THIRD WORLD
Economics
TRENDS & ANALYSIS

Published by the Third World Network KDN: PP 6946/07/2013(032707) ISSN: 0128-4134 Issue No 550 1 – 15 August 2013

TPPA threatens to narrow governments' policy space

Talks spearheaded by the US to establish a major free trade area in the Pacific region have sparked concern that the governments involved would become unduly constrained in formulating policies in their national interest. Among the key areas in which the planned Trans-Pacific Partnership Agreement (TPPA) could erode member states' policy space are trade, investment, government procurement and intellectual property rules.

Also in this issue:

THIRD WORLD
Economics
Trends & Analysis

131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Fax: (60-4) 2264505
Email: twnet@po.jaring.my
Website: www.twn.my

Contents

THIRD WORLD ECONOMICS
is published fortnightly by the Third World Network, a grouping of organisations and individuals involved in Third World and development issues.

Publisher: S.M. Mohamed Idris; **Editor:** Chakravarthi Raghavan; **Editorial Assistants:** Lean Ka-Min, T. Rajamoorthy; **Contributing Editors:** Roberto Bissio, Charles Abugre; **Staff:** Linda Ooi (Administration), Susila Vangar (Design), Evelyne Hong & Lim Jee Yuan (Advisors).

• **Annual subscription rates:** Third World countries US$75 (airmail) or US$55 (surface mail); India Rs900 (airmail) or Rs500 (surface mail); Malaysia RM110; Others US$95 (airmail) or US$75 (surface mail).

• **Subscribers in India:** Payments and enquiries can be sent to: The Other India Bookstore, Above Mapusa Clinic, Mapusa 403 507, Goa, India.

• **Subscribers in Malaysia:** Please pay by credit card/crossed cheque/postal order.

• **Orders from Australia, Brunei, Indonesia, Philippines, Singapore, Thailand, UK, USA:** Please pay by credit card/cheque/bank draft/international money order in own currency, US$ or euro. If paying in own currency or euro, please calculate equivalent of US$ rate. If paying in US$, please ensure that the agent bank is located in the USA.

• **Rest of the world:** Please pay by credit card/cheque/bank draft/international money order in US$ or euro. If paying in euro, please calculate equivalent of US$ rate. If paying in US$, please ensure that the agent bank is located in the USA.

Visit our web site at http://www.twn.my.

Printed by Jutaprint, No. 2, Solok Sungei Pinang 3, Sungai Pinang, 11600 Penang, Malaysia.

What to expect in the TPPA talks

The Trans-Pacific Partnership Agreement (TPPA) currently under negotiation would impose onerous obligations on member state governments and impinge on their policymaking capacity in a broad range of economic areas.

by Martin Khor

GENEVA: The nature and effects of free trade agreements (FTAs) have become a topic of public discussion, especially with the 18th round of talks on the Trans-Pacific Partnership Agreement (TPPA) that took place from 15 to 24 July in Malaysia.

Not much is known about the TPPA drafts. But with some of its chapters leaked and available on the Internet, and since much of the TPPA is likely to be similar to bilateral FTAs that the United States has already signed, we can have a good idea of its main points.

As can be expected, there are many contentious issues to consider, especially for developing countries.

(The countries involved in the TPPA negotiations are Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. Japan has just joined too.)

Trade and beyond

Actually, only a small part of the TPPA is about trade as such. Most chapters are on other issues, like services, investment, government procurement, disciplines on state-owned enterprises and intellectual property. Joining the TPPA or similar FTAs will mean a country having to make often drastic changes to existing policies, laws and regulations, which will in turn affect the domestic economy and society.

On trade itself, the TPPA countries will have to remove tariffs on almost all products coming from one another. Perhaps only one or two products can still be protected. The main implication is that local producers and farmers would have to compete with tariff-free imports from other TPPA countries. This may lead to loss of market share or closure of some sectors.

Ironically, agricultural subsidies, which are the main trade-distorting practice of developed countries like the US, have been kept out of the agenda of the TPPA (or other FTAs involving Europe). The developed countries are clever not to include what would be damaging to them. Thus the developing countries are deprived of what would have been the major trade gain for them.

On services and investments, we can expect that TPPA countries will have to open all their services and investment sectors to the entry and establishment of companies, in manufacturing as well as services including finance, commerce, telecoms, utilities, and professional and business services. If a country wants to exclude any sector, it will have to list this in a table of exceptions, and this will also be subject to negotiations. Future new services cannot be excluded as they are not even known yet today.

In the investment chapter, the country will have to commit not only to liberalize the entry of foreign companies, but also to protect the foreign investors' rights in an extreme way that goes far beyond what is recognized in national laws and courts. For example, the foreign investor includes any person or company who has an asset (factory, land, shares, contract, franchise, intellectual property, etc.). "Fair and equitable treatment" to be given to the foreign investor has been interpreted in past cases to include a standstill on (i.e., no changes in) regulation.

Thus, any new laws or changes in laws and regulations that the foreign investor claims will affect its future revenues can be challenged in an international tribunal for monetary compensation. The regulations could be economic (e.g., terms in contracts, type of or ratios on foreign ownership, financial regulation including in a crisis), health-related (e.g., food safety, tobacco control, provision of cheaper medicines), environment-related (e.g., ban on chemicals, policies on rivers, forests and climate change) or social (e.g., affirmative action for disadvantaged groups or communities).

TPPA countries have agreed to allow foreign companies to sue governments in an international arbitration tribunal (usually the International Centre for Settlement of Investment Disputes, based in the World Bank in Washington DC) for compensation for expropriation, or for not giving them fair treatment. Expropriation is defined not only as confiscation of property or breaking of contracts, but also as reduction of revenues due to a change in policies and regulations.

These investor-state disputes can cost countries a lot. A tribunal awarded an American oil company $2.3 billion against Ecuador's government in 2012. Indonesia is being sued for $2 billion for withdrawing a contract that a state government made with a UK-based company.

The TPPA will also open up government procurement, with foreigners allowed to bid on similar terms as locals for goods, services and projects of the federal government (and possibly also state and municipal governments) above a threshold value. Existing preferences in government procurement for local companies will be affected, as will the ability of government to use its spending and procurement policy to boost the domestic economy and as a major social and economic policy instrument.

Since government procurement contracts are considered investments, the foreign supplier can sue the government at an international tribunal by claiming unfair treatment including a renegotiation of contract.

There is also a sub-chapter on state-owned enterprises (SOEs). The US and Australia are proposing disciplines on the operations of SOEs, including commercial companies in which the government has a share. This would restrict the state's ability to govern or manage government-linked companies, or provide them with incentives and preferences. It would have serious implications for many a developing country whose success is based on the role of the state in the economy and on public-private sector partnerships.

The chapter on intellectual property has generated public debate because it obliges the TPPA countries to have intellectual property laws far beyond the existing World Trade Organization (WTO) rules. Longer patent terms and restrictions on the state's policy freedom to promote generic medicines are expected to raise the prices of medicines (see following article). Tighter copyright rules would also affect access to knowledge, including books, journals and digital information. Local producers in industry may also find it more difficult to upgrade their technologies and local farmers could have less access to agricultural inputs including seeds.

These are the specific issues that are or should be at the centre of the TPPA negotiations. There are many benefits to the foreign investors or companies, as contrasted to the local, as can be seen from the above. Local companies would lose a lot of their present advantages or preferences, and they cannot stake a claim to "fair and equitable treatment" nor sue the government in a foreign court, unlike their foreign counterparts.

