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SDG working group discusses conceptualization, poverty eradication

The UN Open Working Group established to formulate a set of Sustainable Development Goals (SDGs) for the international community convened its second session on 17-19 April. This session saw member states voice their views on the conceptual aspects of the SDGs and underline the centrality of poverty eradication in the planning and implementation of the goals.

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Formulation of SDGs promises to be challenging

Discussions at a UN working group in April revealed major areas of interest, differences and concerns among member states as they seek to draw up a set of Sustainable Development Goals for the international community.

by Ranja Sengupta

NEW YORK: The second session of the Open Working Group on Sustainable Development Goals (SDGs) heard a wide range of perspectives by UN member states on conceptual aspects of the SDGs and poverty eradication.

The session was held on 17-19 April at the UN headquarters in New York. The Open Working Group (OWG) was established under the UN General Assembly as one of the major decisions of the UN Conference on Sustainable Development (also known as Rio+20) of June 2012.

The Rio+20 outcome document mandated the OWG's establishment with a membership of 30 countries. Due to overwhelming interest from member states, it was finally agreed that some seats would be represented by two or three countries, usually with these countries coming from the same region. There are thus 70 members in total, with some countries taking turns being in the official 30 seats, and statements can be made in the name of each "troika" or each individual member.

During the 17-19 April session, a seven-page summary of the discussion of the two focus areas of the agenda was presented by the OWG Co-Chairs, Ambassadors Macharia Kamau of Kenya and Csaba Korosi of Hungary.

The Programme of Work for 2013-14 that will shape the SDGs has still to be agreed upon. There was, however, agreement on the clusters of issues for the next two sessions of the OWG.

The third session on 22-24 May will address food security and nutrition, sustainable agriculture, drought, desertification, land degradation and water and sanitation. It is expected that the Programme of Work for 2013-14 will be adopted then, making this a key meeting, as the Programme of Work will unquestionably influence the formulation of the SDGs. The fourth session of the OWG on 17-19 June will address health and population dynamics, employment and decent work for all, social protection, youth and education.

At the opening of the second session on 17 April, Co-Chair Kamau said that the objective of the meeting was to take stock of the lessons learnt from the past experiences of the Millennium Development Goals (MDGs), to discuss an overview of the current conceptual proposals for SDGs and tackling the problems that emerge from the exploration of these conceptual issues. He said the framework could benefit from discussions on stronger global partnerships and means of implementation (MOI).

Many developing countries stressed, up to the end of the session, the centrality of international cooperation and MOI, and Kamau assured them that these would be part of the future discussions.

Many developing countries have called for MOI to be part of every issues cluster. This insistence is due to the fact that most developed countries have retreated from their commitments to provide MOI to developing countries, as revealed in the difficult negotiations on MOI during the UN Conference on Sustainable Development.

(The latest draft of the Programme of Work of the OWG has MOI and global partnership for achieving sustainable development as standalone issues, and three days have been allocated for this at the sixth session of the OWG on 9-13 December.)

According to a developing-country delegate, some of the other issues that will continue to generate differences, even controversy, are energy; conflict, peace and security; and oceans. The framing of the issues related to the climate change session will also be key.

The first topic of the 17-19 April session, conceptual aspects of the SDGs, dealt with issues including guiding principles and framework, possible themes and priorities for goal-setting, global partnership, means of implementation, and convergence between the SDGs and the post-2015 development agenda. The second topic was on poverty eradication as part of the overarching framework (with sustainable development).

"Transformation agenda"

The Co-Chairs' summary of the three-day meeting was presented at the last session on the afternoon of 19 April and this is their perspective of the proceedings.

In their summary, the Co-Chairs expressed their "sense that early anxiety is giving way to growing intellectual curiosity" and reflected that the OWG agrees that "our task is to gradually craft the backbone of the transformation agenda".

The summary states that MDGs are one important touchstone for the OWG's work, inevitably a point of departure, and that while there is much to learn from – and build upon – in the MDGs, it can be agreed that they will not be enough.

On the conceptual aspects of SDGs, the Co-Chairs' summary states that "we must conclude any unfinished business of the MDGs, and set a goal of complete eradication of poverty in a clear timeframe". It posited that "we are unlikely to reach that goal in a sustainable way if we do not address the economic, social and environmental factors that make for durable poverty eradication. So, integration of the three dimensions is a critical means to sustainable poverty eradication and people-centred development."

The summary highlighted the need to call for "strong cooperative global action" as human activities in one part of the world can have consequences for people living in other parts. The report pointed towards the need to embed the SDGs in a broader narrative, "a narrative of the transformative change needed to realize our vision of sustainable poverty eradication and universal human development, respecting human dignity and protecting our planet, mother Earth, living in harmony with nature for the wellbeing and happiness of present and future generations".

On the principles of SDGs, the summary stated, "Many of you reiterated that the [1992] Rio principles should guide the formulation of the SDGs, including the principle of common but differentiated responsibilities." It added, "At Rio+20 it was agreed that the SDGs would be based on Agenda 21 and the Johannesburg Plan of Implementation, and fully respect all Rio principles."

"There was broad agreement," the summary said, "that the SDGs should build upon commitments already made and should contribute to implementation of outcomes of all major summits in the economic, social and environmental fields."

However, such "broad agreement" does not amount to a clear conclusion or consensus: this part of the summary reflects the position of developing countries that many developed countries do not fully support, preferring to have simple goals and even retreating from especially their commitments to provide the means of implementation (finance and technology).

The summary also noted, "It was also broadly recognized that defining SDGs is not the occasion for negotiating or renegotiating existing agreements, treaties that are under the responsibility of other international fora and processes."

On the characteristics of SDGs, the summary stated that defining the SDGs is a way to prioritize – to identify the critical problems to address, critical goals needed to be set, and critical actions needed to be taken. It recognized that "development is a complex process of structural change, a complex way how to combine growth with progress" and "there are no magic bullets" to achieve this, especially sustainable development "which no country has yet successfully achieved".

It pointed towards the "need to be faithful to the complexity in the narrative and in our broad post-2015 agenda, while aiming for simplicity in the goals we set ourselves". Reflecting the views of member states (mostly developed countries), the summary stated, "Many noted how important it is to retain this positive feature [simplicity] of the MDGs. Not to do so could jeopardize the chances of success. As one of you said, ideally the SDGs should be 'tweetable'."

While the summary noted that all agreed on the universality of the SDGs, there were different understandings of how this should be reflected in the goals.

"Many share the view that the SDGs must speak not only to developing countries but also to developed countries, and not just in terms of conventional development cooperation, important as that is. Shared responsibilities are broader if we are to achieve sustainable poverty eradication and development. Many of you mentioned in particular the need for all to achieve sustainable patterns of consumption and production, with developed countries taking a leading role."

It also pointed out that global goals can reinforce national actions while respecting countries' different priorities and circumstances and also empower civil society.

On a very important note, the summary pointed out that "there will be need to allow flexibility to countries to adapt global goals and especially related targets to their needs". In this respect, the summary referred to Colombia's suggestion of "a global dashboard of targets and indicators" under each goal from which countries could select those most appropriate and relevant. The idea suggested that "this would also allow flexibility for countries to take on more ambitious targets over time, should they make better than expected progress".

Scope

On the issue of scope of the SDGs, the summary said, "The MDGs did not recognize the many dimensions of poverty, which go beyond monetary income. In building on the MDGs, many of you have said that the gap the SDGs are meant to address is one of integration of the three dimensions of sustainable development, and implementation of integrated solutions. SDGs could serve three functions: norm or priority setting; coordinating global action; and measuring actions and outcomes at the national level."

Three possible types of goals are highlighted in the summary: (i) human-development-related goals with little environmental impact associated with their attainment (e.g., education); (ii) human-development-related goals with important environmental dimensions (e.g., water, food, energy); and (iii) goals related to common management of global resources. Further, "women and disadvantaged groups, indigenous peoples and ethnic minorities must be addressed through ambitious and measurable targets and indicators in all relevant goals".

On "Realizing and measuring SDGs: means of implementation and global partnerships", the summary stated, "We cannot set goals for ourselves without considering carefully how we are to achieve them. We will continue to discuss means of implementation and a renewed and strengthened partnership for sustainable development in the course of our work. We expect to dedicate time specifically for that discussion. We will also keep close track of progress of discussions in the financing expert working group."

The summary said, "Many of you

say that means of implementation and partnerships should usefully be considered in relation to each goal we set, while some cautioned that just as goals and their achievement will be interrelated so will be the means of achieving them." The summary also acknowledged that the needs of countries in special situations will need to be considered. It added that new thinking on international cooperation beyond the traditional donor-recipient relationship is needed.

On measures of progress, the need to look beyond GDP was highlighted in the important act of measuring though "not all that is valuable can be measured".

The summary also highlighted the importance of quality measures that came up several times during the discussion, for example, completion of schooling and literacy rates in the area of education, or access to quality nutritional food in the area of food security. The need to be able to collect reliable and timely data and address capacity constraints in meeting data requirements by building institutional capacities as early as possible was seen as important.

Another issue that came up was the need to tap the best scientific knowledge, in both natural and social sciences, to inform the work, including in the setting of sensible targets and the choice of indicators, but also in the monitoring and evaluation of progress.

In terms of timeframe, the need to have a longer 30-year period of reference was highlighted by some members, while some harped on the need to ensure that countries and governments are held accountable within shorter incremental periods. There is also a need to recognize that a rapidly changing world will present unexpected challenges and new developments, both positive and negative, and that an ever-increasing global population must also be kept in mind.

On poverty eradication, the report underlined that "it is central to the OWG, it is at the core of the SDGs and it must be mainstreamed in all our work".

The summary also identified critical drivers of poverty eradication such as "inclusive and robust economic growth, decent jobs and productive livelihoods; equitable access to basic goods and services, such as water, food, energy, health and education, social protection; and sustainable management of natural resources. Empowerment of women and gender equality as well as the access of poor people to justice were stressed as a critical driver".

The summary however did not mention issues such as trade, finance, intellectual property rights and technology transfer which had been raised repeatedly by several developing countries as being key structural factors behind poverty and inequality.

Some of the other questions that came up and are due for more discussion were: whether to have standalone, cross-cutting or both sets of goals; how to recognize and enunciate the multidimensional nature of poverty; and how to address inequality in the goals. The risk to those with incomes just above the poverty line (of falling back into poverty) as a result of various shocks, and the "poverty of opportunity" were some of the issues raised in the report.

On convergence, the summary stated, "It was widely agreed that at the end of the day, when we come to 2015, we would like to have a single, coherent development agenda with poverty eradication and SDGs at the core."

Among the various efforts in this regard, the "need to track and communicate with the other processes underway to define the post-2015 development agenda", get technical support from UN technical support team, and to reach out to the scientific community to provide technical inputs on setting appropriate goals, targets and indicators, were pointed out by the Co-Chairs.

Programme of work

The concluding session ended with a discussion on the further programme of work to be focused on the thematic areas which had been proposed by the Co-Chairs. The Co-Chairs said that while the dates were not up for discussion, inputs could be given by member states on the thematic areas that were suggested.

There were several responses to this proposed programme. The developing-country Group of 77 and China suggested having the MOI and indicators discussion for each of the thematic areas.

Switzerland suggested adding topics such as human rights, governance and population dynamics, and suggested moving topics such as MOI and global partnership (currently scheduled under session 6) to the end.

Argentina said that the programme of work "should not prejudge the structure of the SDGs" and agreed with the G77 that MOI should be touched upon with every issue.

The United States said it could suggest another programme of work but would cooperate with the programme suggested by the Co-Chairs.

India said if areas such as human rights were to be added, the discussion could be together with the right to development. Further, India wanted global economic governance to be added to session 6, and financial stability to be added to the macroeconomic issues under session 5.

The second session of the OWG ended on a note of some optimism and dynamism but also pointed towards the major areas of interest, differences and concerns among the member states. It gave an inkling of what some of the national priorities will be for countries as a group and individually, in the current global context. It showed that there is still a long way to go before the SDGs can take shape. *(SUNS7572)* ❐

This article was written with inputs from Chee Yoke Ling.

South emphasizes equity and means of implementation

The first half of the OWG session was devoted to addressing the conceptual aspects of the SDGs, reports *Ranja Sengupta*.

NEW DELHI: Substantive work on formulating the Sustainable Development Goals (SDGs) at the United Nations began with discussions on conceptualizing the goals and the SDG process, and on poverty eradication.

The second session of the UN General Assembly Open Working Group (OWG) was held in New York on 17-19 April. The session conducted some stocktaking of the experience in implementing the Millennium Development Goals (MDGs) with their 2015 deadline, heard numerous statements from member states, considered the relationship between the SDGs and the post-2015 development process, and agreed on the thematic issues for the next two OWG sessions in May and June.

The UN Technical Support Team co-chaired by the UN Department of Economic and Social Affairs and the

UN Development Programme provided two issues briefs on conceptual issues and poverty eradication. Two expert panels on conceptual issues and poverty eradication also provided inputs for interactive discussion with and among member states.

(Such issues briefs and expert panels will feature in the following sessions of the OWG at the "input stage". Following this will be the "output stage" where member states will engage in negotiations on the final outcome of the OWG.)

In the afternoon of 17 April a panel discussion was organized where Claire Melamed, Head of the Growth and Equity Unit of the Overseas Development Institute, and Sakiko Fukuda-Parr, Professor of International Affairs, New School, United States, presented their views on conceptual issues.

The panel on poverty eradication took place on 18 April afternoon with presentations by Jomo Kwame Sundaram, Assistant Director-General, UN Food and Agriculture Organization (FAO), and Professor Sabina Alkire, Director of the Oxford University Poverty and Human Development Initiative.

The panel discussions were interactive and member states responded with questions and comments.

Wu Hongbo, UN Under-Secretary-General for Economic and Social Affairs, presented the issues brief on conceptual issues prepared by the UN Technical Support Team. He highlighted that most proposals are in terms of a limited, measurable and concrete set of goals. In terms of putting eradication of poverty as central to the context of SDGs, he said poverty and sustainability are two sides of the same coin.

Based on the report, he suggested a set of universal goals for both developed and developing countries with two options: a common set of goals with differentiated targets or timelines at national levels; or a common set of goals with multiple targets and indicators so that each country could plan its own development agenda.

He said "we have to take into consideration what we can measure, things for which member states can get accurate, timely and disaggregated data". He also added that the MDGs and the SDGs are not in conflict. The SDGs have the potential to accelerate and complement the work done by the MDGs.

Following this, more than 20 member states and groupings/troikas spoke. Below are the highlights of some of the statements with regard to the conceptual discussion, made on 17 April and the morning of 18 April.

Observers and the representatives of major groups also spoke. The statements displayed a range of positions: on universality versus national priorities, on global partnership for development and means of implementation, on structural factors that cause poverty and inequality across countries, and on the possible merging of the two processes.

Global partnership

Ambassador Peter Thomson of Fiji spoke as Chair of the developing-country Group of 77 and China (G77), reiterating the Group's view that the identification of principles and the categorization of cross-sectoral issues should be arrived at after the OWG's mapping exercise, which would allow all states to contribute and identify their respective priority areas of sustainable development. He stressed that the issues briefs are intended for information only and should not have any legal status in the final report of the OWG.

On the guiding principles, he said that they "must be based on those enumerated in Agenda 21 and Johannesburg Plan of Implementation (JPOI), be consistent with international law, and should fully respect all Rio Principles and the sovereignty of states over their natural resources, including the need for all states to cooperate in a spirit of global partnership to conserve, protect and restore the health and integrity of the Earth's ecosystem and that states have Common But Differentiated Responsibilities (CBDR)."

