quoted, such a code is not, without more, a legally binding instrument. Otherwise, there would have been no need for a convention or other normative act in addition to the code itself.

Indeed, it is this meta- or para-legal status that gained the concept of codes of conduct such ready acceptance in the practice of international organizations. In the judgment of the Eminent Persons, there was an immediate need for the regulation of MNE conduct on a global scale<sup>8</sup>. The traditional device of multilateral conventions was regarded as too unwieldy for quick relief, and as too decentralized for pervasive coverage. A multilateral convention regarding the conduct of MNEs would have required protracted negotiation, followed by additional delays pending ratification or accession. Moreover, it would have bound only those states which ultimately chose to accede; and even *inter partes*, its uniformity might have been undercut by reservations. Especially some of the more prominent home countries of MNEs could be expected, in the end, to remain outside the treaty scheme, or to accept it only subject to crippling reservations<sup>9</sup>.

<sup>5</sup> ICFTU Executive Board, Resolution on Freedom of Association and Multinational Companies, December 8—10, 1970, reprinted as Appendix 2 in ICFTU, *The Multinational Challenge*, 1971, 63,64. (ICFTU World Economic Conference Reports No. 2). See Baade Survey (n. 2), text at n. 144—145.

<sup>6</sup> UN Department of Economic and Social Affairs, *The Impact of Multinational Corporations on Development and International Relations* (UN Doc. ST/ESA/6, Sales No. E. 74, II. A. S), 1, 52—57; Baade Survey (n. 2), text at n. 49. The Report is dated May 22, 1974.

<sup>7</sup> UN GA Resolution 3035 (XXVII), December 19, 1972. The Convention drafted under the auspices of UNCTAD and recommended for adoption on April 6, 1974, is reproduced in *International Legal Materials* (ILM) 1974, 917—948. For analysis, see *Klaus Grewlich*, *Die UN-Konvention über einen Verhaltenskodex für Linienkonferenzen*, *Zeitschrift für ausländisches öffentliches Recht und Völkerrecht* (ZaöRV) 1975, 742—758. For a case where the term "guidelines" was used to describe an instrument designed to modify treaty obligations, see *infra*, text at n. 137—140.

<sup>8</sup> *Supra*, n. 6, at 54—55.

<sup>9</sup> *Theodor W. Vogelaar*, Comment, in: *Paul-Marc Henry* (ed.), *Value and Limitations of Codes of Conduct as Regulating Instruments for Multinational Corporations* (European Centre for Study and Information on Multinational Corporations), 1978, 45.

Conventions embodying definite legal obligations of the contracting states are — at least *inter partes* and if compatible with *ius cogens* — hierarchically the top layer of “hard” international law<sup>10</sup>. The major codes of conduct for MNEs currently in existence or close to the point of formal adoption do not belong to that category. It is readily apparent that this is due not to any intrinsic defects of the international “legislative” process, but to a deliberate choice of the states concerned in the international norm-creating process, influenced in good part by the considerations just mentioned. For as shown by a comparison of the instruments adopted with the norm-creating powers of the international organizations involved, at least the codes of conduct extant today have quite uniformly failed to make full use of these powers.

The European Communities, for instance, have ample “legislative” powers<sup>11</sup>, and there is strong political support in the Commission and in the European Parliament for a binding and legally enforceable code of conduct for MNEs<sup>12</sup>. Yet when in 1977, the Communities adopted the Code of Conduct for Companies with Interests in South Africa, this was accomplished not by a normative Community instrument such as a Regulation or a Directive, but by a decision of the Foreign Ministers of the member states that is formally not even an act of the Communities<sup>13</sup>.

Similarly, the Principles Concerning Multinational Enterprises and Social Policy adopted by the International Labour Organisation (ILO) in 1977 are not embodied in a Recommendation of the General Conference (which would have automatically entailed reporting obligations based on treaty commitments already in effect)<sup>14</sup> but in a Declaration of the Governing Body — an instrument not contemplated in the Constitution of the ILO<sup>15</sup>. The OECD Guidelines, finally, were adopted without formal use of the OECD Council, which could have promulgated a Decision legally binding upon the member states or

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<sup>10</sup> See e. g., *Ian Brownlie*, *Principles of Public International Law*, 2d ed., 1973, 3—4.

<sup>11</sup> See e. g., *Derek Bowett*, *The Law of International Institutions*, 3d ed., 1975, 185—189.

<sup>12</sup> “Multinational Undertakings and the Community”, Communication from the Commission to the Council, November 8, 1973, *Bulletin of the European Communities*, Supplement 15/73; European Parliament, *Debates*, April 19, 1977, and Resolution, same date, § 1, O. J. 1977 C. 118/15. See generally Baade Survey (n. 2), text at n. 91—112.

<sup>13</sup> Code of Conduct for Companies with Interests in South Africa, September 20, 1977, English text in Cmnd. 7233, 1978, 5—7, and *Bulletin of the European Communities* 9—1977, 2.2.4.

<sup>14</sup> Pursuant to article 19 (6) (d) of the Constitution of the International Labour Organisation, ILO members are obligated to report to the Director-General of the International Labour Office, “at intervals as requested by the Governing Body, the position of the law and practice in their country in regard to the matters dealt with in the Recommendation”. See *Bowett* (n. 11), 127 et seq., 129.

<sup>15</sup> The Declaration, which is dated November 16, 1977, is reprinted in *ILM* 1978, 423—430.