Naturally, there are pros and cons to any agreement. Any potential gain for a country in exports or investments should be weighed against potential losses to domestic producers and consumers, and especially the loss to the government in policy space and potential payouts to companies claiming compensation. ❒

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.

Critics warn Pacific pact could jack up drug costs

The availability of affordable medicines could come under threat from strict intellectual property provisions proposed for the TPPA.

by Jared Metzker

WASHINGTON: With talks ongoing to create a major proposed free trade area, the Trans-Pacific Partnership (TPP), the United States is pushing several developing countries to accept provisions that critics say would make it more difficult for their citizens to access medicine.

"The concern about access to medicine, and that the TPP deal will lead to high healthcare costs, is huge," Arthur Stamoulis, executive director of Citizens Trade Campaign, a fair trade advocacy group based here, told Inter Press Service (IPS).

On 15 July, as negotiations for the TPP entered their 18th round, Medecins Sans Frontieres (MSF), a humanitarian organization, reflected this concern, and urged negotiating countries to "remove terms that could block people from accessing affordable medicines, choke off production of generic medicines, and constrain the ability of governments to pass laws in the interest of public health."

Negotiations for the TPP, which officially started in 2010, involve the United States, Australia, New Zealand, Chile, Peru, Brunei, Singapore, Malaysia, Vietnam, Canada, Mexico and Japan. Other countries have expressed interest in signing on as well.

The Office of the United States Trade Representative has explained that the purpose of the deal is to "enhance trade and investment among the TPP partner countries, promote innovation, economic growth and development, and support the creation and retention of jobs."

Yet critics have long warned that the United States appeared to be setting onerous conditions for any agreement, while complaining that the talks have been held in near-secrecy, lacking oversight even from the US Congress.

Restrictions on affordable drugs

While intellectual property provisions proposed by the US may be intended to promote innovation, MSF notes that they would extend monopoly powers derived from patents to pharmaceutical companies that sell their medicines abroad.

This means that it would take longer for cheaper generic drugs to come to market in low-income countries, where citizens often struggle to afford basic necessities. Further, by hamstringing Asian suppliers of generic drugs, the effect of the TPP's restrictive intellectual property provisions could ultimately reverberate beyond the countries involved in the agreement.

"The critically important role that many Asian countries have in supplying both generic medicines and the active pharmaceutical ingredients needed to produce drugs is in jeopardy because of new restrictions proposed in the TPP," says Judit Rius Sanjuan, US manager of MSF's Access Campaign.

"The TPP threatens to put a stranglehold on the world's supply of affordable treatments, with dire consequences for patients, treatment providers, and pharmaceutical producers in developing countries."

The proposed agreement could facilitate "evergreening" by patent-holding pharmaceutical companies, a term that refers to legal manoeuvres that, when successful, lead to monopoly powers being maintained longer than the 20 years typically allotted by patents.

Imposing these types of new restrictions would run counter to previous international agreements and national legislation under which Washington has pledged to expand access to generic medicines. Any restriction in access to such medicines would also affect the United States' own global health goals. Generics are said to make up some 98% of the medicines used by PEPFAR, the United States' flagship anti-HIV/AIDS programme and the world's largest.

MSF calls the practice of evergreening "abusive". Further, under a free trade agreement, all adhering countries would conform their laws, and the standard promoted by the United States would, the group is warning, do so in a way that would make evergreening more feasible abroad.

For the administration of President Barack Obama, there has been a sense of urgency to finish the TPP negotiations by the fall. Some observers have suggested that this could lead countries that would otherwise reject the clauses affecting access to medicine to allow them to remain.

"We are hearing from other negotiating teams that the pressure to finalize this agreement by October is rising," Sanjuan told IPS during a previous round of negotiations, "and they fear that if there is not more time for substantive discussion, this chapter could stand."

Lack of transparency

She also notes that negotiations are being carried out in secret and without input from civil society. Her office became aware of the clauses related to intellectual property and access to medicine only after the text of a chapter was leaked to them.

In fact, concerned groups and the media have had extremely limited opportunities to speak with negotiators.

Much of the communication has occurred at so-called "stakeholder meetings", wherein groups are allowed to make brief presentations to certain negotiators and given controlled access to speak face-to-face with them.

IPS recently attended a stakeholder meeting related to another major proposed US-led free trade agreement and was told by multiple delegates that the information they could divulge was very limited.

That lack of transparency is being interpreted by some as a clear indication that the TPP agreement is not being negotiated in the interest of the general public. Indeed, the vast majority of those who have had access to the TPP talks have been representatives of major corporations.

"TPP is certainly not being written in the interest of small business owners or working people," Citizens Trade Campaign's Stamoulis says. Instead, he suggests it will serve the interest of "a small handful of very powerful corporations".

Stamoulis, too, notes mounting pressure on negotiators to finish the deal by the end of the year. "They're definitely going full steam ahead to get this thing done as fast as possible, there's no doubt about that," he says.

For her part, Sanjuan recommends that the urgency of those looking to push the agreement through be met by urgency on the part of those who want to avoid restricting medicinal access to poor people.

"The time for negotiators to fix the TPP is now, in this round of talks, before political pressure escalates and a deal that is bad for public health is sealed in the interest of time." *(IPS)* ❒

Resolution on access to medicines adopted

The UN Human Rights Council has adopted a resolution on access to medicines which has been described as a step forward in addressing this issue within the framework of the right to health.

by K.M. Gopakumar

NEW DELHI: The United Nations Human Rights Council has adopted a resolution on access to medicines despite opposition from the United States and the European Union.

This was at the 23rd session of the Council held in Geneva on 27 May-14 June. The resolution was sponsored by developing countries as a follow-up to the report of the UN Special Rapporteur on the right of everyone to the enjoyment of the highest attainable standard of physical and mental health, Anand Grover, on access to medicines.

The resolution, titled "Access to medicines in the context of the right of everyone to the enjoyment of the highest attainable standard of physical and mental health", was adopted on the basis of a vote on 13 June. Out of 47 members of the Human Rights Council, 31 voted for the resolution while 16 abstained from voting.

The following countries voted in favour of the resolution: Angola, Argentina, Benin, Botswana, Brazil, Burkina Faso, Chile, Congo, Costa Rica, Cote d'Ivoire, Ecuador, Ethiopia, Gabon, Guatemala, India, Indonesia, Kenya, Kuwait, Libya, Malaysia, the Maldives, Mauritania, Pakistan, Peru, the Philippines, Qatar, Sierra Leone, Thailand, Uganda, United Arab Emirates and Venezuela.

The following countries abstained from voting: Austria, Czech Republic, Estonia, Germany, Ireland, Italy, Japan, Kazakhstan, Montenegro, Poland, Republic of Korea, Republic of Moldova, Romania, Spain, Switzerland and the United States.

US amendment proposals

According to a developing-country delegate, the EU and the US led the abstention. It was learnt that the US had proposed five amendments to the resolution with the objective of limiting the scope of the resolution to essential medicines and also to dilute the wording on local manufacturing.

Disagreement during the informal negotiations led to the decision of the US, the EU, Japan, Republic of Korea, Switzerland and Kazakhstan to abstain from voting.