Thomson said further that the SDGs should contribute to the fulfilment of the right of development for developing countries. Moreover, in fulfilling their SDGs, developing countries should be supported by an enabling international environment, which includes a supportive and just international system where the rules are fair and pro-development, as well as a genuine global partnership to enable developing countries to achieve the SDGs. This should be done through the provision of new and additional financing resources, technology transfer in concessional terms, capacity-building, pro-development trade policies and effective means of implementation (MOI).

He also emphasized that it is critical to get the content of the SDGs right at the beginning. For example, the sustainable development agenda has to place the global economic and financial crisis at its heart in order to be relevant, and include the social and environmental crises as well. It must address the structural factors and root causes that give rise to these crises. He added that there must be a significant section on strengthening the global partnership for development that is to be conceived and designed in a systematically adequate manner.

Further, he said that each SDG should be linked with the strengthened global partnership for development. These means of implementation must be supported by actions from developed countries at the international level, such as time-bound financing targets, associated trade and economic policies, technology transfer and other resources to assist and enable developing countries' efforts.

Thomson also highlighted the three pillars of sustainable development (i.e., economic, social and environmental), and what these could contain in a meaningful SDG framework.

Benin [on behalf of the least developed countries (LDCs)] said that the SDGs should primarily be based on Agenda 21 of the Rio+20 outcome document. The SDGs should fully absorb lessons learnt from the MDGs.

It emphasized that the LDCs are lagging behind in capacity and other areas of the MDGs and therefore the SDGs will remain incomplete unless attention is paid to the LDCs. The implementation mechanism is crucial, it stressed. Differential and preferential treatment of LDCs is a must. The LDC category that has existed for a long time could be used and there is no need to reinvent the wheel, it highlighted.

On the environmental aspect, Benin argued that the LDCs are not causes of environmental degradation but face the results of it, so instead of a "one size fits all" approach, they must have differential treatment. On MOI, it said that LDCs do not have sufficient domestic resources as their tax, investment and finances are low, and therefore LDCs must be provided differential and preferential treatment. It also said that LDCs want a strong voice in the OWG.

Nicaragua (also on behalf of Brazil) talked about the historical responsibilities of the developed countries towards the developing ones, stressing the importance of CBDR and ensuring the means of implementation. A successful implementation of the SDGs requires the addressing of issues such as trade, finance and technology.

International cooperation is very important for developing countries in order to be able to implement the SDGs, so the SDGs have to have a section on global support, it emphasized. Nicaragua added that no developed country has yet achieved sustainable development, so it is important to change production and consumption patterns.

On MOI, the need for technology and capacity is important. New funding as well as use of funds have to be evaluated, accompanied by indicators on use and goals, it said. The SDGs must specify the source of financing and use.

Indonesia (also on behalf of China and Kazakhstan) highlighted the importance of multilateralism as a cornerstone to achieve the SDGs and said that there was a historical responsibility towards the MDGs. It reiterated that the work of the OWG was based on the (1992) Rio principles including CBDR, in addition to that of the Monterrey Consensus (on financing for development) and Agenda 21.

The goals must be universal but take into account the different national priorities. The troika urged that the framework must not deviate from the main topic of development. The SDGs must aim to end poverty but sustainable development and global partnership should be basic principles.

In terms of structure, the troika argued that balance between the three pillars of sustainable development is necessary and the necessary structure for this to be achieved must be explored, including finance, technical transfer and capacity development. Global MOI including finance must also be garnered. The systemic and structural issues like global trade and finance are cross-sectoral issues and must be addressed.

Indonesia also highlighted that poverty eradication is a key element of the SDGs which the SDGs should reaffirm and not deviate from. Finally, GDP per capita and therefore increases in production capacity and job creation are very important for developing countries, which must be kept in mind for the SDGs.

Colombia (also on behalf of Guatemala) suggested that there needs to be a single set of global common goals for global coherence as no country stands alone today. But the framework must also provide for differences at country level. Colombia suggested that there be a "dashboard" with common targets and indicators where countries sign on to whichever they want voluntarily. They can also add more if they want.

Colombia added that if there is a fear that this will mean a race to the bottom, they believe that "it will lead to a race to the top". The dashboard system can also provide specific targets and indicators for those at the very bottom and the marginalized.

On MOI, Colombia said it subscribed to the view that MOI should be built into each goal. There are many cross-cutting issues, and there can be target sharing across different goals.

Structural flexibility

Egypt articulated very clearly that there must be structural flexibility at the national level in the SDG framework and a recognition of inequalities in any assessment of outcomes. The framework must focus on means (processes) and not only on outcomes.

It made a very strong case that for developing countries, access to markets and technology is far more important than foreign aid and they need a more "enabling environment". The principle of universality could be followed, but common but differentiated responsibilities must also be recognized. As far as MOI is concerned, Egypt highlighted the role of trade, investment and intellectual property rights for developing countries.

Bolivia (also on behalf of Argentina and Ecuador) highlighted the universal nature of the SDGs. On the principle of universality, the developed countries should show greater commitment to sustainable consumption and production patterns and the developing countries should be supported in their efforts to reach the development goals.

Bolivia also asserted that the SDGs should go beyond the reductionist view of just economic growth. It stressed the importance of common but differentiated responsibilities, and that national plans and perspectives must be given due importance. Poverty is multidimensional and the rights of workers, women, children, old people and the disabled must be recognized in this regard.

Bolivia highlighted that the multiplicity of crises adversely impacts social protection measures such as social security. So the structural causes must be addressed and there must be concrete measures to deal with such crises. It also agreed with several other developing countries that every SDG must be accompanied by MOI. Transfer of technology, capacity-building and financing for developing countries must be the obligations of developed countries, it said, adding that "we can't be prisoner to financial colonialism". It also made several proposals on the SDGs.

Pakistan (also on behalf of India and Sri Lanka) asked for a coherent, measurable set of SDGs that would incorporate all the three dimensions of sustainable development. It highlighted that under the MDG framework, MDG8 (on global partnership) was under-realized as it did not have indicators or goals. Each goal under the SDGs must have a set of indicators and attached MOI.

The troika noted the work done by the UN technical team and the emphasis on the review of financing. It wanted a separate agenda to be set on this issue. The dearth of good-quality data and to set this as a standalone goal was also highlighted by Pakistan.

Bangladesh said that the MDGs were clear and measurable, there was no framework in it. The SDGs must be anchored on the three pillars of sustainable development. The goals should be ambitious but flexible in recognizing differences in national priorities.

It highlighted that economic growth must be given high priority but only one that is equitable and environment-friendly. It further highlighted the importance of multidimensional poverty, and the need to address climate change in the SDGs, including both mitigation and adaptation. Displacement caused by climate change must also be addressed.

Bangladesh stressed that MDG8 should be very clearly stated and related to each goal separately as well as collectively. Financing, technology transfer etc have to be given due attention, and while aid is important, it is trade that has to be linked to the SDGs. It also called for democratic governance at the international level, both within the institutions and outside.

Saudi Arabia said that the Rio principles, Agenda 21 and CBDR must underpin the conceptual framework of the SDGs, and the different political and economic contexts of countries must be acknowledged. The goals must be pragmatic, implementable and affordable. It said that MOI was critical for success of the goals. On convergence, it said that how the two frameworks interact with one another must be figured out.

Uruguay highlighted areas that it would like to see covered under the SDGs such as gender and income inequalities, food security, degradation of the earth, healthcare especially in non-communicable diseases, and education (including secondary education and information technology).

It stressed the importance of access to markets for developing countries and the role of agricultural subsidies given by developed countries in this regard. The statement underlined the need to adapt current consumption and production patterns and the need for the developed countries to take the lead in this matter. Uruguay also said that finance must accompany each of the objectives.

Ethiopia said "we cannot limit ourselves thinking what can be done, what ought to be done should also be a guide". It further pointed out the importance of MOI and the "right to development" in this process. It highlighted that unsustainable production and consumption patterns need to be eliminated.

On convergence, Ethiopia favoured that SDGs complement rather than substitute MDGs. It also suggested that major bottlenecks are never given due attention. It is important to have open, transparent, non-discriminatory multilateral rules of trade and investment, and technologies must be given "paramount importance", said Ethiopia.

South Africa drew attention to how foreign direct investment (FDI) is falling in Africa both in absolute terms and in shares. On global partnership, it asked for the focus to be shifted from donor-recipient to fair rules of trade and flexible intellectual property rights so that local manufacturing products could be developed, and to also meet health and nutrition needs in order to meet the MDGs. While the principle of universality can be adopted, the SDGs must acknowledge different points in development trajectories and therefore allow local adaptation, South Africa said. It also suggested that the SDGs be staggered into short-, medium- and long-term interventions.

Cuba agreed with many others in arguing for common but differentiated responsibilities and the need to acknowledge different national circumstances and capabilities. It suggested that measurable commitments must be made by developed countries for each SDG. The SDGs must not dilute the international commitments made by developed countries.

Cuba also asked for a "frank and open debate on global governance" including governance of international institutions.

Zambia (also on behalf of Zimbabwe and South Africa) asserted that the SDGs must be much broader than the MDGs and have a multidimensional, multi-sectoral approach. They must recognize the principle of CBDR and ensure equity and equality in partnerships.

On MOI, Zambia agreed with several other developing countries and the G77 that each SDG must be accompanied by MOI. It also emphasized that goals must not only be quantitative but ensure quality as well.

Nigeria (also on behalf of Ghana) said that while the technical support team report is very good, it should not have any role in determining the final outcome of the process.

In a separate statement speaking for itself, Nigeria emphasized upholding the principle of CBDR and the need to foster the "enablers of development" such as peace and security, rule of law and accountability.

Added value

Peru (also on behalf of Mexico) argued that the SDGs should be built on what has already been agreed on internationally and should be based on the success of the MDGs. It also argued that there must be clarity as to the critical added value of the SDGs and as to what is sought to be achieved with it.

It welcomed the dashboard idea floated by Colombia that suggests voluntary commitments and a tailoring to national priorities. Peru asked the OWG to consider a follow-up and implementation mechanism and keep in consideration the global economic context.

Bhutan mentioned that while the MDGs talk about minimum material needs, an indicator of well-being, on the lines of Bhutan's indicator of happiness, could be introduced.

Paraguay said that the SDGs should be built on the MDGs but strengthened where the MDGs have not done well, and that the SDGs need to be catered to national structures and capacities.

Costa Rica mentioned that the SDGs must not divert from the MDGs, and wanted a more equitable distribution of wealth, equitable development and poverty alleviation in MDGs. It highlighted that affordable energy sources must be tapped to help reach goals.

The European Union presented its preliminary ideas and called for one overarching framework and a simple set of goals. It argued that the link between poverty and sustainable development has to be recognized. It highlighted the importance of implementing the three dimensions of sustainable development in a balanced manner.

On specifics, the EU suggested that further work on the SDGs could include some of the following issues: basic living standards including water, sanitation etc; drivers for sustainable growth such as sustainable consumption; natural resources such as forests and oceans; equity and justice such as gender equality, human rights, governance at all levels; peace and security. All these areas should not be seen as standalone but as cross-cutting.

While saying that supporting "global partnership" will be an important element of the new framework, the EU also pointed towards the need to establish responsibilities for all partners (mutual accountability) and focus on actions at both global and national levels.

It said that while external support remains important for countries most in need, "means of implementation" is about putting all resources to good and efficient use, whether from public or private, domestic or international sources. The EU also said that new thinking on international cooperation is needed that moves away from the traditional donor-recipient paradigm.

On the principles related to the SDG process, the EU said that it remains committed to the MDGs and does not want to "take away" from it, and that duplication between the MDGs and the SDGs should be avoided. The EU said that the agenda can be ambitious but flexible.

Italy (also on behalf of Spain and Turkey) highlighted that the SDGs can build on the case of policymaking experience on development cooperation. It talked about the important role of the MDGs and raised a question as to the additional value of the SDGs. It highlighted certain keywords such as employment, labour, women, equality and physical security, among others. It emphasized that the SDGs need to promote technology, the use of natural resources and the utilization of knowledge.

Switzerland favoured an overarching framework for the SDGs that includes the post-2015 development agenda, which will also have a balanced consideration of all the three dimensions of sustainable development. It favoured an incorporation of sustainable development into all policy areas. Goals should be universally applicable but allow for country-specific differences. Switzerland underlined the role of domestic resource mobilization and knowledge.

Balanced approach

The United States (also on behalf of Canada and Israel) argued that poverty eradication needs to be at the core of the agenda and greater attention must be paid to inequality and exclusion. It stressed on a "balanced" approach in dealing with the issues, but made it clear that it was not using balance in the sense that all goals have to get equal attention on a necessary basis.

In terms of principles, the US said that the nature of the goals needs to be universal but relevant to national goals and priorities. It also argued that the MDGs remain unfinished business and must have a home, a follow-up. The US said that whatever goals there are in the SDGs/MDGs, they do not represent the entirety of the agenda, and there are other processes where these can also be addressed.

Norway (also on behalf of Iceland and Denmark) argued for a single set of global goals, universal, realistic and measurable. Under each set of goals, there could be targets for all countries which could recognize national priorities. On MOI, Norway posed a question as to how to address its major weaknesses such as trade, financing, domestic resource mobilization, public-private partnership (PPP), redistribution and technology transfer. It said MOI cannot be independent of goals and targets, and also suggested that all three dimensions of sustainable development be integrated into each goal.

Australia said that it could see commonality emerging on multidimensional poverty eradication as being central. It argued that it is important that "goals in themselves are outcome-oriented" and that "we want to be ambitious but also realistic". Noting that an extensive list of priorities which includes big and contentious issues such as climate change and trade (among others) is being mentioned, Australia argued that the value-added of those issues in this forum must be decided on. On MOI, it said there is a need to have a comprehensive view.

South Korea also proposed that there should be common goals but with different targets and indicators by countries. It said that MOI should be consistent with commitments countries have made in other fora.

Russia said the OWG is important as preparatory work for the UN General Assembly in 2014-15. It supported a single international agenda for development. Russia pointed out that in this framework it is not appropriate to have general ideas or political views expressed. The new goals must be concise, few in number, aspirational in scope and global in scope, it said, adding that the MDGs should be merged into the SDGs, which are a continuation of the MDGs.

New Zealand laid the case for an overarching development agenda with a single set of goals. But the gap of inclusive economic growth must be addressed.

Bulgaria and Romania, in separate interventions, both argued for a single coordinated agenda. Both countries highlighted the importance of issues such as freedom, peace and security, gender equality and good governance. *(SUNS7573)* ❐

Poverty eradication must be central to the SDGs

The talks during the second half of the OWG meeting underscored the need to prioritize poverty eradication in the SDG framework.

by Ranja Sengupta

NEW DELHI: Poverty eradication is critically linked to sustainable development and must be central to the planning and implementation of the Sustainable Development Goals (SDGs).

This was one clear message from the second session of the United Nations General Assembly Open Working Group (OWG) on the SDGs that ended on 19 April. The overarching importance of poverty eradication was probably the only issue on which there was no dissenting voice in the three-day meeting.

Poverty eradication was the second focus area on the agenda, after an extensive exchange of views and official statements on the conceptualization of the SDGs and SDG process. The discussion on the afternoon of 18 April and member states' interventions on 19 April morning provided an insight into the various aspects of poverty that were of concern to different member states.

The discussion on poverty eradication began with an interactive session where a number of experts spoke on the issue.

Abhijit Banerjee, Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology and currently member of the UN Secretary-General's High Level Panel on the post-2015 development agenda, delivered the keynote address, where he spoke about how the Millennium Development Goals (MDGs) "changed the landscape" and how they had managed to "get into the vocabulary". He advised that countries should be free to decide on processes. "Choose outcomes, do not dictate process," he suggested.

Banerjee argued that the one theme that had come out of every consultation was that there is a need to "take the idea of partnership more seriously", beyond national governments and donors. Several countries asked him to elaborate on the importance of a global partnership, and Bangladesh asked whether a global partnership could be both "virtuous" and "vicious".