Another developing-country delegate termed the EU's abstention decision as "backstabbing" because the EU had proposed a series of amendments during the informal negotiations and consensus was reached on many issues raised by the EU. However, the EU decided to backtrack from the consensus and joined with the US decision to abstain from voting.

The US proposed five amendments. The first was to delete "the highest attainable level of health for all including through" before "access", and add "to all" after "access" in Operational Paragraph 3 (OP 3) that reads: "Stresses the responsibility of States to ensure the highest attainable level of health for all, including through access, without discrimination, to medicines, in particular essential medicines, that are affordable, safe, efficacious and of quality."

The US proposal would have changed OP 3 to read: "Stresses the responsibility of States to ensure access to all, without discrimination, to medicines, in particular essential medicines, that are affordable, safe, efficacious and of quality."

Thus, the US proposal intended to dilute the language by removing the words that link access to medicines to the goal of the highest attainable level of health for all. In effect, it means restricting state responsibility to ensure access to medicine mainly in the context of essential medicines.

Secondly, the US proposed to add the words "in particular essential medicines" after the words "to medicines" in OP 5(a).

OP 5(a) urges states, as appropriate, "To implement, or where they do not exist, to establish, national health frameworks that ensure access for all, without discrimination, to medicines that are affordable, safe, efficacious and of quality".

The US proposal would have changed OP 5(a) to limit the scope primarily to essential medicines: "To implement, or where they do not exist, to establish, national health frameworks that ensure access for all, without discrimination, to medicines, in particular essential medicines, that are affordable, safe, efficacious and of quality."

Thirdly, the US proposed to add the words "where appropriate" after the word "including" in OP 5(h) that reads: "To promote access to medicines for all, including through the use, to the full, of the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights which provide flexibility for that purpose, recognizing that the protection of intellectual property is important for the development of new medicines, as well as the concerns about its effects on prices."

The US proposal would have changed the sentence to: "To promote access to medicines for all, including, where appropriate, through the use, to the full, of the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights which provide flexibility for that purpose, recognizing that the protection of intellectual property is important for the development of new medicines, as well as the concerns about its effects on prices".

Thus, the US intended to dilute the language on the use of flexibilities in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) by introducing the condition of appropriateness, which is not found in other international documents such as the UN General Assembly resolution on HIV/AIDS, the General Assembly political declaration on non-communicable diseases, etc.

Fourthly, the US proposed to delete the words "measures and" in OP 5(j) that reads: "To apply measures and procedures for enforcing intellectual property rights in such a manner as to avoid creating barriers to the legitimate trade of affordable, safe, efficacious and quality medicines, and to provide for safeguards against the abuse of such measures and procedures."

The US proposal would have reduced the scope of OP 5(j) by removing the measures used for the enforcement of intellectual property rights (a matter of considerable controversy) from the scope of the resolution.

Fifthly, the US proposed to add the word "promoting" before the words "access to medicines" in OP 6 that reads: "Calls upon the international community to continue to assist developing countries in promoting the full realization of the right of everyone to the enjoyment of the highest attainable standard of physical and mental health, including through access to medicines that are affordable, safe, efficacious and of quality, and through financial and technical support and training of personnel, while recognizing that the primary responsibility for promoting and protecting all human rights rests with States."

With addition of the word "promoting", the role of the international community would only be to promote access to medicines, a very diluted role in the context of ensuring access to medicines.

It is noteworthy that the US did not oppose OP 7(a), OP 7(g) and OP 7(i) of Human Rights Council Resolution 17/14 dated 14 July 2011 that are verbatim reproduced in OP 5(a), OP 5(h) and OP 5(j) of the June 2013 resolution.

(The 2011 Resolution 17/14 is titled "The right of everyone to the enjoyment of the highest attainable standard of physical and mental health in the context of development and access to medicines".)

According to an observer, the US might have purposefully proposed the textual changes at the last minute to avoid consensus on a resolution containing language to develop a policy framework on local production of medicines.

EU suggestions

It was also learnt that the EU, apart from suggesting more than 25 textual amendments to the first version of the June 2013 resolution, also raised three broad comments which indirectly questioned the very idea of the resolution.

The first comment suggested that even though access to medicines is a health and human rights issue, the Human Rights Council is not "well-placed" to discuss the "specialized technical issues" on health, trade and intellectual property. According to the EU, such discussion may lead to "undesirable duplication of efforts".

Secondly, the EU expressed the view that the scope needs to consider all the determinants of access from the production to the delivery of the medicines, integrating essential elements such as quality or rational use. These elements, the EU said, are currently under the mandate and ongoing work of the World Health Organization (WHO).

Thirdly, the EU stressed that the right to health extends far beyond access to medicines and includes a wide range of factors that can help us to lead a healthy life.

It was learnt that even though some of the EU amendment proposals were limited to language edits without altering the substance of the resolution, many proposals were also aimed at diluting/limiting the content of the resolution. For instance, the EU proposed the replacement of the word "ensure" with "promote" in OP 5(a).

It proposed the words "quality, safe, efficacious and affordable" to be added before the word "medicine" in various operating paragraphs such as OP 5(f) that reads: "To strengthen, or where they do not exist, to establish, national monitoring and accountability mechanisms for policies relating to access to medicines."

Further, it is also learnt that the EU proposed two amendments to OP 5(h) that reads: "To promote access to medicines for all, including through the use, to the full, of the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights which provide flexibility for that purpose, recognizing that the protection of intellectual property is important for the development of new medicines, as well as the concerns about its effects on prices."

Firstly, the EU proposed to add the words "quality, safe, efficacious and affordable" after the words "access to". Secondly, it proposed deletion of the words "as well as the concerns about its effects on prices".

The EU also proposed the deletion of OP 5(j): "To apply measures and procedures for enforcing intellectual property rights in such a manner as to avoid creating barriers to the legitimate trade of affordable, safe, efficacious and quality medicines, and to provide for safeguards against the abuse of such measures and procedures."

In the final resolution, these EU proposals were not accepted.

Resolution contents

The resolution contains 11 preamble paragraphs (PP) and 10 OP.

PP 7 recalls the confirmation of the WTO's Doha Ministerial Declaration on the Agreement on Trade-Related Aspects of Intellectual Property Rights and Public Health that "the Agreement does not and should not prevent members of the World Trade Organization from taking measures to protect public health and that the Declaration, accordingly, while reiterating the commitment to the Agreement, affirms that it can and should be interpreted and implemented in a manner supportive of the rights of members of the Organization to protect public health and, in particular, to promote access to medicines for all, and further recognizes, in this connection, the right of members of the Organization to use, to the full, the provisions of the above-mentioned Agreement, which provide flexibility for this purpose".

PP 8 regrets the fact that a high number of people are still without access to affordable, safe, efficacious and quality medicines and underscores that improving such access could save millions of lives every year. It also notes with deep concern that more than one billion people still do not have access to essential medicines.

PP 10 expresses concern that the growing incidence of non-communicable diseases constitutes a heavy burden on society, with serious social and economic consequences, which represent a leading threat to human health and development, and recognizes the urgent need for further measures at the global, regional and national levels to prevent and control such diseases in order to contribute to the full realization of the right of everyone to the highest attainable standard of physical and mental health.

OP 1 takes note of the study of the Special Rapporteur on the right of everyone to the enjoyment of the highest attainable standard of physical and mental health on existing challenges with regard to access to medicines in the context of that right, ways to overcome them and good practices.