Banerjee felt, however, that while it is of tremendous importance, it is a very complex area and the SDGs/MDGs, being a baseline framework, cannot be used to solve "every problem in the world". He emphasized that global partnership is very much about global distribution of power and its control.

He said that rather than asking for better institutions now, which may lead to a failure of the process, "if we get the MDGs right, it may lead to better institutions".

Olav Kjorven, United Nations Assistant Secretary-General and Director of the Bureau for Development Policy of the UN Development Programme (UNDP), presented the UN Technical Support Team's issues brief on poverty eradication. He highlighted the need to address structural causes that create and sustain poverty. He also suggested that both poverty and inequality need to be targeted.

A panel of two experts then provided further inputs. Jomo Kwame Sundaram, Assistant Director-General of the UN Food and Agriculture Organization (FAO), reminded the audience of the linkage between poverty and hunger. Sabina Alkire from the Oxford Poverty and Human Development Initiative (OPHI) elaborated on the use of various indicators (such as access to food, health, education, water, energy) in a multidimensional index of poverty (MPI) which has been designed by UNDP and also individually by several countries.

The interdependence between hunger and poverty and the sustenance of hunger in spite of some efforts at poverty eradication provoked a rich discussion from the floor. Jomo pointed out that "there is a credibility problem" since UN calculations show a halving of poverty but not of hunger. The latter, he argued, will in fact go up tremendously if there is a realistic hunger line.

In response to Alkire's presentation on poverty measures, Pakistan suggested that the one-dollar-a-day poverty line should be done away with as "it needs to be continuously updated in order to be relevant". Bolivia emphasized the need to include income, assets and living standards in the MPI. Alkire suggested using national headline indicators with a multidimensional poverty underpinning.

Multiple dimensions of poverty

On the morning of 19 April, the OWG Co-Chair Ambassador Macharia Kamau of Kenya invited member states to deliver their short interventions, in groups and in national capacities. Below are highlights of some of their inputs. Most member states agreed on the importance of poverty eradication, its multidimensional nature and the need to go beyond economic growth. Several statements contained specific priorities of nations and regions.

The statement of the Group of 77 and China (G77) was presented by Luke Daunivalu, Deputy Permanent Representative of Fiji to the UN. He highlighted "the need to intensify efforts and accelerate actions on MDGs" and that there still remained "significant variations across regions and within countries". The Group underscored the importance of taking into account multiple dimensions of poverty vis-a-vis the opportunities and capabilities of government and people "while devising international cooperation efforts and national policies". It called for a holistic and integrated approach to sustainable development.

The Group emphasized that economic growth is necessary but not sufficient in itself and must be "sustainable, inclusive, equitable and create decent work and livelihood opportunities for all, especially the poor and vulnerable members of society".

The G77 argued that policies and development efforts targeted at poverty eradication must respond to challenges and opportunities at both national and international levels. Accordingly, "a supportive, fair and enabling economic and financial architecture as well as a genuine global partnership for sustainable development are crucial to complement the efforts of national governments".

In particular, it emphasized that global trade and investment rules must be designed and implemented so that constraints faced by developing countries can be met, and efforts to reform the international financial institutions must be strengthened to ensure participation and voice of developing countries. Developing countries also need ownership of their agenda in order to effectively eradicate poverty, and therefore must have adequate policy space. Developing-country governments must formulate their own development strategies to assist the poor through policies, the Group added.

In conclusion, the Group expressed its belief in "consolidated efforts by all stakeholders". It asked the international community to live up to its responsibility in conjunction with national governments, saying, "A renewed and strengthened global partnership for development ... which builds on the strengths of the current global partnership for development, while going beyond and addressing weakness of its present framework, would be a positive step in the right direction."

Benin (speaking on behalf of the least developed countries) highlighted that "poverty and hunger are multidimensional problems that pose serious constraints to LDCs' efforts to make progress in human and social development". The populations in LDCs lack the resources to participate in social, economic and political life and benefit from economic growth. Various estimates show that the achievements of the LDCs have lagged behind and the "absolute number of poor people has increased in many LDCs even in times of sustained economic growth". The LDC grouping argued that sustained, inclusive and equitable economic growth, enabling environment and universal access to social services are key requirements for eradicating poverty and hunger.

It set out four specific principles. First, the share of poverty is statistically more important (than absolute number). Second, given low income, domestic savings, investment and a low tax base, many LDCs do not really have the capacity to deal with the challenges by themselves. Third, trends clearly show the multiple vulnerabilities of LDCs in raising living standards. Fourth, the initial endowments and characteristics of countries are crucial. So "LDCs are at the highest of the ladder in terms of challenges and at the bottom of it in terms of capacity".

The grouping also reiterated its call for adopting differential and preferential treatment for LDCs.

Holistic approach

Nauru, representing the Pacific troika, said that the SDGs need to look at poverty in a holistic manner and highlighted the centrality of human wellbeing and security. The Pacific troika underlined the importance of climate change as a cross-cutting issue which is very important for island countries.

Nauru highlighted the Dili Consensus which resolved to ensure that the voices of the world's most fragile and conflict-affected countries are influential in reshaping the global development agenda which will succeed the MDGs after 2015. The troika asked that means of implementation be included under each set of goals. Without MOI, the SDGs will not achieve what is set out under the agenda, they warned.

Ghana [speaking on behalf of the Economic Community of West African States (ECOWAS)] aligned itself with the statement of the G77 and China. It reiterated the same fact as the LDCs, that "poverty continued to be pervasive in West Africa, even in countries that performed relatively well with respect to economic growth". It focused attention on the unsustainability and volatility of growth in West Africa and the capital-intensive nature of such economic expansion with limited links to job-creating sectors such as agriculture and manufacturing. It also underlined the need for improving access to education and other social conditions.

Ghana highlighted the "complementary roles of both national and international authorities" and called for "a just, fair and transparent international trade and financial system" that "will significantly enhance the capacity of governments to develop and put in place the requisite measures ..."

Brazil (with Nicaragua) reminded the OWG that the Rio+20 conference committed to freeing the world from poverty and hunger. "Ensuring adequate income is crucial but will never be enough," it cautioned, underscoring the need for basic access to food and nutrition, health, education, social protection and natural resources (among others).

Brazil also drew attention to the fact that while ending poverty requires focus on 1 billion people in absolute poverty, sustainable development requires effort by all countries and also allows for more diverse financial strategies.

Colombia (with Guatemala) argued that ending poverty is not an end in itself but a continuum so there is a need to ensure that "those that are left behind are not left behind". It said that even developed countries have not achieved sustainable development.

Colombia highlighted again its earlier proposal of a "dashboard" where each country would decide how they translate the goals and targets into actions. Under every goal, specific targets must be included for marginalized sections. While remaining under the different goals, specific targets from all goals can also be pulled out and stacked under an MDG on poverty, Colombia suggested.

Indonesia (with China and Kazakhstan) said the agenda should include global partnership for development. It must also include issues such as trade, finance, technology transfer, as well as MOI. It re-emphasized the link between hunger and poverty.

Pakistan (with India and Sri Lanka) underscored the need for economic growth and institutional support for poverty reduction. The troika cited the example of high health costs which push people into poverty. The statement also highlighted the need to remove barriers to markets, especially agricultural markets; debt financing; and ensuring MOI and meeting the committed targets for official development assistance (ODA).

Universal access to basic services

Ecuador (with Argentina and Bolivia) highlighted the need for ensuring universal access to basic services such as water, education, health, sanitation and energy. It underlined the need to include indigenous groups. In terms of a global partnership, Ecuador asked for access to financing and transfer of technology. It also reiterated that inclusive fair trade is very important for poverty reduction.

Several national statements were also made by member states.

Zimbabwe agreed with the UNDP Task Team Report about the importance of poverty as a super goal but expressed fears whether it will be of enough value to risk the complexity of measuring the MPI, which had been much discussed after Sabina Alkire's presentation the day before.

Russia highlighted the importance of infrastructure such as transport and communications in poverty eradication and also of providing social support to the vulnerable. Global trade and financial systems need to be fair, it said.

Cuba said that while many countries have achieved some progress in poverty reduction, international commitment has lagged far behind. ODA on average turned out to be only 0.1% of gross national product (GNP) whereas the commitment was for 0.7%. Cuba also talked about the inherent inequality involved in a system where "millions go to banks and nothing to the poor".

Bangladesh pointed to structural constraints that persist nationally as well as internationally. It raised concerns about "the international financial architecture which is standing in the way".

India said that economic growth is of crucial importance and that though poverty eradication is a multidimensional effort, "the priority must be income generation and employment for the poor". It stressed the importance of agriculture and of access to energy in poverty reduction.

Agreeing on the principle of universality, India proposed, "When we talk of poverty issues as an SDG which applies primarily to developing countries, we need to balance it out through another SDG which would apply to developed countries ... i.e., changing the unsustainable patterns of consumption and production."

The European Union, at the beginning of its intervention, asked that the discussion in the OWG be synchronized with discussions at September's UN General Assembly special event on the MDGs. "Two of the most pressing challenges facing the world are eradicating poverty and ensuring that prosperity and well-being are sustainable at the same time," it said.

The EU stressed the role of emerging economies and said "the global landscape has dramatically changed over the last decade". It said that differences between developing countries have increased. Emerging countries' growth has become an essential part of global growth. Several countries have become donors in their own right and key partners in the provision of global public goods. This is very important in the consideration of poverty eradication, the EU added.

Asking for an "ambitious overarching post-2015 framework that uses the MDGs as a springboard towards making poverty a thing of the past, while ensuring that we remain within planetary boundaries", the EU also warned that "the achievement of the MDGs continues to face considerable challenges, especially in conflict-affected and fragile regions, as well as in least developed countries (LDCs), and small island developing states (SIDS). Many countries remain highly vulnerable to shocks and crises".

Ireland (with Norway and Denmark) reiterated the importance of multidimensional poverty as a reference point and advocated choosing outcomes for their ease of use. They agreed with Benin and India about the importance of agricultural production. The troika highlighted that goals at global and national levels are mutually reinforcing and these arenas are already well integrated.

Canada (with the United States and Israel) echoed many others in highlighting the importance of poverty reduction as a core starting point and central to the work of the OWG. They underlined poverty's multidimensional nature and its link with hunger, as pointed out by experts in the previous session. They also emphasized the need to learn from successes such as Brazil's Zero Hunger project.

The United Kingdom (with Netherlands and Australia) agreed on the challenge posed by poverty eradication and advocated a single post-2015 development agenda. It highlighted that this will require a "complex set of actions" from the public and private sectors, in an echo of what was said by many other developed countries. It argued that good governance, absence of conflict and corruption and rule of law are key ingredients for poverty eradication.

Italy (with Spain and Turkey) raised the issue of the next generation and said that the "SDGs therefore should be directed to prevent next generations from facing similar unequal circumstances caused by inadequate income, coverage of basic needs and access to services". The troika mentioned that "several dimensions of well-being strongly depend on public institutions performing essential tasks and providing public goods and services".

The OWG will meet again on 22-24 May for its third session, with informal consultations expected at the UN headquarters in New York prior to that. *(SUNS7574)* ❐

GC Chair recommends Azevedo of Brazil as next WTO D-G

Brazil's ambassador to the WTO Roberto Azevedo will become the next head of the trade body after coming through a selection process helmed by the WTO General Council Chair.

by Kanaga Raja

GENEVA: The Chair of the WTO General Council has said that Ambassador Roberto Carvalho de Azevedo of Brazil is the candidate most likely to attract the consensus of WTO members.

Reporting on 8 May at an informal meeting of the General Council at the level of heads of delegation (HOD) on the outcome of the final round of consultations on the selection of the next WTO Director-General, both the Chair and the two facilitators in the process recommended that members appoint Azevedo at a General Council meeting to be held on 14 May. The term would be for a period of four years starting from 1 September 2013.

(The General Council has since formally approved by consensus, on 14 May, the recommendation to appoint Azevedo as the next Director-General.)

The outcome of the final round of consultations had earlier been privately conveyed on the evening of 7 May to the delegations of the two countries whose candidates figured in this round.

The process to select the replacement for Pascal Lamy when his second four-year term ends on 31 August, began nearly six months ago, with an unprecedented nine candidates vying for the post.

The process was conducted by a "troika" led by the General Council Chair, Ambassador Shahid Bashir of Pakistan, who was assisted by the Chair of the Dispute Settlement Body, Ambassador Jonathan Fried of Canada, and the Chair of the Trade Policy Review Body, Ambassador Joakim Reiter of Sweden, serving as facilitators.

Clear and unambiguous

In his report on the third and final round of consultations at the 8 May informal HOD meeting, Ambassador Bashir said that both he and the facilitators had conducted the consultations from 1 to 7 May, when each WTO member was asked to indicate their preference between the two remaining candidates, Azevedo and Herminio Blanco of Mexico. The Chair reported that all 159 members expressed their preferences.

Ambassador Bashir said that the results that flowed from the consultations in this round were clear and unambiguous. Members recognized that both candidates were highly qualified individuals equipped to lead the organization and, thus, both were held in very high respect.

As in the previous rounds, the Chair said that no negative preference was expressed by any member.

He said that "our assessment of the preferences provided to us during this third round of consultations is that the candidate from Brazil, Mr. Roberto Carvalho de Azevedo, is the candidate most likely of the two to attract consensus", on the following basis: Azevedo carried the largest support by members in the final round and had consistently done so in each round; and he enjoyed support from members from all levels of development and from all geographic regions and had done so throughout the process.

The General Council Chair said that he intended to convene a special meeting of the General Council on 14 May, and that at that meeting, he, supported by the facilitators, shall submit the name of Azevedo as the candidate most likely to attract consensus and recommend his appointment by the General Council as the next Director-General of the WTO for a period of four years starting 1 September 2013.

According to trade officials, Mexico said its government expressed sincere thanks to all the governments that had supported Blanco's candidacy at all stages of the process. Extending its government's congratulations to Azevedo, Mexico said it was prepared to join the consensus behind Azevedo.

In a media briefing at the Brazilian mission here on 8 May afternoon, Azevedo said that "we come to this moment where the WTO is in a very critical stage", adding that the negotiating pillar of the WTO is "completely stuck".

He added that there is a clear paralysis in the system because the negotiations are avoiding the disciplines from being updated and closing the gap between the rules of the organization and the real world where businesses operate.

"We have a trade agenda that we have to broaden and tackle," he said, adding that there are a large number of trade-related areas and issues that need to be evaluated and discussed at the WTO. "We're not doing that, and that's extremely worrisome, and we need to change this situation as quickly as we can."

In his view, the way to do it is to ensure that the negotiations move, "and move as soon as we can".

The multilateral trading system was created to be a forum for negotiations and discussions. "We cannot allow the system not to function in these two areas," said Azevedo.

Access to medicines

Meanwhile, in a press release issued on 8 May, the international medical humanitarian organization Medecins Sans Frontieres (MSF) urged that access to medicines must become a priority.

"One of the new Director-General's first jobs should be ensuring that affordable access to medicines for all WTO Member States is a key priority," said Rohit Malpani, Director of Policy and Analysis for MSF's Access Campaign.

It noted that Azevedo's appointment comes as least-developed-country (LDC) member states have requested to remain exempt from implementing the WTO's TRIPS Agreement on intellectual property rights until they are no longer classified as an LDC.

According to the MSF press release, the LDC request, submitted in November 2012, would allow these countries to avoid monopoly protection for medicines, diagnostics and medical devices, which is essential in enabling access to low-cost versions of these products.

LDCs also wish for an extension not to include a clause that would prevent them from being allowed to roll back any existing intellectual property

(IP) rules.