OP 2 recognizes that access to medicines is one of the fundamental elements in achieving progressively the full realization of the right of everyone to the enjoyment of the highest attainable standard of physical and mental health.

OP 3 stresses the responsibility of States to ensure the highest attainable level of health for all, including through access, without discrimination, to medicines, in particular essential medicines, that are affordable, safe, efficacious and of quality.

OP 4 emphasizes the central role of prevention, the promotion of healthy lifestyles and the strengthening of health systems.

OP 5, which is the central element of the resolution, urges States, as appropriate, to take the following 16 measures to fulfill their obligations on access to medicines within the right to health framework:

(a) To implement, or where they do not exist, to establish, national health frameworks that ensure access for all, without discrimination, to medicines that are affordable, safe, efficacious and of quality;

(b) To develop a policy framework on medicines, including, where appropriate, local production of medicines, with the aim of ensuring long-term accessibility and affordability of medicines;

(c) To adopt regulation measures with a view to providing access of the population, and particularly individuals in vulnerable situations, to affordable medicines;

(d) To raise awareness about the responsible use of medicines, including through the wide dissemination of information in that regard, taking into account the potential risks to health;

(e) To promote the informed participation of relevant stakeholders, as appropriate, in formulating national medicines policies and programmes, while safeguarding public health from undue influence by any form of real, perceived or potential conflict of interest;

(f) To strengthen, or where they do not exist, to establish, national monitoring and accountability mechanisms for policies relating to access to medicines;

(g) To ensure that procurement practices and procedures for medicines are transparent, fair, competitive and non-discriminatory;

(h) To promote access to medicines for all, including through the use, to the full, of the provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights which provide flexibility for that purpose, recognizing that the protection of intellectual property is important for the development of new medicines, as well as the concerns about its effects on prices;

(i) To foster the development of technology and the voluntary transfer of technology to developing countries, on mutually agreed terms aligned with national priorities, bearing in mind the specific needs of least-developed countries in this regard;

(j) To apply measures and procedures for enforcing intellectual property rights in such a manner as to avoid creating barriers to the legitimate trade of affordable, safe, efficacious and quality medicines, and to provide for safeguards against the abuse of such measures and procedures;

(k) To strengthen, or where they do not exist, to establish, national health regulatory systems that ensure the quality, safety and efficacy of medicines;

(l) To promote the improvement of health infrastructures necessary for access to affordable, safe, efficacious and quality medicines, such as storage and distribution systems;

(m) To ensure that investment, industrial or other policies promote development and access to medicines, in particular their affordability;

(n) To explore and promote a range of incentive schemes for research and development, including addressing, where appropriate, the delinkage of the costs of research and development and the price of health products, in accordance with the Global Strategy and Plan of Action on Public Health, Innovation and Intellectual Property;

(o) To improve domestic management capacities in order to improve delivery and access to quality, safe, efficacious and affordable medicines;

(p) To promote universal health coverage in national systems as one of the efficacious means to promote access to medicines for all.

OP 6 calls upon the international community to continue to assist developing countries in promoting the full realization of the right of everyone to the enjoyment of the highest attainable standard of physical and mental health, including through access to medicines that are affordable, safe, efficacious and of quality, and through financial and technical support and training of personnel, while recognizing that the primary responsibility for promoting and protecting all human rights rests with States.

OP 7 invites relevant United Nations programmes and agencies, in particular WHO, as well as other relevant international organizations, within their mandates, to consider the findings of the study of the Special Rapporteur.

OP 8 recognizes the innovative funding mechanisms that contribute to the availability of vaccines and medicines in developing countries, such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, the GAVI Alliance and the International Drug Purchase Facility, UNITAID, and calls upon all States, United Nations programmes and agencies, in particular WHO, and relevant intergovernmental organizations, within their respective mandates, and encourages relevant stakeholders, including pharmaceutical companies, while safeguarding public health from undue influence by any form of real, perceived or potential conflict of interest, to further collaborate to enable equitable access to quality, safe and efficacious medicines that are affordable to all, including those living in poverty, children and other persons in vulnerable situations.

OP 9 urges all States, United Nations agencies and programmes and relevant intergovernmental organizations, within their respective mandates, and encourages non-governmental organizations and relevant stakeholders, to promote innovative research and development to address health needs in developing countries, including access to quality, safe, efficacious and affordable medicines, and in particular with regard to diseases disproportionately affecting developing countries, as well as the challenges arising from the growing burden of non-communicable diseases.

A step forward

According to an observer, the resolution is a step forward in addressing the issue of access to medicines within the right-to-health framework.

This is the first time a comprehensive resolution covering most of the determinants of access to medicines within the human rights framework is articulated in a stronger language than the earlier Human Rights Council Resolution 17/14 of 2011.

Secondly, unlike with some earlier resolutions, the scope of the June 2013 resolution is not limited to essential medicines and covers all medicines.

Thirdly, the resolution clearly addresses the issue of prices of medicines and urges States in the regulation of prices, in OP 5(c), "To adopt regulation measures with a view to providing access of the population, and particularly individuals in vulnerable situations, to affordable medicines". This clearly means the regulation of prices of medicines to make them affordable for people. This is important in the context of developing countries where people incur out-of-pocket expenditure to buy medicines.

Fourthly, the resolution, through OP 5(b) and OP 5(m), clearly establishes the link between local production and the right-to-health framework.

Fifthly, OP 5(n) of the resolution also addresses the research-and-development question within the right-to-health framework, especially referring to a new R&D model based on delinking of cost of R&D from the price of health products.

Sixthly, the resolution also establishes the link between access to medicines and universal health coverage in OP 5(p).

OP 10 also refers to this important linkage by inviting "the Special Rapporteur on the right of everyone to the enjoyment of the highest attainable standard of physical and mental health, within his existing mandate, while considering the many ways towards the full realization of the right to health, including universal health coverage, to continue to focus on the issue of access to medicines, including in his regular country missions".

Seventhly, unlike the earlier resolution, this one reflects the issue of conflict of interest while referring to engagement with stakeholders. OP 5(e) and OP 8 clearly state that engagement with stakeholders is based on the principle of safeguarding public health from undue influence by any form of real, perceived or potential conflict of interest.

Shortcomings

Another observer points out some of the shortcomings of the resolution.

First, the OP 5(a) language does not convey the message clearly because it urges States to develop a national framework to ensure access to "medicines that are affordable, safe, efficacious and of quality".

According to the observer, even though the intention is clear, it conveys a meaning that the framework should ensure access to only those medicines that are affordable, safe, efficacious and of quality. In other words, it conveys a meaning that the framework need not address the medicines which are not affordable but safe, efficacious and of quality.

Secondly, OP 5(h) dealing with the use of TRIPS flexibilities also states that the protection of intellectual property is important for the development of new medicines. This is a highly contested assertion. There is enough evidence to show that the current intellectual property framework, especially patent protection, is not a necessity to develop new medicines, especially to develop medicines to meet the needs of developing countries.

Thirdly, OP 5(j) on intellectual property enforcement conveys a meaning that restrains the application of such enforcement only if the measures and procedures create a barrier to the legitimate trade of affordable, safe, efficacious and quality medicines. In other words, the resolution does not apply in the context when the medicine is not affordable.

However, the language in OP 5(h) and OP 5(j) dealing with use of intellectual property flexibility and intellectual property enforcement is taken from the Human Rights Council Resolution 17/14 of 2011.