However, said MSF, developed countries, including the United States and countries from the European Union, are resisting calls for an extension or to allow LDCs to roll back existing IP rules.

"Least-developed countries already face an uphill battle to keep epidemics such as TB and HIV under control," said Jennifer Cohn, Medical Director for MSF's Access Campaign.

"It is critical to ensure access to newer medicines for these countries, and asking them to apply stringent IP rules to the same level as developed countries would be catastrophic," she warned. *(SUNS7582)* ❒

WTO, dubious prize for a Latin American?

Writing before the conclusion of the selection process, *Gustavo Capdevila* outlined the considerable challenges awaiting the new WTO Director-General.

GENEVA: The complicated challenge of invigorating the debilitated World Trade Organization (WTO) and the multilateral trade system that it governs will fall, for the next four years and for the first time ever, to a Latin American.

The 159 member states of the WTO will choose between Roberto Carvalho de Azevedo of Brazil and Herminio Blanco of Mexico, the two candidates for the post of Director-General of the organization who have weathered the complex selection process that began 1 December.

The current Director-General, Pascal Lamy of France, will conclude his two consecutive terms of office that began in 2005, on 31 August, and his successor will take up the post on 1 September.

Lamy will be leaving unfinished the Doha Round of talks which he was instrumental in promoting in 2001, as EU Commissioner for Trade.

Gloom is cast on the climate of talks at the WTO by global economic news. The crisis has repercussions on the trade policies of the vast majority of the members of the trade system.

The WTO secretariat, which early in the life of the institution was pleased with double-digit annual growth in world trade, now has to recognize the trade contraction. In 2012, trade growth of 2% represented a sharp fall compared with 2011, when it grew by 5.2%. For this year, growth of 3.3% is forecast, lower than the average of 5.3% over the last two decades.

After eight years of leadership by Lamy, the multilateral system appears debilitated by the proliferation of bilateral and plurilateral trade agreements, encouraged mostly by industrialized nations. Behind these failures in achieving a balanced opening of international trade flows is the reluctance of countries of the North to attend to the development needs of the countries of the South, a constant feature since the creation of the WTO in 1995.

The extent of the discord is clear at the present WTO negotiations aimed at achieving a modest agreement to keep up appearances at its next Ministerial Conference, to be held in Bali, Indonesia, on 3-6 December.

Industrialized countries are pushing for trade facilitation, such as increased speed and efficiency of border controls for trade goods. Developing nations fear that such an agreement will only increase their imports without benefiting their exports.

Longstanding demands, such as differential treatment for developing countries, a special trade regime for the least developed countries (LDCs) and arrangements to mitigate the effects of the food crisis, have again fallen foul of stumbling blocks in the discussions on the draft Bali agreement.

And then there were two...

The difficulties tripping up the trade negotiations have apparently not been reflected so far in the process of designating the new WTO Director-General.

Seven other candidates from different countries were eliminated in earlier stages of the selection process. In the first phase, Alan John Kwadwo Kyerematen of Ghana, Anabel Gonzalez of Costa Rica, Amina Mohamed of Kenya and Ahmad Hindawi of Jordan were deemed unlikely to command a consensus.

In the second stage, Mari Pangestu of Indonesia, Tim Groser of New Zealand and Taeho Bark of South Korea were held to have insufficient support.

But the two remaining candidates for heading up the WTO, Blanco and Azevedo, are backed by two blocs, the industrialized and the developing countries, respectively, with opposing trade interests.

Blanco was educated at the University of Chicago, associated with the neoliberal economic ideas that predominated in a large part of the globe in the last few decades of the 20th century. He was part of the nucleus of this school of thought which governed the Institutional Revolutionary Party (PRI), and therefore Mexico, from 1985 to 2000.

But his most significant feature is his participation as chief negotiator, between 1990 and 1993, of the North American Free Trade Agreement (NAFTA), which came into effect 1 January 1994.

Although he has no practical experience of WTO affairs, it is taken for granted that Blanco's candidacy has the support of his NAFTA partners, the United States and Canada, and will benefit from the influence they can exert on the rest of the world.

For his part, Azevedo has demonstrated his negotiating skills at the WTO, where he heads the Group of 20 developing nations, a coalition proposing the reversal of protectionist policies in agriculture applied by industrialized countries. He won resounding victories for his country in two disputes before the WTO, one against US cotton subsidies, and one against the EU for similar protectionism for sugar growers.

But above all, Azevedo's candidacy rests on Brazil's foreign policy over the past decade, as an emerging nation together with Russia, India, China and South Africa in the BRICS bloc, and its openness to offering a helping hand to other developing countries on every continent.

Whoever is appointed will find a paralyzed WTO riven with dissensions that obstruct the reaching of understandings. *(IPS)* ❒

Lamy panel on future of trade issues report

A report by a panel formed by the WTO head to look into "the future of trade" has come under fire from development advocates for what they say are wrong-headed proposals for trade and WTO reform.

by Kanaga Raja

GENEVA: A panel of so-called stakeholders of the World Trade Organization (WTO) on "Defining the Future of Trade", constituted by Director-General Pascal Lamy in April 2012, finally on 24 April presented its report, which was immediately rejected by civil society groups both on its contents and on the process.

A report in *The Times of India* also cited Indian officials as pointing to the report being that of a panel of Lamy consultants and not a WTO panel, and indicating that India would oppose and reject the report.

The panel report came with a disclaimer which said: "There remain elements regarding the relationship between trade opening and social and industrial policies, investment and the scope of convergence, in respect of which different views were expressed."

Recommendations

Among the main recommendations of the report are "a new approach to managing reciprocity and flexibility which fully respects the different realities and needs of members at different levels of development", but one that embraces a "more granulated and dynamic process" leading progressively to convergence.

The panel report claimed that in saying that it is time to embrace a new perspective on managing reciprocity and flexibility, the panel does not question differentiation and considers it an essential feature of a fair and effective trading system.

"We are aware that the least-developed countries and other low-income developing countries, as well as developing countries facing particular difficulties, cannot be expected to aspire to the same degree of trade opening as more developed countries while these challenges persist. But in recognizing the legitimacy of differentiation, we consider that policy effectiveness is crucial."

This seemed to imply that differentiation must give way to effectiveness of policy. It also came as a surprise that the head of the United Nations Development Programme (UNDP), who is a member of the panel, seemed to be endorsing a view that is different from that of the UN on issues of LDC (least developed country) graduation or differential treatment.

"We need a dynamic approach to flexibility, tailor-made for specific needs and supported by appropriate capacity-building programmes," the panel further said, adding that this approach should be based on four guiding principles.

These principles are: flexibilities should be based on needs and capacities; they should target specific challenges, and not focus only on categories of countries; flexibilities should be time-specific to advance progressively towards convergence; and dynamic monitoring is needed of the manner in which flexibilities are helping countries converge.

The report also resurrects the "Singapore issues" of competition policy and investment, which the EU (whose trade commissioner then was Lamy) gave up at the WTO's Cancun Ministerial Conference in 2003.

On competition policy, it believes that members should engage in the quest for a more trade-supportive international competition policy framework, building on the work of other international organizations such as the UN Conference on Trade and Development (UNCTAD), the Organization for Economic Cooperation and Development (OECD) and the International Competition Network.

As in the area of competition policy, it sees the absence of multilateral rules on investment as a gap in cooperation. "Current bilateral arrangements are not, in our view, a satisfactory substitute for a comprehensive international investment agreement."

On trade facilitation (which is being aggressively pushed by Lamy and the US, the EU and some other developed countries as a possible deliverable at the Bali Ministerial Conference this December), the Lamy panel was of the view that effective international action on trade facilitation would generate "win-win" outcomes for the international community.

"We strongly encourage members to complete the trade facilitation negotiations by the Ninth Ministerial Conference in Bali in December 2013."

Amongst other recommendations, the report calls for a stronger WTO secretariat and for it to be permitted to table proposals in order to speed up the deliberative process and facilitate consensus by providing technical information and fresh ideas. It claimed that this would in no way compromise the exclusive right of member states to decide.

The Lamy panel was composed of 12 members: Talal Abu-Ghazaleh, Chairman and Founder of Talal Abu-Ghazaleh Overseas Corporation, Jordan; Sharan Burrow, Secretary-General of the International Trade Union Confederation (ITUC); Helen Clark, UNDP Administrator; Thomas J Donohue, President and CEO of the US Chamber of Commerce; Frederico Fleury Curado, President and CEO, Embraer SA; Victor K Fung, Chairman of Fung Global Institute and Honorary Chairman of the International Chamber of Commerce; Pradeep Singh Mehta, Secretary-General of CUTS International; Fetus Gontebanye Mogae, former President of Botswana; Josette Sheeran, Vice Chairman of World Economic Forum; Jurgen R Thumann, President of BUSINESS EUROPE; George Yeo, former Foreign Minister of Singapore and Vice Chairman of Kerry Group Limited; and Fujimori Yoshiaki, President and CEO of JS Group Corporation.

Only five of the 12 panellists attended the launch of the report at the WTO on 24 April: Abu-Ghazaleh, Burrow, Mehta, Mogae and Thumann.

"Food for thought"

In his opening remarks at the launch, Lamy said that the panellists had looked at three basic elements: how trade works for welfare and under which conditions; what are the transformational factors shaping international trade in the medium to long term; and recommendations to address these challenges.

This report offers "food for thought" to the members and to many other stakeholders of the multilateral trading system as they think medium- to long-term on trade policies and as a consequence of that, for the prospects for the WTO, he added.

Lamy said this was a different exercise from members organizing themselves for the next week, next month or six months or sometimes a year ahead, and "an exercise that looks at medium, long-term ... and not about short-term" nor about a "quick fix" to conclude the Doha Round of trade talks.

"What it says about the Doha Round ... is that there is a political imperative as well as an economic rationale to conclude it..." However, many of the issues addressed in the report are of direct relevance to unlocking the Doha Round, said Lamy.

Pointing to the "most salient points" of the report, he said Chapter 1 looked at how trade can work for growth, for development, for jobs and for sustainable development. "The panel felt it was important to start with placing trade in a broader context, in a broader set of domestic or international policies that need to be in place for trade to work 'as a means to growth welfare and not as an end in itself'."

The second part looked into the factors shaping trade for the future: "the continuous technological progress ... at the heart of globalization, the rise of investment on par with the growth of trade, and the expansion of value chains."

Lamy also pointed to the rise of "emerging countries" in trade, with South-South trade having increased from 10% of world trade 20 years ago to one-third of world trade, "a manifestation of this centre of gravity of trade moving very rapidly Southwards".

He further highlighted the increase in preferential trade agreements and bilateral investment treaties, and non-tariff measures as "the" main obstacle to trade in the future.

Against this background, Lamy said, Chapter 3 of the report has a set of suggestions that members of the panel "freely offer" to the WTO members. The essence of the suggestions is "convergence".

Lamy spoke about convergence of the trade regimes of the WTO members, reflective of their progressive economic and social development; convergence between the non-multilateral regimes and the multilateral trading system; between trade and other public policies, about greater coherence specifically in non-tariff measures; and finally, convergence of trade and other domestic policies, such as education, innovation and social safety nets.

Context-dependent

Speaking at the presentation, Mogae said: "We [the panellists] said trade can support more jobs, [and] trade can be made to work for greater equality ... We want inclusive development, and ... acknowledge that even as we say trade is good, that it is contextual. It 'can' but not necessarily."

On the permissive language, Mogae said that on the whole, "we believe that trade is good and that it should be promoted. We, however, acknowledge that certain conditions have to be met and I think that is at the root of what you have been negotiating all along. And we urge that there has to be mutual accommodation, that no principle, no practice, no rule is absolutely correct in itself and that therefore it has to be accommodative of other legitimate considerations."

Abu-Ghazaleh said that he is concerned about "what next", adding that he thinks that this report deserves a critical look by the decision-makers, meaning, the ministers. He proposed a ministerial to look at this report. "I think the future of trade deserves a ministerial."

He further said that a ministerial is also needed on the reform of the WTO. "I don't think a report like this can be implemented without reforming the WTO."

He was of the view that the WTO should have a place for the trader, not just the annual public forum. He wanted the report to be sent directly to ministers for their comments.

In a strong dissenting view on the report, in her remarks, Burrow of the ITUC said that in agreeing to join the panel, she had articulated four ambitions to her constituency.

"One is to make sure that the dominant context of inequality and unemployment was recognized and that the trade regime was located in the context of what we believe is a failed model of globalization. We are not opposed to globalization. We want reform of the system generally both within and beyond the WTO but nevertheless you can't look at what is probably the advent of stagnation – certainly recession in many countries, but stagnation in others – and not say that we need some reform."

The second was to reaffirm the case for development through industrialization and structural transformation, the third was to argue the case for public policy interventions and a floor of global rights and standards for labour and environment, and the fourth was to consider and qualify where "we believe necessary" the 21st century issues.

"The report does carry a disclaimer ... Not everybody has total agreement, but this has been ... a model for discussion where you need to settle some very big questions and the debate will go on. This is the start of the debate, not the end of the debate," she said.

Stressing the ITUC's support for multilateralism, Burrow said: "We are disturbed about governments who can't sort agreement within a global framework, who then look to their own political interests elsewhere" because of the proliferation of confusion, of discrimination – the potential for all of that is there.

"So while I understand and ... put it in this context that ... convergence is a noble ambition, we also say 'not at any cost' ... the WTO constituency must recognize that because of their inability to negotiate settlements in terms of trade justice, other parties will go elsewhere, and to some extent for the world of labour which you have failed to recognize with any real strength in here as a fundamental set of rights to underpin a trading floor, then in fact there are better deals to be had elsewhere."

Burrow further said: "For us, development is absolutely critical. You can't have a just world if the policy space is not there to allow people to converge at their own pace. But it needs more than just recognition, and I think we could have done a better job on this. It actually needs to acknowledge the support that is required in terms of technology sharing which we have to get to in terms of investment, in terms of infrastructure support and so on to make this a reality or you won't see global rebalancing or inclusive growth."

The report makes the case for trade having contributed to specialization, but "we need to do much more work because that's not the reality in countries where low-value-added production is still the reality of their daily circumstances and indeed is probably preventing the transformation in some ways necessary".

On the critical issue of subsidies

raised in several points, she said that on agriculture, "while ... we recognize absolutely the ambitions for an end to trade-distorting subsidies, there is a reality here that is linked to the global supply chains that is not acknowledged".

"You have to actually end the oligopsonies; you have to put some control and that goes to some of the positive elements of competition policy on buying power when there are a very few global conglomerates who control the purchasing, the contract base for farmers, and simply saying, in our view, that 'you can decouple the costs of production with support programmes' ... is not something that most countries would necessarily accept."

Competition policy, she said, "needs more thought from us". There are positive and negative arguments but the policy must deal with the pressures of buying power on producers as well as the issues for consumers.

"Otherwise, it's simply again resorting to the notion that everything is at the cheapest production cost and the maximum profit."

On investment, she remains unconvinced. "I do wish that we had more debate on this in the context of the report. It will come but I think we have to be very careful about simply assuming the consolidation of plurilateral or bilateral trade agreements around investment because the responsibilities issue is frankly not there in most of them. And you can't just have rights of investors. You have to have a look at responsibilities."

On convergence, she said that "nobody would argue more strongly than labour that you have to have global coherence if you're going to have a globalized environment. But you can't have convergence at any cost and ... we have to get the elements of convergence that are about trade and social justice and the framework of convergence right to allow everybody to have a stake and therefore trust in a more visionary trade system".

During the question-and-answer session, Burrow said on investment that she is "absolutely appalled [over] governments signing off on investor-state dispute settlement clauses which actually are not about equal treatment".

"Am I convinced that we should consolidate those plurilateral or bilateral deals in the WTO? No, no I am not, and we've said we remain unconvinced."