Fourthly, OP 9 urging States and international organizations to promote innovative research and development to address health needs in developing countries omitted the delinkage of the costs of research and development from the price of health products, mentioned in OP 5(n).

Fifthly, the resolution does not contain any mention of curbing the unethical promotion of medicines. The report of the Special Rapporteur identified it as one of the important issues affecting access to medicines. The report recommended "prohibit[ing] unethical commercial marketing and promotion of medicines by pharmaceutical companies through legal accountability measures based on strict penalties and cancellation of manufacturing licences".

Similarly, the resolution is also silent on the transparency of clinical trial data. The Special Rapporteur's report recommended "ensur[ing] transparency of data related to quality, safety and efficacy of medicines, including the mandatory publication of adverse data". *(SUNS7627)* ❐

Agri chair reports on consultations on G33, G20 proposals

Consensus continues to elude WTO member states regarding developing-country proposals for decisions at the forthcoming WTO Ministerial Conference on public stockholding for food security and on farm export subsidies, the chair of the agriculture talks has reported.

by Kanaga Raja

GENEVA: The chair of the agriculture negotiations at the World Trade Organization (WTO) on 18 July reported to the full membership on his consultations since May on the G33 proposal on public stockholding for food security and the G20 proposal on export competition.

In a statement at an informal open-ended meeting of the Special Session of the WTO Committee on Agriculture, the chair, Ambassador John Adank of New Zealand, reminded members of the time that was remaining in the lead-up to the Bali Ministerial Conference (to take place in early December).

"As members will be aware, the end of next week marks the beginning of the summer break, with many WTO delegates taking leave during August and no expectation of a real resumption of WTO work until September. That, of course, is the case each year but this year is different as when delegations return in September we can expect our work to intensify significantly if we are to prepare effectively for the Bali Ministerial in early December," he said.

He added that it was important for all members to recognize that they would have at the very most around two months – perhaps only 6-8 weeks – when they return after the summer break to prepare the ground for the Ministerial.

"As I'm not in a position to announce today that we have consensus in any area of our work in relation to Bali, this means that the period after the summer break will necessarily need to be extremely focused and intensive if we are in fact to deliver on the expectation that has been set now for several months that 'elements of agriculture' will form part of a suite of Bali decisions," the chair said.

"So, delegations need to adjust their mindset to take into account this timeframe. I would encourage you before you depart for the summer break to register where things are with your capital, and ensure that both you and they are focused on the challenge that will need to be met if we are to arrive at convergence on agricultural elements for the Bali Ministerial," he stressed.

Questions on G33 proposal

On the G33 proposal on public stockholding for food security, the chair said that since members last met in May, he had continued to hold consultations on this proposal, based on the four questions that he had initially outlined at a senior officials' meeting on 30 April.

Question 1 states: "Are members willing to consider that the Bali Declaration/decisions include recognition that, subject to the fundamental requirement of the Green Box relating to no or minimal trade or production distortion, the Green Box needs to be flexible enough to encompass a wide range of general services policies in developing countries along the lines indicated in the proposed paragraph (h) (which the G33 proposal suggests be added to the Illustrative List of Green Box measures)?"

On this question, the chair reported that further progress had been made in clarifying views of members on a number of issues that they had regarding the "general services" elements outlined in proposed paragraph (h) referred to in the G33 proposal.

Following some initial discussion which highlighted potential overlap between some elements in the proposed paragraph (h) and existing elements of the Green Box lists contained in Annex 2 of the WTO Agreement on Agriculture (AoA), it was suggested by Indonesia, on behalf of the G33, to delete "provision of infrastructure services" and "nutritional food security" from the list of general service programmes, given that both of these aspects are addressed in other parts of Annex 2.

According to the chair, the suggestion was positively received by others.

Overall, there seemed to be some convergence emerging around declaration/communique language for Bali that would recognize in general terms that the policies and programmes mentioned in the first part of the G33 proposal – with the suggested modifications – could be considered to fall within the scope of "general services" of Paragraph 2 of Annex 2 to the AoA, provided that the declaration makes clear that the chapeau contained in Paragraph 1 of Annex 2 would fully apply to such policies and programmes.

Ambassador Adank viewed this as positive news.

Question 2 states: "Taking into account what the Ministerial Conference has said in the past (including in the Implementation Decision of 2001), can we use Bali to send a convergent political message that recognizes the role played by public stockholding and similar policies in some developing countries?"

According to the chair, the response to Question 2 had also been positive at a general level.

However, divisions remained between those who had expressed their readiness to start working without delay on text for a possible Bali Communique or Declaration and those who considered that the debate on Question 2 should take place once the "contours" of the possible outcome on the other elements of the G33 proposal (notably, replies to Questions 3 and 4) were clearer.

"So, currently while no consensus has been reached about any specifics of the potential elements to be included in the Bali outcome text, I remain hopeful that, as members reflect further, a broader convergence should be possible on this political messaging issue."

Question 3 states: "Are members prepared in the lead up to Bali to agree on any amendment or interpretation of existing WTO AoA disciplines that might provide greater flexibility in this area of public stockholding than is currently the case? If so, what is this amendment or interpretation? If not, are members prepared to consider further work on these issues in the post-Bali period, and how would this work be framed?"

On this, Ambassador Adank said that the situation had not changed. Members' opinions were still divided between those favouring a general systemic solution to the issue for Bali (through an amendment or interpretation of the existing rules) and those questioning whether such amendment or interpretation was either possible or desirable by Bali.

Members were also asked to comment specifically on the various ideas raised by the G33 for amending or interpreting the rules relating to: (i) *de minimis* criteria; (ii) the external reference price; (iii) the "eligible production"; and (iv) the administered price.

The chair reported that many felt that modifying any of the four sub-items would have implications that go far above the public stockholding and therefore be too big an issue for Bali.

About the further work on these issues in the post-Bali period, while some members had suggested focusing now on what a post-Bali work programme might look like, others had suggested that the focus must necessarily remain on what was doable for Bali and only after this was clear should the focus revert to the post-Bali issue.

Question 4 states: "Are members willing to consider a mechanism or process whereby any member with specific concerns that their public stockholding policies aimed at addressing food security objectives were at risk of breaching their WTO commitments could bring those concerns to the attention of members and seek additional flexibility on an interim basis, pending any broader agreement to modify the disciplines in general?"

According to the chair, this question about a possible interim mechanism had made probably the most progress since members last met in May. Different positions on the threshold conditions and the main characteristics of a potential mechanism had been expressed more clearly and some elements of convergence had been starting to emerge.

For example, it had been generally agreed that the mechanism could cover public stockholding programmes of developing countries related to food security, and be applicable to staple crops, given the food security focus.

In addition, it had been generally agreed that its use could be subject to an ongoing provision of information that would allow members to monitor the situation; that members could look at safeguards or guarantees aimed at avoiding a potential spillover effect on markets; and that the Committee on Agriculture would be the appropriate home for the mechanism in terms of notification and monitoring discussions.

There was also a general sense that any flexibility delivered under a mechanism should be time-limited and the mechanism itself should be an interim one.

Among the threshold conditions to access the mechanism, it had been also generally suggested that the member must find itself in a situation of near-breach of its commitments, said the chair.

Other conditions that might justify recourse to such a mechanism had been noted as possibly including: (i) extraordinary and sudden increases in food prices; (ii) the presence of market failure; (iii) respect of the existing notification requirements; and (iv) the importance of ensuring that recourse to the mechanism does not displace a general policy orientation towards economic reforms.