She was also critical that there is no empirical data source to actually predict the impact of trade agreements on jobs.

In his remarks at the launch, Mehta of CUTS pointed to two caveats: "... any such report which comes out from a bunch of heterogeneous interests is not bound to be a unanimous report. What we have tried to do is to agree on a consensus on a very large number of issues, as well as understanding the fact that any sentence can be interpreted in two different ways" as the reader perceives it.

Thumann of BUSINESSEUROPE, which represents 35 federations and over 20 million companies, said "one may think I am sitting here a little bit in a defensive position trying to defend the old economies from old Europe and trying only to protect. No, the reverse is correct."

"I am totally convinced in open markets," he said, adding that he was aware of the sensitivity that this brings with it. "When we look a little bit back, then history will tell us quickly that open markets have brought prosperity to the societies and also, at the end, jobs."

Critical voices

Two civil society representatives from the Our World Is Not for Sale (OWINFS) global network of non-governmental organizations and social movements, spoke during the question-and-answer session.

Deborah James said that in spite of the fact of WTO membership, least developed countries (LDCs) were not represented on the panel, and there was only one member each from Africa and Latin America. Developed countries and the business sector were well represented, but there was only one worker representative.

It seemed to her that this report was actually drafted in large part by the WTO secretariat, and according to several of the panellists many of their comments were not well reflected.

"It is no surprise to me that even though you have stated several times that this report is not about the immediate negotiations but about the future, the report then does emphasize and endorse issues like trade facilitation, which is the current demand of developed countries for the proposed Bali package, and doesn't, on the other hand, include an emphasis on issues like the LDC policy demands or the problem of the emergence of the food crisis and the need for more policy space for developing countries to feed their poor, which is obviously the emphasis of the G33 proposal [on public stockholding for food security] towards Bali."

And these issues, along with the fundamental one of taking up again the implementation issues, "would obviously be the first steps of the future of changes needed to be made for the global trading system to address historical inequities in the WTO between developed and developing countries", James added.

"I am a little bit aghast that the report even goes so far as to endorse long-term developed-country proposals that were explicitly rejected by developing countries in Cancun, and of course, I'm talking about the Singapore issues of competition policy and investment."

She said she failed to see the legitimacy of this report from the point of view that it does not reflect the membership of the WTO. She therefore believed, with all due respect to the panellists and their hard work throughout the year, that it does not have a role in the future negotiations. She noted that this point was already made by several member states at the last WTO General Council meeting.

James also pointed out that she failed to see any way that this report reflects a future pathway of using trade for development, which doesn't even appear to be the goal of the report.

She concluded that it is more a reflection of the secretariat's continued emphasis on helping developed countries achieve their negotiating goals of simply expanding trade liberalization for the benefit of their corporations, rather than addressing the serious issues confronting the multilateral trading system today to change the system for countries to be able to use trade for development and job creation.

Another member of the OWINFS network, Sanya Reid Smith of the Third World Network said that the report says that trade is a means, not an end, so presumably for developing countries, development is the end goal. It is interesting then that the report explicitly says in a number of places that there should be "convergence of trade regimes, but it does not talk about convergence of levels of development".

"Usually in development, we talk about developing countries reaching the developed countries' levels of development, i.e., a convergence of development levels. But the report seems to say 'let's converge our trade regimes regardless of your levels of development'," she said.

Smith added that the report says there should be a fixed time-specific end to special and differential treatment rather than based on the actual level of development of the country, not even some objective standard like the UN LDC indicators.

"And we've seen because of the financial crisis or HIV/AIDS that many countries actually go backwards in development indicators over time, for example, their life expectancy falls as the years go by. So despite this, the proposals in the report say that they should nevertheless converge their trade regimes and their levels of liberalization, presumably of goods, services, investment, government procurement, and the Singapore issues."

This is despite the commitment in the WTO rules to special and differential treatment, Smith said. She recognized the comments of some panellists who said that they personally don't believe in convergence at any cost, but the report itself appears to recommend that WTO members violate or amend current WTO rules on special and differential treatment.

"I was also shocked to see that the proposal by one developed-country WTO member to multilateralize free trade agreements appears to be taken up as a recommendation by the panel despite the lack of support for this by WTO members generally."

As for the future of this report, she said she understands that this panel was established by the WTO Director-General on his own responsibility, and that WTO members did not choose the panel members nor set the criteria for choosing. They also did not set the terms of reference, and neither did they draft the report, review the report before it was published or agree to the text of the report.

(continued on page 25)

Systemic reforms, global economic partnership crucial, says South

During a recent UN meeting of multilateral economic bodies, developing countries underlined the need for a global development framework that encompasses deep-rooted financial and trade reform.

by Bhumika Muchhala

NEW YORK: Developing countries have called for an intergovernmental partnership to formulate a new development framework, emphasizing the need for deep-set systemic financial reform and fulfilment of the development mandate of the Doha Round of trade negotiations.

This was contained in the statement of the Group of 77 and China, represented by the Prime Minster of Fiji, JV Bainimarama, at the annual high-level meeting of the United Nations Economic and Social Council (ECOSOC) with the Bretton Woods institutions [viz., the World Bank Group and the International Monetary Fund (IMF)], the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD). The meeting was held on 22 April at the UN headquarters in New York.

Development beyond 2015

The G77 and China said that the challenges of the globalized world are becoming more complex and the global development agenda more cross-cutting in nature. At the same time, multi-stakeholders including UN agencies, academia, the scientific community and civil society are increasingly playing a more active role in the development process in the search for a sustainable, people-centred and environment-sensitive post-2015 development agenda. Nevertheless, it is crucial that national governments play a central role in framing the future global development agenda. In this regard, the formulation of a new development framework must be held through an intergovernmental process to allow the full participation of all states.

The Prime Minister of Fiji stressed that a renewed and strengthened global partnership for the post-2015 development agenda is imperative if the international community is to achieve a transformative, people-centred and planet-friendly development agenda.

In this regard, it is important that the UN builds on the strengths of the current global partnership for development and moves beyond its present framework. The Monterrey Conference marked the beginning of a new approach to dealing with issues relating to development finance and should therefore be a basis for the renewed and strengthened global partnership for development beyond 2015.

Financial reforms

The Fijian Prime Minister stated that five years after the eruption of the global financial crisis, the world economy is still struggling to recover. The current institutional arrangements have proved to be inadequate in addressing a range of pressing development issues, including reducing inequalities across and within countries.

He said that it is clear that the international financial and monetary systems in the context of global public authority need urgent deep-set systemic reform to make them more effective, transparent and legitimate. A viable model of international financial architecture, one that reflects the realities of the 21st century and gives developing countries an increased voice in global economic governance, is of critical importance.

The current attempts to reform the IMF, for instance, address certain aspects of these challenges, such as the needed changes in the distribution of voting rights that reflect new realities. However, he said, the redistribution of voting rights alone will not resolve the fundamental problems of financial instability and unavailability of liquidity for developing countries in need to generate the necessary sustainable growth and development.

Financial reform must therefore encompass liquidity creation, including improvements in the Special Drawing Rights for developing countries, setting up a framework for resolving debt distress, mobilizing the private sector to invest in productive sectors, as well as ensuring the transfer of appropriate technology at concessional terms to developing countries. Also important is the transparency and proper regulation of the financial sector, in order to ensure that capital markets can be mobilized to achieve sustainable growth and play a constructive role in the global development agenda.

Trade vital tool for equitable development

Bainimarama said that the G77 and China has stressed on numerous occasions that trade is a vital tool to provide long-term sustainable growth. However, in order to fully harness the potential of trade, it is important to uphold a universal, rules-based, open, non-discriminatory and equitable multilateral trading system that contributes to growth, sustainable development and employment creation, particularly for developing countries.

The timely conclusion of the Doha Round of multilateral trade negotiations, which must fully respect its development mandate and take into account the needs and priorities of developing countries, was also stressed. The successful outcome of the Doha Round will help to ensure growth in global trade and create new market access opportunities for developing countries.

Developed countries were called upon to provide effective trade-related technical assistance and capacity-building tailored to the specific needs and constraints of developing countries. Developed countries should also provide adequate support for the Enhanced Integrated Framework in order to address the supply side and trade-related infrastructure and productive capacity constraints of least developed countries (LDCs).

Moreover, the international financial and trading systems should adopt and implement appropriate policy measures to facilitate foreign direct investment to developing countries, including investment guarantee schemes targeting productive sectors.

Within the framework of such a renewed and strengthened global partnership, the G77 and China firmly believes that official development assistance remains essential as a catalyst for sustainable development.

The Fijian Prime Minister concluded by saying that in order to put the post-2015 development agenda on the right path, effective means of implementation, including adequate, predictable and stable financing for development, are necessary. *(SUNS7576)* ❐

South reiterates need for debt workout, human rights approach

The importance of debt restructuring processes was highlighted at a recent UN meeting on external debt sustainability and development.

by Bhumika Muchhala

NEW YORK: Developing countries have reiterated the need for sovereign debt workout mechanisms and a human rights approach to debt as well as called for remedial action on credit rating agencies.

This was contained in the statement of the Group of 77 and China, represented by the Prime Minster of Fiji, JV Bainimarama, made at the United Nations Economic and Social Council (ECOSOC) special event on external debt sustainability and development on 23 April.

The meeting was a follow-up to the UN General Assembly special event in October 2012 on sovereign debt resolution mechanisms.

The 23 April special event was to consider lessons learned from debt crises and the ongoing work on sovereign debt restructuring and debt resolution mechanisms, with the participation of all relevant stakeholders.

Reiterating the need for debt restructuring and resolution mechanisms

The G77 and China, represented by Bainimarama, said that the report of the UN Secretary-General to the 67th session of the General Assembly highlights that the total external debt of developing countries reached $4.5 trillion between 2010-11.

The importance of the ongoing debate within the UN and other relevant forums on the need for new sovereign debt restructuring and debt resolution mechanisms was underscored. These debates should take into account the multiple dimensions of debt sustainability and its role in the achievement of the internationally agreed development goals, including the Millennium Development Goals.

The Fijian Prime Minister stressed that the continuing financial and economic crisis is negatively affecting the growth prospects of many developing countries, reversing the development trends of the recent past and leading to increased poverty. Because of the limited scope of their economies, many developing countries are unable to enact the appropriate fiscal measures to mitigate the impacts of the crisis on development.

Clearly, the crisis highlights longstanding systemic fragilities and inequalities. The promise of a recovery is being threatened by new adverse circumstances, including turbulence in the global financial markets and widespread fiscal strains.

Furthermore, said the Fijian Prime Minister, the crisis has revealed the vulnerability of developing countries to exogenous shocks. It is now evident that these exogenous shocks are affecting their capacity to continue servicing their debt obligations, regardless of their good practices in the past.

The international community must realize that no path to growth can be construed or fostered with an unsustainable debt overhang, he stressed. As such, any debt restructuring exercise should have as its core element a determination of real repayment capacity. If the real repayment capacity of any country is not properly addressed, the original restructuring may require more time for further restructuring. Such an outcome would further affect growth and good-faith creditors.

The G77 and China also expressed deep concern about vulture fund litigations. Recent examples of vulture funds' actions in international courts have revealed their speculative and profit-seeking nature. These vulture funds pose a risk for all future debt restructuring processes, both for developing and developed countries.

The Group believes that vulture funds must not be allowed to paralyze the debt restructuring efforts of developing countries, and that these funds should not supersede a state's right to protect its people under international law. Debt restructuring processes and debt sustainability face serious risks when countries facing debt obligations and repayment processes are placed in such vulnerable situations by vulture funds.

A human rights approach to debt

The Fijian Prime Minister said that when the market-based, ad hoc contractual approach to debt workouts is insufficient to deal with debt crises, thereby leading to cascades of litigation and causing ripple effects throughout the debt market, the preferred option should be a human rights approach. A fair, human-centred and development-oriented mechanism enshrining the legal principle of "odious debt" should assist to ensure that a government strives to fulfil its sovereign duty to respect its people's right to development.

The UN Guiding Principles on Foreign Debt and Human Rights, which were adopted by the UN Human Rights Council in June 2012, underscore the importance of states, international financial institutions and private companies honouring the obligation to respect human rights.

According to these principles, all efforts must be directed towards achieving a negotiated settlement between the creditor and debtor, and loan agents have a responsibility to impose restrictions on the sale and assignment of debts to third parties without prior consent of the borrower state.

The G77 and China called on countries to adopt legislation consistent with these guiding principles to prevent vulture funds from pursuing excessive claims against heavily indebted countries before their national courts.

The Prime Minister of Fiji expressed support for the establishment of an independent international system of debt arbitration, in which countries facing risks of debt distress can have recourse to a debt standstill. Such a system would facilitate debt workouts with burden-sharing procedures.

Credit rating dysfunctions once again ignored

Bainimarama further stated that the G77 and China regrets to see that once again the mandate agreed upon by member states, which called for the organization of a General Assembly thematic debate on the role of credit rating agencies, has been ignored, while non-mandated debates have been organized.

The G77 and China has repeatedly highlighted dysfunctions in the rating methodology used by the major credit rating agencies. Since credit rating agencies usually do not adequately reflect the solvency of the debtor, the Group believes that it is necessary to continue the discussions on the role of credit rating agencies, with a view to proposing concrete policies aimed at reducing dependency on them and enhancing their supervision.

It is evident that credit rating agencies have inherent conflict-of-interest problems. They lack transparency and objective criteria and a very small number of firms control a large majority of the market. In order to set this right, it is important that not only should countries adapt their legislation, but the standard-setting bodies themselves should also reduce reliance on credit ratings and start pursuing objective criteria to assess credit, solvency and liquidity risks.

The G77 and China also expressed serious concern over the substantial increase in the financial stability risks of many developed economies, in particular, their high structural fragilities in financing sovereign debt created as a result of transferring private risk to the public sector. In this regard, it said, urgent and coherent solutions to reduce sovereign risk in developed economies are necessary in order to prevent contagion and mitigate its impact on the international financial system. *(SUNS7576)* ❐

G24 calls for action by advanced economies

Meeting on the eve of the IMF-World Bank spring meetings in April, ministers from the developing-country G24 grouping put forward their views on issues relating to, among other subjects, macroeconomic policy, IMF governance and development financing.

by Bhumika Muchhala

WASHINGTON: At the spring meetings of the World Bank and International Monetary Fund (IMF) on 19-21 April, the G24 developing countries issued a communique that addressed issues including the stagnation of IMF governance reform, the negative spillovers of advanced economies' unconventional monetary policies on emerging markets and developing countries, the lack of coherence in global economic policy-making between the IMF and World Bank, as well as the need to boost productivity and job creation.

The communique was negotiated by central bank officials and finance ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development (G24), which is composed of nine African countries, five Asian countries and eight Latin American countries. The Chair of the G24 this year is Mexico's Secretary of Finance and Public Credit, Luis Videgaray Caso; the First Vice-Chair is Egypt's Minister of Planning and International Cooperation, Ashraf El-Araby; and the Second Vice-Chair is Lebanon's Director-General of Finance, Alain Bifani.

Advanced economies should address macro-policies and spillovers

The G24's communique opens with an expression of concern about the adverse effects of protracted difficulties and uncertainties in the Euro area and the United States on the pace and fragility of global economic recovery. More action is needed by advanced economies to reduce uncertainties, restore confidence and strengthen growth.

The G24 called on advanced economies to take into account the negative spillover effects of their "prolonged unconventional monetary policies" on inflation, capital flow volatility and commodity price volatility, among other areas, in emerging markets and developing countries.

(Meanwhile, the IMF in its *World Economic Outlook* report has emphasized global risks emanating from emerging market economies, while diluting the impact of volatile capital flows, originating in advanced economies, on macroeconomic instability.)

Macroeconomic policies and structural reforms should focus on encouraging productivity-led growth, safeguarding financial stability and managing volatile capital flows, including through precautionary measures, the G24 stated. Many developing countries have signed onto the IMF's recently created Precautionary Liquidity Line (a financing instrument where country recipients do not actually draw on the money, which provides signals of confidence to creditors and markets).

Job creation was emphasized by the G24 communique as a "foundation for sustainable and inclusive growth".

Preceding the spring meetings, the IMF had released a new report on *Jobs and Growth*, which concludes that in a world with over 200 million people out of work and subdued global output, "macroeconomic stability not only supports job creation, but also encourages investment and growth and helps tackle inequality".

Governance reform in deep inertia

The G24 stated its regret over the missed October 2012 deadline for entry into force of the IMF's 2010 quota and governance reform, and highlighted the lack of agreement for a new quota formula by the review deadline of January 2013. It reiterated the importance of meeting the commitments to give credibility to the ongoing efforts to enhance the legitimacy and effectiveness of the IMF, and emphasized the importance of not postponing the discussion in order to reach agreement on a comprehensively reformed quota formula in time for it to serve as a basis for the 15th General Review of Quotas, to be completed by the January 2014 deadline.

Similar to previous years, the G24

reiterated that any quota realignment to reflect the growing weight of dynamic emerging market developing countries should not come at the expense of other developing countries, in particular the low-income countries. Also echoed was the group's longstanding belief that the fundamental goal of quota reform must be to enhance the voice and representation of all developing countries, including the poor and small low- and middle-income countries, and to better reflect changes in relative weights in the global economy.

Regarding the components and valuation of the quota formula, which includes criteria such as economic growth and degree of trade openness, particularly the extent to which countries have liberalized their trade with European members, the G24 communique argued that there remain serious flaws with the current formula and several steps are required. For example, due to the significant changes in the global economic landscape, the G24 contended that the role of gross domestic product (GDP) in purchasing power parity (PPP) terms must be increased in the quota formula. At the same time, the size bias must be reduced, including through higher compression.

The G24 communique recognized that the shortcomings of the variability measure must be addressed in order to adequately reflect the need for IMF resources if it is to be maintained in the formula. The Group asked that any compensation with respect to variability must take into account its primary goal of enhancing the quota shares of vulnerable countries, including the poor.

However, according to sources, during the discussion of G24 finance officials, many middle-income countries sought to remove the variability measure altogether, which would also remove the factor of trade openness while strengthening the weight of the PPP criteria. Other low-income countries criticized the proposed measures of "variability" due to the inferences it had to representing "vulnerability".

The communique urged that the serious conceptual and measurement flaws in the openness measure be addressed if it is to remain in the quota formula. Meanwhile, the G24 agreed that the criterion of foreign exchange reserves should be maintained in the quota formula at the current weight. It also reiterated that enhancing the quota shares of the poor must be done directly through the quota formula, so as to ensure a technical assurance of increased voting power.

Finally, touching on a long-held debate on the over-representation and domination of European member states on the IMF's 24-seat executive board, the G24 communique once again called on "advanced European countries to fulfill their commitment towards the consolidation of chairs".

(In order to avoid having to expand the board to 25 seats, developing-country member states of the Fund have been calling for one European chair to be given up to the creation of a third sub-Saharan African director. In diametric opposition to European over-representation, 44 sub-Saharan African countries are represented by only two directors on the Fund's board.)

The G24 also repeated its longstanding warning that a third chair for sub-Saharan African countries should not come at the expense of other developing countries, meaning that no other developing country should have to give up a chair for the induction of a third sub-Saharan African director and seat on the board.

More money on better terms for low-income countries

The G24 expressed strong reservations about halving access norms and limits to the IMF's concessional facilities when the 14th General Review of Quotas takes effect. It urged that no low-income country eligible for the Poverty Reduction and Growth Trust (PRGT), the concessional financing facility of the IMF, become worse off.

To ensure this, the Fund should raise additional resources, including through bilateral contributions and continued non-reimbursement to the General Resources Account (GRA) of administrative expenses of the PRGT. Furthermore, donors should take the necessary steps to meet the financial commitments for poverty reduction and growth in low-income countries.

The IMF's new proposal on increasing the flexibility for its official policy on "debt limits" was welcomed by the G24, which agreed that the ultimate goal must be to preserve debt sustainability, including through incentives for appropriate concessionality of financing.

The IMF's renewed focus on small and vulnerable states, in particular the small island states, was supported in the G24's communique, which called for the "expeditious completion of consultations with country authorities and other development partners to inform new and revised guidelines for IMF engagement with some of its smaller members".

G24 welcomes BRICS development bank, supports post-2015 agenda

On the UN's post-2015 development agenda, the G24's communique endorsed the UN's leadership and supported the World Bank's role in the post-2015 processes based on its mandate and comparative strengths. The G24 called for an "ambitious set of goals, with a clear plan and solid commitment to mobilize the necessary resources, and to strengthen partnerships and enable conditions for development, including financial system strengthening, recognition of countries' special needs, and improved aid delivery".

The communique supported the World Bank's vision on accelerating the end of extreme poverty and achieving shared prosperity, as proposed by World Bank President Jim Yong Kim, and agreed on the "need to focus on inclusive and equitable growth in order to lay the basis for enduring poverty reduction and job creation".

According to sources, in the G24 discussions, the question of how the World Bank's grant facility to low-income countries, the International Development Association (IDA), would interact with the post-2015 development framework was raised. However, there was no mention of systemic issues and reforms in the international financial and trade architecture, according to sources.

The World Bank's approach to sustainability was also welcomed by the G24. However, the Bank's emphasis on "environmental, fiscal and social sustainability" was changed in the communique to "social, economic and environmental sustainability". This reflected the G24's concern that the operationalization of a "fiscal sustainability" concept will result in new or reinforced obligations on the part of developing countries. Furthermore, fiscal policy is seen as belonging to the IMF's domain, not the World Bank's.

The G24 communique concludes with mention of a priority agenda amongst many developing countries, that of scaling up infrastructure financing and investments across developing countries. The communique states that the mobilization of resources and investment in infrastructure is crucial for realizing "our countries' economic development, inclusion and human development goals". The scale of infrastructure financing needs, and the deficiencies in the existing development financing architecture for those needs, "necessitate the strengthening and reorientation of all pillars of long-term financing".

The communique calls on the World Bank in particular to play a key role in meeting infrastructure financing needs. However, given the magnitude of the financing gap, alternative, complementary mechanisms will also be important. In this context, the G24 welcomed the agreement in March 2013 among the BRICS nations of Brazil, Russia, India, China and South Africa to establish a new development bank that will prioritize infrastructure financing.

While the modalities and structures of governance, membership and development financing have not yet been sketched out, sources said that one of the BRICS countries mentioned during the G24 meeting that a more concrete report will be produced at the next BRICS meeting in September in St. Petersburg. And when Brazil hosts the following BRICS summit in 2014, the operationalization of the bank will likely be announced.

Details such as the relationship between the BRICS development bank and the multilateral development banks, the question of additionality with the financing carried out by national development banks, particularly in China and Brazil, and the pertinent question on the membership and governance structure of the development bank are yet to be worked out.

The full text of the G24 communique is available at http://www.imf.org/external/np/cm/2013/041813.htm. *(SUNS7571)* ❐

The BRICS option

Whether a new set of financial institutions initiated by the middle-income BRICS countries will offer a viable alternative to the IMF and World Bank remains to be seen.

At a leader-level summit in late March, Brazil, Russia, India, China and South Africa (BRICS) announced their preliminary agreement to set up multilateral institutions for both development finance and emergency financial support. Progress was faster than expected, largely due to BRICS anger at the failure of rich countries to sufficiently include them in governance of the World Bank and International Monetary Fund (IMF), or adequately respond to their calls for greater lending. South African Finance Minister Pravin Gordhan told journalists IMF and World Bank reforms "are inadequate in terms of reflecting current economic and other realities around the world".

The so-called BRICS Bank will focus on infrastructure finance. However, details on the exact financial contributions, location and governance structure of the bank were discussed but not agreed. An agreed Contingent Reserve Arrangement (CRA), to pool foreign exchange reserves among the BRICS countries, was announced to be $100 billion and is not expected to have any formal link to the IMF.

The BRICS countries have not yet decided whether either institution would have a mandate to operate outside their own five countries. These details are to be decided over the next year, with leaders meeting again in September on the sidelines of the G20. A full agreement is expected in 2014 and the institutions to be operational by 2015.

Competition or cooperation?

For years civil society organizations have been encouraging the creation of regional financial institutions as rivals to the Bank and Fund, but these new initiatives may not really be in competition with the Washington-based lenders. In the run-up to the summit, the Brazilian Minister of Development, Industry and Foreign Trade Fernando Pimentel said: "The objective of the BRICS development bank ... is not to rival any other organization but actually to offer alternatives." The World Bank formally welcomed the BRICS announcement, saying it "stand[s] ready to work closely with the new bank to end poverty and build shared prosperity throughout the developing world".

These notes chime with the thinking of the United Nations Development Programme (UNDP)'s mid-March *Human Development Report*, which argues for "coherent pluralism" instead of "a false choice between globalism and regionalism". It went on to argue: "New institutions will be more effective if they work in concert with existing regional and global institutions, filling gaps in funding and investment."

The CRA, on the other hand, looks to be a more direct challenge to the IMF. Kavaljit Singh, of Indian NGO Madhyam, agreed: "In a western-dominated financial world, the idea of a BRICS reserve fund looks very exciting and promising. In a post-crisis world full of financial risks and uncertainties, the reserve pool could potentially reshape the global financial architecture of the 21st century."

Demanding a third approach

Civil society reactions to the BRICS announcement have overall been sceptical and cautious. Alfredo Tjiurimo Hengari of the South African Institute of International Affairs was doubtful, writing in the newspaper *Windhoek Observer* that the BRICS group "is not independent from existing global power structures. It seeks to reinforce these power structures through a voice that is not substantively an alternative, but merely one of continuity."

Dorothy-Grace Guerrero of Bangkok-based NGO Focus on the Global South said "social movements and activist academics are increasingly wary that the economic model [China] is advancing is the same unsustainable and unjust paradigm that facilitates accumulation of wealth by a few while resulting in the dispossession and pauperization of the already marginalized and powerless." Bobby Peek of South African NGO Groundwork suggested that civil society groups "build a strong criticism that demands equality instead of new forms of exploitation".

Carlos Tautz of Brazilian NGO Instituto Mais Democracia said: "For the first time in history, civil society organizations have the opportunity to monitor an international financial institution from its birth." Tautz summarized demands being made of the new institutions: "1) a wide public information policy, including norms of transparency; 2) international accountability criteria; 3) prior to disbursements, an open process for discussion and decision-making with people potentially affected by the projects; 4) the deliberative decision-making space to include civil society organizations of the countries impacted; and 5) a norm against any violation of human rights." ❐

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Developing resilience to external shocks

United Nations Conference on Trade and Development (UNCTAD) Secretary-General *Supachai Panitchpakdi* stresses the importance of reducing developing economies' vulnerability to external shocks.

GENEVA: The global repercussions of the 2007-08 financial crisis are a stark reminder of the economic interdependence in our globalizing world. No country was spared from the shockwaves that originated in the financial systems of developed economies.

Transmitted through both trade and financial channels, they led to an economic slowdown in most countries, and even outright recessions in others.

These recent events call for a thorough examination of the different kinds of possible shocks to the external economic environment and the channels through which they spread. We also need to better understand the factors that determine countries' vulnerability to such shocks, and how we can strengthen the resilience of different economies.

Perhaps the most obvious case of an external shock is that of a financial crisis, such as the Asian financial crisis which broke out in the early summer of 1997, or the most recent global financial crisis.

These shocks have demonstrated that countries need to build resilience against the shortcomings of our international monetary and financial system. The most pertinent shortcoming is the failure to avoid a disorderly expansion of short-term capital movements, which have been a major factor in creating economic instability.

Partly as a result of the experiences of the Asian financial crisis, many developing countries have built up their resilience and are in a stronger position today than in previous decades to withstand shocks originating in international capital markets.

Lower debt-to-GDP ratios and improved debt management have been contributing factors in this resilience. But the most important factor in shielding these countries from the volatility of capital flows has likely been their accumulation of foreign exchange reserves.

However, reserve accumulation as an insurance against the instability of capital markets is a costly policy measure, and one that is always second best to multilateral measures to better regulate these markets.

Furthermore, not all countries have been able to build up such a "war chest". Indeed, some countries are now left with little reserves to cope with future needs that may arise in international financial markets, making them more vulnerable to external shocks.

Trade shocks

A second external shock that has recently affected many developing countries is the sharp slowdown in demand for their exports in the developed markets after the recent financial crisis.

In the decade preceding the crisis, many developing countries were able to benefit from a trade-led expansion, allowing them to achieve growth rates that were sometimes four or five percentage points higher than those of the developed world.

This resulted in a significant shift in the balance of the world economy, with developing countries accounting for a growing share of trade and growth, and led some pundits to argue that we were about to witness a "decoupling", which would see developing countries continue to grow despite the unsatisfactory performance of developed countries.

However, prospects in the developing world remain heavily influenced by the growth dynamism in the developed countries. To the extent that developing countries continue to rely on exports to developed countries as their key growth driver and have to cope with unfettered capital flows generating boom-and-bust cycles, their economies will remain vulnerable to shocks to their external economic environment.

Most forecasts predict that the current difficult external environment is likely to remain for the near future, with only a slow recovery towards a weak growth path in advanced economies.

This suggests that developing and transition economies will need to reduce their export orientation to developed economies if they want to continue to grow and increase their resilience to external economic shocks. Instead, they will need to rely more on domestic, regional and South-South trade. Thus they will need to adapt their development strategy in order to strengthen resilience.

On the other hand, coordinated measures at the multilateral level to expand global demand would be preferable. For example, increasing domestic demand in advanced countries with a current account surplus would stimulate global demand while helping to reduce global imbalances. This would be more appropriate than the current process of global rebalancing, which is being led by demand compression in deficit countries, accentuating the risks of a global economic downturn.

These are only two examples of significant external shocks that developing countries are vulnerable to. Identifying external shocks and mitigating their impact on trade and development requires the availability of statistical tools that capture the growing interdependence of national economies.

Among the many measures that are available, the terms of trade is a key indicator of the impact of external shocks, especially in countries with a high share of external trade relative to gross domestic product.

The United Nations Conference on Trade and Development (UNCTAD) has been particularly active in this area, pursuing the development of more disaggregated terms-of-trade figures by estimating the contribution of different product groups to changes in the terms of trade.

All these issues require the attention of policymakers, as a better understanding of the problems will help in finding solutions. *(IPS)* ❐

The free-market fundamentalists are now in Europe

A combination of fiscal austerity and financial speculation could spell economic peril, cautions *Roberto Savio*.

ROME: For a long time it was a given that while Europe was based on defending a more just society, with social values and solidarity, the United States was based on the glory of individualism and competition, and anything public was considered "socialist".

One of the main accusations of the last electoral campaign in the US was that Barack Obama had an unspoken design to transform the US into another Europe, beginning with healthcare reform.

Well, it's time for an update – the defenders of market fundamentalism are now in Europe.

At the last meeting of ministers of finance on 9 April, the freshly appointed US Treasury Secretary Jacob J Lew tried to convince Europeans to lessen their commitment to austerity as the best medicine for economic problems. The US Treasury, together with the US Federal Reserve, has launched a policy of economic stimulus, with concrete success.

Every month, the Federal Reserve alone is putting $80 billion into the bond market. Incidentally, Japan is doing the same, on an even greater scale. Lew was met with a firm rejection: the best way to achieve growth in the long term (contrary to any evidence) is to cut deficits and reassure the markets, even at the cost of higher unemployment and social misery in the short term.