Despite this progress, some crucial questions remain, the chair said, adding that these included, notably, the question of whether the flexibility delivered under such a mechanism should be: (i) automatic; (ii) non-automatic; or (iii) a hybrid arrangement that would involve some degree of automaticity as well as case-by-case elements.

He stressed that members had yet to determine which of these three general directions they preferred to pursue.

He further said that some members had also highlighted the need to ensure that any flexibility delivered under any such mechanism would need to be legally robust to ensure that members were not challenged under the WTO dispute settlement mechanism. How would the mechanism be packaged to provide appropriate legal flexibility? Would it be like a WTO waiver, or something else?

"So, to sum up, the consultations have moved into serious consideration of the parameters of possible solutions. Members have a considerable number of elements to consider, and I have been careful to allow them the space to do so."

The chair added: "Time is however now pressing and I think it's important that members start to deepen the discussion of the most appropriate models for delivering flexibility under an interim mechanism, assuming that this is what members are prepared to envisage as an outcome for the Bali meeting."

According to trade officials, members of the G33 at the 18 July informal meeting said that they would need some "legal certainty" that their use of the mechanism would not be subject to legal challenge. Other members said that they sought a mechanism with time limits, transparency and a means of preventing a "spillover" that would distort markets.

Trade officials said that at the informal meeting, Norway proposed an idea on how to allow developing countries to purchase and stock produce for food security without breaching their committed limits on domestic support.

One of the problems raised by the G33 is the possibility that when a government purchases at a "reference price" instead of the market price, it risks exceeding the country's limit on domestic support, particularly when prices are high, on account of the size of the support calculated, using the difference between reference prices and those of the 1986-88 base period when prices were considerably lower than they are now.

According to trade officials, Norway's proposal envisages a downward adjustment in the reference price when markets can be shown not to function properly, although Norway said how the adjustment would be determined still needs to be discussed.

G20 proposal on export competition

According to trade officials, on the G20 proposal on export competition, Ambassador Adank said that the debate on the proposal was clearly still at an early stage and that members needed to discuss it seriously further in order to get a better idea of what could be possible in Bali.

"I think it is probably fair to say that the overall political acceptability of recourse to export subsidies has diminished significantly as these unilateral reforms, undertaken in preparation for the day when export subsidies would need to be eliminated entirely, have been implemented," he said.

"This trend for reform has positively contributed to the environment for broader reform in agriculture and the WTO more broadly and members may want to think about the importance of encouraging further efforts in this area."

The chair went on to report that on the one hand, the G20 and a group of other members, including some who may still have questions related to the G20 proposal including the references to Article 9.4 of the AoA, clearly wanted a step forward in Bali on export competition, including in terms of legal commitments. This position was presented as in keeping with the 2013 deadline agreed at the Hong Kong Ministerial Conference in 2005 for the elimination of all forms of export subsidies, which was of course also incorporated in the Rev.4 draft modalities text.

On the other hand, some of the members with the largest export subsidy commitments had underlined that while they remained committed to the elimination of export subsidies, the conditions under which they could modify the legal commitments in the field of export competition were in their view not met. And this was notwithstanding that their actual use of export subsidies had significantly decreased in recent years.

For them, the text agreed at Hong Kong in 2005 and the Rev.4 text on export competition that followed on from this was conditional upon the overall conclusion of the Doha Development Agenda, as was the implementation of the Rev.4 text overall. A partial implementation of the export competition pillar – or even the full implementation of the export competition pillar without accompanying delivery of other key elements of the Doha package – was therefore not seen as a viable option for the Bali meeting.

According to the chair, there was also another group of members with export subsidy commitments who pointed out that the G20 proposal would have real practical impacts for their use of export subsidies rather than just "cutting water" out of their scheduled commitments.

While not ruling out a discussion, these members pointed to the additional difficulty this would cause and highlighted, along similar lines to the previous group of members, that any move in the direction of the G20 proposal would only be possible in the context of a wider package of reform both across and beyond the agriculture pillar of Doha.

Summing up, the chair said that there was some way to go in this area to locate any convergence, which in his view remained a further task members would need to pursue in the weeks ahead.

A number of members spoke during the discussion of the G20 proposal on export competition.

According to trade officials, the US and the EU voiced strong objections to a decision in Bali on eliminating or reducing export subsidies, as well as dealing with other export competition issues. In their view, this was not well calibrated for a deal in Bali.

Trade officials pointed out that the US' and EU's concerns were that the original agreement in Hong Kong to eliminate export subsidies by 2013 was based on agreement on the whole agriculture package, and not on an isolated commitment on export subsidies.

The EU said this was not doable before the Bali Ministerial and put at risk a successful outcome at that meeting.

According to trade officials, the US said that it was joining the EU as the "skunk of the picnic", noting that people were disappointed that they were not addressing export competition. The US also had its disappointments about other issues such as non-agricultural market access (NAMA), services, fisheries subsidies and agricultural market access.

Japan said that countries should think about things that could be agreed. "Members should seek realistic solutions that are acceptable to all," it said.

Others broadly said that this was an important issue and should be dealt with, adding that export subsidies had long been a part of agricultural trade policy that was most damaging.

For example, Mexico, supported by Uruguay, called it an outdated policy because in other areas in the WTO, export subsidies were illegal, but they were still allowed in agriculture.

Brazil, speaking for the G20, said that it was very disappointed with the lack of progress in the discussions on export competition, adding that it had already recognized that the G20 was not going for full elimination of export subsidies in Bali.

Export subsidies were an unfair practice prohibited in other goods and one of the most serious imbalances in WTO rules, it said, adding that members must not allow reforms that had already been made to be rolled back.

According to trade officials, Argentina, New Zealand, Thailand, Costa Rica, Chile, Mexico, Paraguay, Uruguay, the Philippines, Pakistan, Bolivia, China and Cuba supported the G20 and the Cairns Group (represented by Australia).

Tariff rate quota administration

On the separate G20 proposal on tariff rate quota (TRQ) administration, the chair reported that there had been no further consultations specifically on this proposal, although he had continued to meet with delegations to hear their views on this issue.

Since the last meeting in May, members had continued to see this as a useful one to explore for possible decision in Bali, even though there were some sensitivities about aspects of the proposal that members had reflected to the chair in various consultations.

In his statement, the chair said that these concerns could be divided into two different areas: first, some concerns about the actual text and specifically the special-and-differential-treatment elements of it; and more general questions that some members had raised about how the mechanism would operate in practice and the need to ensure that it did not end up targeting a situation where the under-fill was due to market conditions unrelated to quota administration conditions.

According to trade officials, most members that spoke on this issue said they considered it to be a candidate for agreement in Bali, describing the proposal as less complicated technically. Some others said that it was simply implementation of the present Agreement on Agriculture.

On the other hand, several others voiced concerns over the special-and-differential-treatment provisions.

According to trade officials, some (the US and EU) said that it would allow developing countries to have persistently under-filled quotas without having to act on the administration method.