Europe's most powerful minister, Germany's Wolfgang Schauble, said: "Nobody in Europe sees this contradiction between fiscal consolidation and growth. We must stop this debate, which says that you have to choose between austerity and growth."

He was echoed by the president of the European Union, Herman Van Rompuy: "There is no room for complacency. The European economies have a high level of debt, deep structural medium-term challenges, and short-term economic headwinds that we need to confront."

These short-term economic headwinds are the daily reality of all the countries of Southern Europe. Suffice it to point out that youth unemployment has climbed to 22% across Europe (Spain is close to 47%) to see that we are wasting a generation, which will have no access to a future pension or a house. Like it or not, a study by the International Labour Organization (ILO) foresees that the generation now entering the labour market will retire with a pension of only 640 euros per month. Is that a sustainable society?

The reaction of British Prime Minister David Cameron to his country's loss of Triple A status was to reaffirm even more his commitment to austerity, including reductions in education and health spending.

He conveniently used the funeral celebrations for former British Prime Minister Margaret Thatcher, the forerunner of the dismantling of the welfare state, to place himself as the heir of the Iron Lady: TINA, There Is No Alternative.

More bailouts

Meanwhile, we now have the data for Cyprus. It is widely accepted that it will lose at least 2% of its gross domestic product (GDP) in the coming months and the social impact will be dramatic. Soon, it will be obliged to ask for another bailout. But under the new formula imposed by Germany, which is to make bank investors and depositors pay for the bailout, they have already lost 60% of their money. It will be interesting to see how Germany will find a way for a new bailout.

The Bank of Cyprus has already sold all its gold reserves. What will they now extort, the sale of houses? This is what is widely rumoured will be asked for in Spain and Italy, where citizens would pay a one-off amount and bank depositors would be taxed on their deposits as a condition for any European money.

At the same time, Germany sits comfortably on its trade surplus with Southern Europe, which has reached, according to the OECD, the magical amount of one trillion euros. And the bailouts to Greece, Portugal and Ireland were directed towards reimbursing bad German bank investments.

Yet, the situation of the banks and the volume of toxic titles they still possess are unclear. A number of figures circulate: what is agreed is that banks still need money to stabilize. The case of Bankia in Spain is emblematic. The government has poured in $72 billion, more than what it cut in health and education. Have the banks become wiser and less speculative now that they know they will be bailed out anyhow?

The latest news from Wall Street is revealing. The banks that created risky amalgams of mortgages and loans – the so-called derivatives, which created the immense disaster that ignited the present crisis (with the added contribution of European bank speculation over sovereign titles) – are creating exactly the same instruments of risky speculation. Forgotten is the last crisis five years ago.

In the last quarter alone, banks have issued $33.5 billion in bonds backed by commercial mortgages and proven disastrous speculation is back, just like collateralized debt obligations.

The reason is simple. Unless banks are put back to the pre-Clinton era when deposit banks were rigidly separated from investment banks, all the money that goes to the banks will go first to speculation, which has a higher return (and if anything goes wrong the state will bail them out again), and then to deposits and loans, which have a much smaller return. So, the traders specializing in those derivatives are being hired back by the banks.

Two experienced forensic experts working for a Swiss university have devised computer simulation and intelligence tests to measure the egoism of 28 professional financial traders, and to check their willingness to cooperate with others.

They discovered that the share traders were both more reckless and more manipulative than psychopaths. Thomas Noll, a psychiatrist and a prison administrator, told Germany's *Der Spiegel* that the "more egoistic" traders "were more willing to take risks than a group of psychopaths who took the same test".

What surprised the researchers was the competitive attitude of the financial traders, which had a destructive edge. Instead of being business-like and aiming to reach the highest profit, explained Noll, "it was most important to the traders to get more than their opponents, and they spent a lot of energy trying to damage their opponents".

How many crises do we have to bear before regulations eliminate risks from the banks and they are confined to the world of speculation? Or, in other words, before regulations isolate normal citizens from traders who are not wired like us? *(IPS)* ❐

Roberto Savio is founder and president emeritus of the Inter Press Service (IPS) news agency and publisher of Other News.

(continued from page 17)

So, as raised by WTO members earlier, this report does not seem to be grounds for a basis for a ministerial conference or any further work, she said.

Following the comments by the two civil society representatives during the question-and-answer session, Thumann of BUSINESSEUROPE responded: "I think you were able here to get a pretty good impression and understanding how we were talking and discussing with each other. And these two young ladies – blonde and black hair, I see from here – I would like to ask you 'be a little bit more tolerant in the future and show a little bit more respect.' I do appreciate what you say and I do take you seriously. So that's from my point of view, but I'm of course a little bit in an advanced age so therefore I'm expressing myself in this way."

Several of the participants at the launch later said privately that they were shocked at Thumann's reference to the two NGO representatives as having "blonde and black hair", and Lamy not intervening. They noted that for much less, US President Barack Obama had to issue an apology for complimenting a law officer in California. *(SUNS7574)* ❐

International investment disputes on the rise

Foreign investors are initiating more dispute cases against host-country governments before international arbitration tribunals, finds a UN development body.

by Kanaga Raja

GENEVA: The year 2012 saw the highest number of known treaty-based investor-state dispute settlement (ISDS) cases ever filed in one year under international investment agreements (IIAs), according to the United Nations Conference on Trade and Development (UNCTAD).

In its report "Recent Developments in Investor-State Dispute Settlement (ISDS)" – available at www.unctad.org/diae – UNCTAD said that with 62 new cases initiated last year, foreign investors are increasingly resorting to investor-state arbitration.

Among the main findings of the report are that in 68% of the new cases, respondents are developing or transition economies. While the number of cases initiated by developing-country investors has increased, the majority of new cases (63%) still originate from developed countries, it said.

According to UNCTAD, claimants have challenged a broad range of government measures, including those related to revocations of licences, breaches of investment contracts, irregularities in public tenders, changes to domestic regulatory frameworks, withdrawal of previously granted subsidies, direct expropriations of investments, tax measures and others.

In 70% of the public decisions addressing the merits of the dispute, investors' claims were accepted, at least in part. Nine public decisions rendered in 2012 awarded damages to the claimant, including the highest award in the history of ISDS ($1.77 billion) in *Occidental v. Ecuador*, a case arising out of a unilateral termination by the state of an oil contract.

"Recent developments have amplified a number of cross-cutting challenges that are facing the ISDS mechanism, which gives credence to calls for reform of the investment arbitration system," James Zhan, Director of UNCTAD's Division on Investment and Enterprise, said in a press release.

"The ISDS mechanism is already a source of considered reflection in numerous bilateral and regional IIA negotiations. However, a multilateral dialogue on ISDS could prove more effective in bringing about a harmonized approach to reform," he added.

ISDS trends

According to the press release, ISDS proceedings are provided for by a majority of the 3,200 international investment agreements in existence today.

According to UNCTAD, in 42 of the 62 new cases initiated in 2012, respondents are developing or transition economies, and in 15 cases they are developed countries. For five cases, the respondent country is unknown.

In 2012, Venezuela, for the second consecutive year, responded to the largest number of cases (9), followed by India (7), Pakistan (4), Algeria, Egypt and Hungary (3 each). In 2012, Belgium, Equatorial Guinea, Republic of Korea and Laos faced their first ISDS claims.

Of the 62 new cases, 39 were filed by investors from developed countries. Of these 39 cases, 29 were against developing countries or economies in transition; the remaining 10 cases were by investors from developed countries against host developed countries.

UNCTAD said that 2012 also witnessed a surge in the number of cases filed by investors from developing countries (17, compared to nine in 2011). For six cases, the investor's home country remains unknown.

The year 2012 further saw at least eight new intra-EU investment disputes, i.e., claims by EU investors against EU member states, which brought the overall number of such claims to 59.

Of the eight new claims, two were brought pursuant to the Energy Charter Treaty (to which all member states are party) and the other six pursuant to provisions of intra-EU bilateral investment treaties (BITs). Hungary was the most popular respondent, having to cope with three new intra-EU claims.

The total number of known treaty-based cases rose to 518 by the end of 2012, and since most arbitration forums do not maintain a public registry of claims, the total number of cases is likely to be higher, said UNCTAD.

The majority of cases have been brought under the International Centre for Settlement of Investment Disputes (ICSID) Convention and the ICSID Additional Facility Rules (314 cases) and the UN Commission on International Trade Law (UNCITRAL) Rules (135).

In total, said UNCTAD, over the past years, at least 95 governments have responded to one or more investment treaty arbitration: 61 developing countries, 18 developed countries and 16 countries with economies in transition.

"Argentina continues to be the most frequent respondent (52 cases) followed by Venezuela (34), Ecuador (23) and Mexico (21)," it noted.

Investor-state arbitrations have been initiated most frequently by claimants from the United States (123 cases, or 24% of all known disputes), the Netherlands (50 cases), the United Kingdom (30) and Germany (27). The three investment instruments most frequently used as a basis for ISDS claims have been the North American Free Trade Agreement (NAFTA) (49 cases), the Energy Charter Treaty (29) and the Argentina-United States BIT (17).

In 2012, ISDS tribunals rendered at least 42 decisions in investor-state disputes, 31 of which are in the public domain (at the time of writing).

Of the 31 public decisions, 12 addressed jurisdictional issues, with seven decisions upholding the tribunal's jurisdiction (at least in part) and five decisions rejecting jurisdiction.

Seventeen decisions on the merits were rendered in 2012, with 12 accepting – at least in part – the claims of the investors, and five dismissing all of the claims.

"Compared to previous years, this represents a higher percentage of rulings against the State," stressed UNCTAD.

Of the 12 decisions finding the state's liability, six found a violation of the FET (fair and equitable treatment) provision, five of the expropriation provision, two of the umbrella clause and one of the prohibition of certain performance requirements.

At least nine decisions rendered in 2012 awarded compensation to the investor, among them the highest award in the history of ISDS. Some decisions on liability have postponed the question of damages to the next phase of the arbitration.

The highest known award of damages in the history of investment treaty arbitration featured in *Occidental v. Ecuador II* where the investor was awarded $1.77 billion plus pre- and post-award compound interest by the majority of the tribunal.

In *EDF v. Argentina*, the claimant was awarded $136.13 million plus compound interest, while in *Deutsche Bank v. Sri Lanka*, the claimant was awarded $60.36 million plus interest. In *SGS v. Paraguay*, the claimant was awarded $39.02 million plus interest, and in *RDC v. Guatemala*, the claimant was awarded $11.2 million plus compound interest.

Smaller awards were granted in *Marion and Reinhard Unglaube v. Costa Rica* ($3.1 million plus interest), *Renta 4 v. Russia* ($2 million plus compound interest), *Antoine Goetz v. Burundi* ($2 million plus interest), and *Swisslion v. Macedonia* (350,000 euros plus compound interest).

Concerns

UNCTAD emphasized that developments in ISDS in 2012 have brought to light a number of cross-cutting issues and concerns.

Among these is the issue of divergent findings in that different interpretations of the same or similar IIA provisions persist.

According to UNCTAD, a vivid example for 2012 is the "umbrella" clause, a clause which obliges the contracting states to honour commitments extended to individual investors (e.g., by means of investment contracts).

It found that tribunals adopted contradictory decisions on three key issues: (i) whether an IIA claim under the umbrella clause can proceed if the underlying investment contract sets out its own dispute resolution mechanism; (ii) whether the relevant state conduct must be an exercise of sovereign powers *(ius imperii)*; and (iii) whether the parties in IIA arbitration need to be the parties to the investment contract concerned (for example, whether it is enough for the claimant in the IIA arbitration to be a majority shareholder in the company that concluded an investment contract with the state).

"Sometimes, divergent outcomes can be – at least partially – explained by the differences in wording of a specific IIA applicable in a particular case; however, for the most part they represent the differences in the views of individual arbitrators."

In the absence of a mechanism that would ensure uniformity of IIA interpretation, divergent findings can be expected to persist, UNCTAD cautioned.

UNCTAD also pointed to claims arising out of crisis-related and financial austerity measures: in 2012, a number of cases emerged that have their origin in the recent financial crisis and the ongoing economic recession.

For example, a pair of Chinese investors brought an ISDS claim against Belgium relating to that government's treatment of Fortis, a Belgian-Dutch financial institution, in the midst of the financial crisis. The claimants reportedly allege damages of $2.3 billion. A Cypriot bank notified its intention to initiate arbitration proceedings against Greece, arguing that the latter had discriminated against the claimant's Greek subsidiary when implementing its bank bailout programme.

Similarly, a number of claims have been brought, or threatened, against governments who have introduced austerity measures affecting renewable energy producers.

Reportedly, Italy, the Czech Republic and Spain have been put on notice with respect to possible arbitrations regarding those countries' withdrawal of subsidies for solar energy, introduced at a time of a more favourable economic climate.

UNCTAD further underscored that in 2012, states have continued to face investor claims concerning measures of general application introduced on environmental grounds.

Thus, Canada was on notice with respect to two potential NAFTA claims: one arising out of the moratorium on offshore wind farms introduced by the government of Ontario province (pending further research into such farms' environmental and health effects), which allegedly destroyed the claimant's contractual rights; the other regarding a ban by the government of Quebec province on oil and gas activities in certain areas.

A Swedish investor filed a case against Germany under the Energy Charter Treaty demanding compensation for the damage allegedly incurred due to the government's announced phaseout of nuclear power plants.

The UNCTAD report noted that enforcing awards against sovereign states remains a difficult issue as some governments continue not paying earlier arbitral awards rendered against them.

Some investors prefer to settle with the respondent state, often for an amount lower than that awarded but with a guarantee of prompt payment, or with the monetary award being fully or partially replaced by other benefits.

Other claimants seek to locate respondent states' assets abroad and start enforcement procedures in the relevant third countries.

Still others bring the non-payment of awards to the attention of their home governments, with a view to receiving their support. One such example from 2012 is the United States excluding Argentina from the list of countries benefiting from trade preferences, until Argentina pays on ICSID awards in favour of US investors.

Transparency

Highlighting the issue of transparency of ISDS, UNCTAD said that a notable development has been the UNCITRAL Working Group's completion of a legal standard on transparency in IIA arbitrations.

Until now, ISDS proceedings under the UNCITRAL Arbitration Rules have been characterized by a high level of confidentiality; frequently, the very existence of a dispute has been unknown.

In January 2013, the UNCITRAL Working Group II agreed on a set of rules (still to be formally adopted by UNCITRAL itself) that provide for a significantly increased level of transparency, including a public registry of disputes, open oral hearings as well as publication of key documents (notices of arbitration, pleadings, transcripts, and all decisions and awards issued by the tribunal).

These rules will apply to arbitrations under future IIAs that refer to UNCITRAL rules (unless the parties to these future treaties expressly opt out) and thus exclude the multitude of existing IIAs from their coverage, said UNCTAD.

Also noteworthy is the decision of the Warsaw District Administrative Court of 13 December 2012, where reportedly, the court held that arbitral awards rendered under investment treaties constitute public information eligible for release by the Polish government. Although under appeal, the decision may eventually oblige the government to release the unpublished award.

"At a broader level, there is the possibility that freedom-of-information laws – in those countries where they exist – can help bring to light disputes and arbitral awards that have thus far been unknown," said UNCTAD.

Third-party funding

As for third-party funding (TPF) of claims, UNCTAD said that the practice of involving specialized firms to finance IIA claims against states in exchange for a share in a possible future award or settlement in favour of the claimant has been gaining prominence in the past year and attracted the attention of commentators and scholars.

The practice of litigation finance exists in a few countries (Australia, the United States, the United Kingdom and some others) and, in some circumstances, can be viewed as giving access to justice to those claimants who do not have the means to pay hefty legal fees and other litigation costs.