Several developing countries including Chinese Taipei, Republic of Korea, the Dominican Republic, El Salvador, China, Venezuela, Barbados and the Philippines stressed the importance of special and differential treatment. *(SUNS7631)* ❐

Unacceptably high unemployment in G20, say ILO/OECD

Unemployment in many of the world's major economies is unacceptably and persistently high, according to the International Labour Office and the Organization for Economic Cooperation and Development, which are calling for a combination of supportive macroeconomic policies and employment, labour market and social protection policies to improve the jobs outlook.

by Kanaga Raja

GENEVA: "In the absence of widespread and sustained economic growth, unemployment remains at an unacceptably high level in many G20 countries," the International Labour Office (ILO) and the Organization for Economic Cooperation and Development (OECD) have said.

In a joint statistical update for the meeting of labour and employment ministers from the G20 grouping of major economies held in Moscow on 18-19 July, the ILO and OECD warned that persistently high and mainly cyclical unemployment in several G20 countries is heightening the risks of labour market exclusion and structural unemployment.

In over half of countries, the share of long-term unemployment in total unemployment remains above its pre-crisis level, both organizations said.

"The situation calls for strong and well-designed employment, labour and social protection policies applied in conjunction with supportive macroeconomic policy mixes to address the underlying demand and supply conditions of each economy," the two added.

Call for cooperation

In a separate joint statement for the G20 meeting in Moscow, ILO Director-General Guy Ryder and OECD Secretary-General Angel Gurria called upon the ministers of labour and employment of the G20 countries to "reinforce their cooperation with a view to enhancing the design and scale of their employment, labour market and social protection policies in order to achieve higher levels of productive and rewarding employment and to contribute to a strengthening of the world economy".

They noted that even though six years have elapsed since the start of the global financial crisis, the rate of employment growth remains weak in most G20 countries, preventing a significant decline in high levels of unemployment and underemployment.

"Over the last 12 months, unemployment has dropped marginally in half of the G20 countries while it has risen in the other half. Unemployment is above 25% in South Africa and Spain; 11% or above in France and Italy and for the EU as a whole; above 7% in Canada, Turkey, United Kingdom and United States; and below 6% in Australia, Brazil, China, Germany, India, Indonesia, Japan, Republic of Korea, Mexico, Russian Federation and Saudi Arabia," they said.

Across all G20 countries, they added, the total number of unemployed reached 93 million in early 2013, some 30% of which on average have been unemployed for over one year.

"The employment to working age population ratio remains below its pre-crisis value in 13 countries. Some 67 million jobs would have to be generated to restore the previous employment to population ratio in all countries."

In spite of differences in their characteristics, all G20 countries face significant short-term and medium-term employment challenges. A combination of supportive macroeconomic policies and well-designed employment, labour market and social protection policies are required to address these challenges, the heads of the ILO and OECD stressed.

"It is of utmost importance to restore stronger, sustainable economic growth, increase investment and enhance the conditions for renewed bank lending by restoring health to the financial system."

Both Ryder and Gurria called on the G20 ministers to give youth employment their full attention.

"The situation of young people entering the labour market remains fraught with obstacles. Youth unemployment was above 16% in the first quarter of 2013 in 10 countries, including 5 countries with youth unemployment at 20% or more (France, Indonesia, Italy, United Kingdom, Saudi Arabia, and the European Union) and 2 countries with a rate above 50% (Spain and South Africa)."

Countries that have achieved low youth unemployment rates have combined a supportive economy with rising employment levels, high levels of completion of primary education, strong vocational education, including through dual learning and apprenticeships, as well as strong orientation and guidance for young people, they noted.

"The G20 will be assessed by public opinion around the world on its capacity to deliver on the growth and jobs agenda. This calls for a combination of policies to lift aggregate demand in those countries where it is weak and to enhance business investment and entrepreneurship development more generally."

Of particular importance, they said, are measures to raise investment, particularly in infrastructure, improved and continued access of small enterprises to bank credit, expand the coverage of social protection, sustain the income of low-paid workers through appropriately-set minimum wages and in-work benefits, promote the role of collective bargaining in setting wages in line with productivity growth, and lift the employment prospects of young women and men.

"The experience of a number of countries suggests that high employment levels and inclusive growth can be achieved through a well-designed combination of supportive macroeconomic policies and employment, labour market and social protection policies," they said, noting, however, that "this requires a careful balancing between providing adequate income support for those out of work and with low incomes and activation measures which help them to find rewarding and productive jobs".

Unemployment scenario

The joint ILO-OECD report, titled "Short-term labour market outlook and key challenges in G20 countries", said that in the last 12 months, somewhat stronger economic growth than in 2011 was recorded in Japan and the United States while the eurozone fell back into recession and growth slowed in many of the G20 emerging economies.

It noted that the unemployment rate exceeds 7% in eight countries and is above 25% in Spain and South Africa. In contrast, it is below 5% in only four countries (China, India, Japan and the Republic of Korea).

Over the year to the first quarter of 2013, the unemployment rate rose further in a number of countries where it was already high, notably in the European Union overall, and in France, Italy and Spain in particular. However, significant declines of at least half a percentage point in the unemployment rate occurred in the Russian Federation, the United Kingdom and the United States.

More generally, said the joint report, labour force participation rates have dropped in nine countries and increased in 11 others. The median labour force participation rate stands at 60%, ranging from a low of 49.4% in Italy to a high of 69.8% in China.

In a number of countries, the impact of the crisis on the labour market has been long-lasting. In 13 G20 countries, employment to working-age population ratios are below their corresponding pre-crisis levels – by more than 4 percentage points in the United States and 10 percentage points in Spain.

"Weak or negative employment growth has meant that the unemployment rate remains above its pre-crisis levels in 13 countries. In early 2013, it was almost 18 percentage points higher in Spain, whereas it was lower by 3 percentage points or more in Brazil, Indonesia and Germany."

In half of the G20 countries, unemployment rates are higher for women than for men and substantially so in Argentina, Brazil, India and Saudi Arabia.

With unemployment stuck at persistently high levels in some countries, the incidence of long-term unemployment has increased. Since the start of the crisis, particularly sharp increases have taken place in Italy, Spain, South Africa, the United Kingdom and the United States.

However, said the report, significant declines were recorded in Brazil and, from a high base, in Germany and the Russian Federation. The median share of long-term unemployed as a share of total unemployed has risen to 30.2% in the last quarter of 2012, up from 24.6% in end-2007.

Among advanced economies, negative real wage growth in 2012 was recorded in Japan, the United Kingdom and the United States. In France, Italy and Spain, real wage growth has slowed considerably or even turned negative in 2011 and 2012.

"In Germany, the increase was less than 1%, lower than in earlier years. In contrast, reasonably strong growth was recorded in Australia, Canada and the Republic of Korea. In emerging economies, the more recent data point to a decline in the pace of real wage growth except in South Africa. In Brazil and in Indonesia, real wage growth was negative."

Even before 2008, said the report, G20 countries were grappling with a number of underlying challenges in the labour market which, in some cases, have been exacerbated by the crisis.

"This includes better integration of women, youth, and migrants into the labour market as well as improving labour market prospects for the low skilled. Encouraging and facilitating work at an older age has also been a key policy aim in order to cope with rapid population ageing."

Job quality

According to the ILO and OECD, concerns around job quality range from rising wage inequality and low or negative real wage growth for some groups of workers to increases in temporary work, insufficient hours of work and persistence of high levels of informal employment.

They also found that the share of informal employment in non-agricultural employment remains substantial in several countries, reaching more than 70% in the case of Indonesia and India. This high share has declined recently in only few countries, notably Argentina and Brazil.