On the other hand, UNCTAD stressed, there are serious policy reasons against TPF of IIA claims – for example, it may increase the filing of questionable claims.

From a respondent state's perspective, such frivolous claims, even if most of them fail, can take significant resources and may cause reputational damage. There are other concerns which put the practice of TPF into direct or indirect conflict with professional ethical rules in some countries.

While there is no international regulation of TPF and public knowledge about financing of claims is limited, IIA-related TPF developments need to be monitored closely with a view to better understanding trends and their policy implications, said UNCTAD.

According to the report, the 2012 peak in the number of new cases confirms that foreign investors continue to rely on IIA-based ISDS.

The increasing number of victories for claimants (70% in 2012) and, on some occasions, high amounts of damages awarded (e.g., the $1.77 billion in *Occidental v. Ecuador*) demonstrate the protective potential of the IIA/ISDS regime.

"The continuing trend of investors challenging generally applicable public policies, contradictory decisions issued by tribunals, an increasing number of dissenting opinions, concerns about arbitrators' potential conflicts of interest, all illustrate the problems inherent in the system."

Accordingly, said UNCTAD, the public discourse about the usefulness, legitimacy and deficiencies of the ISDS mechanism is gaining momentum, especially given that the ISDS mechanism is on the agenda in numerous bilateral and regional IIA negotiations.

"While reform options abound, their systematic assessment including with respect to their feasibility, expected effectiveness and implementation method (e.g. at the level of IIAs, arbitral rules, institutions) remains wanting. A multilateral policy dialogue on ISDS could help to develop a consensus about the preferred course for reform and ways to put it into action," it concluded. *(SUNS7568)* ❐

Dealing with the transnational corporations

Threatened by billion-dollar lawsuits arising from investment treaties, several governments have formed a new grouping to deal with transnational companies.

by Martin Khor

Leaders of several Latin American countries have set up a new coalition to coordinate actions to face the growing number of international legal suits being taken against governments by transnational companies.

A ministerial meeting of 12 countries held in Guayaquil, Ecuador, on 22 April decided on several joint actions to counter the threat posed by these lawsuits, which have claimed millions or even billions of dollars from governments.

"No more should small countries face lawsuits from big companies by themselves," said Ecuador's Foreign Minister Ricardo Patino at a media conference after the meeting which he chaired. "We have now decided to deal with the challenges posed by these transnational companies in a coordinated way."

Seven of the countries, mostly represented by their ministers of foreign affairs, trade or finance, adopted a declaration with an agreement to form a conference of states affected by transnational interests. They are Ecuador, Bolivia, Cuba, Nicaragua, Dominican Republic, St. Vincent and the Grenadines, and Venezuela.

Representatives of another five countries (Argentina, Guatemala, El Salvador, Honduras and Mexico) also attended the meeting and will convey the results to their governments.

The ministers decided to set up an executive committee, led initially by Ecuador, to coordinate political and legal actions, including sending information on legal disputes involving the states, coordinating joint legal actions and disseminating information to the public.

They also agreed to establish a regional arbitration centre for settling investment disputes, based on fair and balanced rules when settling disputes between corporations and states.

The proposed centre is to provide an alternative to existing international tribunals which are seen as biased in favour of investors' interests. The tribunals, such as ICSID (based at the World Bank in Washington), have also been accused of being mired in conflict-of-interest situations. Only a few arbitrators hear a majority of cases, with many of them also appearing as lawyers for companies in other cases, and some being board members of transnational companies.

The ministers also decided to create an "international observatory" to monitor and analyze investment cases, to reform the present arbitration system, and suggest alternative mechanisms for fair mediation between states and transnational companies.

The observatory would also promote coordination between the judicial systems of Latin American states, to ensure the enforcement of domestic judicial decisions on disputes between states and transnational corporations. It should also give advice to governments on their negotiations with transnational corporations, especially in trade and investment contracts.

Disillusionment

The meeting had been prompted by serious concerns arising from investment cases taken by transnational companies against the governments under bilateral investment treaties and free trade agreements that enable these companies to sue for loss of future profits due, for example, to new government regulations or a cancellation or amendment of a contract.

There have been more than 500 known investor-to-state cases, over 60 alone in 2012. Some countries in the region, such as Argentina, Ecuador, Venezuela and Mexico, have each had 20 to 30 cases taken against them.

The proliferation of cases in recent years has also affected developing countries in other regions, such as South Africa, India, Indonesia and Vietnam, as well as many developed countries.

Disillusionment with the agreements and the arbitration system has prompted a variety of actions by governments such as suspension of negotiations for new treaties, attempts to renegotiate or withdraw from existing treaties, and withdrawal from the jurisdiction of the ICSID tribunal.

The Vice President of Ecuador, Jorge Glas Espinel, briefed the meeting about two arbitration disputes taken against his government by oil companies under bilateral investment treaties (BITs), and on the tribunal judgments which in his view were unfair and even outrageous.

In one of the cases, Ecuador was asked to pay $2.3 billion compensation (including interest) to the American oil company Oxy, even though the arbitrators recognized that the company had broken the terms of its contract with the government.

Other ministers and officials also presented the experiences of their countries in cases taken against them by foreign investors, and proposed actions that could be taken to avoid future cases or reduce their effects.

A background note explaining the reason for the meeting said that arbitration proceedings and claims by European and US multinational companies against a growing number of states of the South have dramatically increased.

These costly litigations, the majority of which were decided in favour of the investors, not only affect the states' fiscal situation but also pose a serious challenge to their national jurisdiction and sovereignty, and compromise ongoing development plans in Latin America and other regions.

This problem originated in the 1990s when bilateral investment treaties were signed by developing countries in the expectation of attracting foreign investments, but the negative consequences of such commitments have now become evident, said the note.

A second meeting of the newly formed grouping will be held in Caracas in July. ❐

Martin Khor is Executive Director of the South Centre, an intergovernmental policy think-tank of developing countries, and former Director of the Third World Network.

Serious threat to Asian economic model

The successful East Asian model of "state-driven capitalism" is being threatened by proposals in the TPPA trade agreement to remove possible advantages of state-owned enterprises.

by Martin Khor

Many articles and books have been published on the contrast and competition between the present Western and the Asian-style economic models.

Western countries are said to have the free-market model based on competition among private firms, with the government taking a hands-off approach. East Asian countries are branded as practising "state capitalism" in which the government plays a major role in helping the local private sector and the state also fully or partially owns many enterprises.

The Western countries are increasingly attacking the Asian model, claiming that state-owned companies or state-aided commercial firms have an unfair advantage vis-à-vis the foreign firms competing with them.

In the East Asian region, countries where the state plays a substantial role include China, Malaysia, Vietnam and Singapore. Of course, in Japan and Korea their domestic firms grew to become world-beaters with the systematic backing of their governments.

For these countries, the so-called state capitalism (or in the case of socialist countries, market-oriented socialism) has worked well through industrial development and relatively high and sustained economic growth.

Some Western countries have been trying to curb or even eventually eliminate the Asian model of state-owned or state-aided capitalism.

Of course this is largely hypocritical because the American, European and Japanese agricultural sectors are highly subsidized and protected; many of their farms could not survive without massive state aid and high import tariffs. Many of their banks and industrial firms are also subsidized in various ways, including through the recent multi-billion-dollar bailouts in the wake of the recent financial crises.

This has not stopped these countries from attacking the Asian model, however. The latest attempt to curb this model is through the negotiations on a Trans-Pacific Partnership Agreement (TPPA), a trade and investment treaty involving the United States, Canada, Malaysia, Singapore, Vietnam, Brunei, Peru, Chile, Australia and New Zealand.

State-owned enterprises targeted

The TPPA contains an important section on state-owned enterprises (SOEs), championed by the US and Australia. The TPPA drafts are secret, so the text of the SOE section is not known. However, it can be anticipated that the section will contain disciplines to curb and shape the behaviour of three types of SOEs.

Recently concluded bilateral free trade agreements (FTAs) with the US contain a competition chapter that deals with two types of SOEs. For example, the US-Peru FTA has disciplines on designated monopolies and state enterprises, and it is likely that the US will propose something similar in the TPPA.

That FTA says that government monopolies shall act solely in accordance with commercial considerations, including with regard to price, quality, availability and transportation, when buying or selling the monopoly good or service.

They shall provide non-discriminatory treatment to investments, goods and services of the other signatory country. And they shall not use their monopoly position to engage in anticompetitive practices through their dealings with their parents, subsidiaries or other enterprises with common ownership in a non-monopolized market that adversely affect the investments of other countries.

State enterprises shall similarly provide non-discriminatory treatment in the sale of goods or services to investments of other countries.

More importantly, the US and Australia are proposing a third type of SOE to be subject to disciplines. According to press reports, Australia has also introduced the principle of "competitive neutrality" to discipline the SOEs.

How this principle will apply can be anticipated from the Australian government's competitive neutrality guidelines. This is based on the concept of a "government-owned business". The state-owned business enterprise which competes with private companies may obtain advantages, impeding the ability of the private sector to compete on equal terms.

According to the Australian guidelines, these advantages include exemptions from taxes; cheaper debt financing (because of the low-risk classification or government guarantees); absence of need to make a commercial rate of return; and exemption from regulatory constraints or costs.

To offset these advantages, the Australian guidelines cover how government businesses should pay taxes in full; pay back to the central government the difference in their loan costs vis-à-vis private sector loan costs; pay licence fees equivalent to the central government; and ensure that they obtain a commercial rate of return.

It is likely therefore that the draft of the TPPA will have disciplines along the lines above on a third category of SOEs, government-linked business entities involved in commercial activities that compete with the private sector.

The proposed disciplines could be along the line that "advantages" enjoyed by government-linked businesses such as those mentioned in the Australian guidelines be disallowed.

Adverse effects

The implications for Malaysia, Vietnam and Singapore would be serious because their national economies are characterized by important roles of state-owned enterprises or government-linked companies.

The countries would have to move away from their successful development model and economic structure.

Moreover, SOEs have many functions including providing social services to the public, ensuring that poor and vulnerable groups are given special consideration.

This often means that SOEs cannot operate on solely commercial grounds and that several of them depend on government subsidies and assistance. There are also cross-subsidies in that the profitable aspect of an SOE may finance non-profitable (but socially important) activities. There is a danger that the TPPA section on SOEs will prevent or hinder the socially useful functions of SOEs.

The proponents of the SOE section argue that foreign companies are not able to compete fairly with SOEs. They want the TPPA to remove or reduce the "advantages" of the SOEs.

But that could threaten the survival of the system that has helped propel the East Asian model, a creative and dynamically changing mixture of state and market.

The TPPA negotiations are still going on, and the text of the SOE section is not yet final, so there is scope for different views to be expressed.

Much is at stake, and it is important for more information to be made available on the negotiations, including on the SOE provisions. ❐

Momentum builds in US, beyond to end corporate tax evasion

Measures to combat tax dodging by corporations are in the works in the US and elsewhere.

by Carey L Biron

WASHINGTON: The US government's main watchdog on 15 April reported that US corporations are paying taxes on less than half of their declared income, largely due to dozens of tax breaks that have come under increased scrutiny in recent months.

The Government Accountability Office (GAO) is reporting that US companies received tax breaks worth around $181 billion in 2011, slightly more than what they paid in taxes. That figure would make up the largest such sum since a major rewrite of the US tax code took place in the mid-1980s.

A significant part of these breaks are due to a legal exemption under which US companies are not required to pay taxes on income earned overseas until it is brought back into the country. Yet corporations have increasingly been accused of misusing this exemption, misreporting overseas income or lodging it in countries with low or loose tax regulations.

"It's extremely important that corporate tax expenditures receive the same level of scrutiny as any spending item," Dan Smith, a budget researcher at US PIRG, an advocacy group, told Inter Press Service (IPS).

"Often these things get inserted at the last minute behind closed doors, and the public can't scrutinize whether they are in the public interest. Some of the largest companies are regularly exploiting these loopholes to make it look as though income they make here is getting made in another country."

The results are an estimated $150-billion loss to the US Treasury per year – a massive amount at a time of debt anxiety and austerity measures now threatening to bite heavily into public programmes. Indeed, an important component of the current debt debate here involves overhauling and simplifying the US tax code, including closing loopholes.

Similar discussions are increasingly taking place in capitals around the world, and leading to real new regulation and legislation.

Also on 15 April, the deadline by which US citizens were required to file their individual taxes, US Representative Lloyd Doggett unveiled a package of legislative proposals, backed by 45 co-sponsors, aimed at closing a series of loopholes in the US tax code and deterring the use of overseas tax havens.

"Over a three-year period, 30 [top]

companies devoted more of their monies to lobbying this Congress than they did in paying taxes to the Treasury," Doggett, one of two members of Congress to request the new GAO report, said in a Congressional hearing. "Some have a negative tax rate. Many of our largest corporations are paying effective rates that are single digits."

Doggett's new bill, the Stop Tax Haven Abuse Act, would also require all US-registered multinational corporations to provide annual income reporting on a country-by-country basis. Proponents say doing so would quickly highlight any glaring discrepancies between a company's reporting and its work on the ground.

Such a requirement would also make it easier for developing countries to ensure that they were receiving proper taxes from foreign corporations working within their territory.

A similar piece of legislation, introduced in February, is currently before the Senate. While versions of both proposals have been introduced previously, US PIRG's Smith says the bills are today in a far stronger position.

"This issue is definitely heating up – with Congress currently trying to figure out how to fund public priorities while bringing down the deficit, it's just impossible to ignore offshore tax haven abuse anymore," he notes.

"And importantly, politicians on both sides of the aisle are starting to see that it's not in the public interest when corporations can exploit these loopholes. This costs a lot of money, and owners of small businesses end up picking up the tab in cuts to public programmes and higher deficits."

Public support for regulatory changes appears to be quite strong. According to recent polls, around 80% of the US public and 85% of small-business owners support strengthened tax regulations that would make it far harder for corporations to exploit offshore tax havens.

EU initiative

The new momentum to end tax haven loopholes here in the United States joins a similar movement internationally, including at the highest levels of the development community.

In the week of 8 April, five members of the European Union – France, Germany, Italy, Spain and the United Kingdom – agreed to the world's first multilateral system of tax information exchange, based on similar bilateral US requirements passed three years ago. (The United States itself doesn't tax foreign-owned income in US banks, and hence is one of the world's largest tax havens.)

Over the 13-14 April weekend, five more countries – Belgium, the Czech Republic, the Netherlands, Poland and Romania – signed on to the pilot project, which is open to all EU members.

"There's a flurry of action going on right now, both domestically and internationally, but this EU announcement is huge," Clark Gascoigne, communications director for Global Financial Integrity, a Washington watchdog group, told IPS.

"It pokes a massive hole in international bank secrecy and ensures that tax officials will have a lot of the information they need to crack down on tax haven-related evasion. They're now promoting this as the new global standard on tax information sharing – a major development that will do much to curtail evasion, particularly once it's expanded to developing countries and emerging economies."

Indeed, the ramifications of this discussion for developing countries are enormous. In March, a high-level United Nations panel negotiating the next phase of the Millennium Development Goals (MDGs), the deadline for which is 2015, produced a communique stating that one of their highest priorities would be tackling the abuse of offshore tax havens and illicit financial flows.

According to a recent report by Global Financial Integrity, such abuse could be resulting in losses for developing countries as high as a trillion dollars a year.

Gascoigne notes this is 10 times the amount that developing countries receive in foreign aid each year. "This has a devastating impact on global development, and it's fantastic that this is finally being recognized," he says.

"There is a severe lack of transparency right now in how multinational companies are structured, and this facilitates extremely high levels of illicit flows out of developing countries. Beyond setting a precedent that these abuses are not acceptable in the United States, the legislative proposals in Congress would force corporations to properly record their profits in developing countries, where they're producing and selling their products." *(IPS)* ❐