In many of the advanced G20 economies, a significant and often growing share of the workforce is employed on temporary contracts. In 10 countries, the incidence of temporary employment lies between 10% and 25%, with a high share of women and youth.

Youth unemployment rates remain at high levels in many G20 countries and, in all of them except Germany and Japan, are more than twice as high as the rates for adults, said the report. The absolute difference between the youth and adult unemployment rates is particularly large (over 25 percentage points) in Italy, South Africa, Spain and Saudi Arabia.

"Relative to their pre-crisis levels, youth unemployment rates have risen in 12 countries, most notably in Italy and Spain, and remained little changed elsewhere except for significant declines in Brazil, Germany and Indonesia. The youth unemployment rate has risen to 20% or more in six countries and reached more than 50% in South Africa and Spain."

Of particular concern, the report noted, is the share of unemployed youth who have been unemployed for 12 months or more (i.e., the long-term unemployed). This reached 23.3% on average, with increases in 10 countries and a decline in four. *(SUNS7630)* ❒

Are middle-class protests fallout from poverty alleviation?

Thalif Deen **investigates whether it is poverty reduction efforts that have produced a growing middle class now at the forefront of political protests in parts of the developing world.**

NEW YORK: The rise of the "global middle class" is widely attributed to the gradual eradication of extreme poverty in the developing world, even as the United Nations says that millions of people in countries such as India, China and Brazil have graduated from the ranks of the indigent.

But is there unintended negative fallout indirectly linking poverty alleviation to the current rise in middle-class street protests in Brazil, Turkey, Tunisia and Egypt, among others?

Praising Latin America for its success in "lifting millions out of poverty", Helen Clark, the administrator of the UN Development Programme (UNDP), said in July that "protests and events around the world remind us that citizens want a greater say in the decisions which impact on their lives".

And UN Assistant Secretary-General Heraldo Munoz points out that "many of the street protests in Latin America are sparked by a new middle class, increasingly indebted, who aspire for more, and demand quality public services and decent treatment". The challenge is to enhance institutions so they can respond to a new high-level intensity, says Munoz, who is also UNDP's Latin America director.

UNDP estimates that more than 80% of the world's middle class will be living in developing countries by 2030. According to the European Union Institute of Security Studies, the estimated size of the global middle class by 2030 will be about 4.9 billion, up from 1.8 billion in 2009.

Political awakening

In an article in the *Wall Street Journal* in June, Francis Fukuyama, a senior fellow at Stanford University's Freeman Spogli Institute of International Studies, says in Turkey and Brazil, as in Tunisia and Egypt before them, political protest has been led not by the poor but by young people with higher-than-average levels of education and income.

"The new middle class is not just a challenge for authoritarian regimes or new democracies. No established democracy should believe it can rest on its laurels simply because it holds elections and has leaders who do well in opinion polls," says Fukuyama.

And corporations are salivating at the prospect of this emerging middle class because it represents a vast pool of new consumers, he notes.

Dean Baker, co-director of the Washington-based Center for Economic and Policy Research, told Inter Press Service (IPS), "I wouldn't claim to be a great expert on this, but I would expect that as societies become richer and populations more educated, there will be increased demand for democracy. I'm sure that is part of what we are seeing in Brazil, Turkey, and Egypt, but in each case I am sure the nature of the discontent is more complicated."

In any case, he said, an increased democratization of society goes along with greater wealth.

In Brazil, the recent protests were directed at the rising cost of living (including an increase in bus fares), high-level political corruption and extravagant spending on next year's World Cup soccer tournament, estimated at more than $13 billion compared to the deteriorating state of schools and hospitals in poor neighbourhoods.

The protests have been described as "the awakening of the new middle class" emerging out of poverty.

Richard Jolly, honorary professor and research associate at the Institute of Development Studies at the University of Sussex, told IPS, "It's certainly an interesting theme though one to be written about with many question marks, rather than dogmatic certainties.

"I hope you will also consider some reference to the recent rise of 'assertive religion' – meaning fundamentalist versions of Christianity and Judaism, as well as Islam, which Emanuel de Kadt has just published a book about, with the same name.

"I think also of a book written decades ago which argued that revolution starts not when the poor are ground down in poverty but after some improvements in living standards which stir hopes and demands for something more," said Jolly, a former assistant secretary-general at the UN children's agency UNICEF.

Myth of a growing middle class

Yilmaz Akyuz, chief economist at the Geneva-based South Centre, however, remains sceptical. "I find the rise of the global middle class story not very convincing," he said.

Akyuz said it is closely linked to the "rise of the South" story – "something I questioned in various papers I have written since 2010 (see e.g. 'The Staggering Rise of the South?' or 'Waving or Drowning: Developing Countries After the Financial Crisis')".

It is now increasingly understood that this is a myth, said Akyuz, a former director and chief economist at the UN Conference on Trade and Development (UNCTAD).

He pointed to two developments: declines in poverty and increased income and wealth inequality. "But these two do not give us [a] bigger middle class," he argued. "Bringing the poor above the poverty line would not make them middle class (as conventionally defined)."

This together with greater inequality would produce hollowing out since the top would be gaining at the expense of the middle class.

Middle classes in the South are increasingly internationalized in vision and better informed through access to the Internet, social media, etc. This is why Turkish Prime Minister Recep Tayyip Erdogan called social media a menace, he said.

At the same time, governments in countries heavily dependent on foreign capital and vulnerable to financial instability are well aware that increased political instability could lead to capital flight and economic collapse, Akyuz said.

"This exerts a restraining influence on them against rioters. Turkey cannot become an Iran or even Malaysia because, inter alia, it lacks natural resources," he noted. "If middle classes run away with their money, the economy could collapse."

James Paul, who served for 19 years as executive director of the New York-based Global Policy Forum, told IPS this lens for understanding global political agitation is confusing in the extreme. He said:

"Far from being original, it recycles some long-standing propaganda themes associated with conservative thinking. The first problem involves the concept of middle class. What is this class and how are we to identify it?

"Certainly not in terms of employment, urban/rural location, property ownership or any of the other usual signs of social stratification and class status, but rather a vague sociological catch-all, presumably located between those in absolute poverty on the one hand and those with wealth and privilege on the other.

"If we look at things this way, then what is the value of the concept except as a celebratory affirmation that most of global society is living in the middle class and thus (by implication) some degree of comfort.

"But can we really say this? The evidence suggests we cannot.

"Where are the vast impoverished peasantry and landless agricultural workers living in the global countryside in this model of comfort, and where too are the hundreds of millions of urban dwellers living in slums under the most precarious conditions?

"The second problem involves the idea of a growing middle class and consequently a diminishment of global poverty.

"This is a highly-contested terrain, since the measure of poverty has been so highly distorted by the World Bank, the Millennium Development Goal (MDG) mafia at the UN, and other interested parties, keen to declare success in the war on poverty.

"With more than a billion people hungry and another billion lacking adequate nutrition for full health, it would appear that about a third of the world's population are in a dire condition of life. These numbers have risen substantially since 2007, suggesting that the global comfort zone is not expanding as the optimists would have us think.

"Furthermore, spreading problems in the agricultural sector suggest that the numbers of those living in food-precarious conditions will likely grow, accelerated by drought, flooding and land-grabbing on a massive scale.

"Add to this the global economic problems and financial instability and we see that urban areas will not be a fount of well-being either and that the trends are moving in negative directions, including in those countries like China and India where the most gains were made in recent years.

"Finally, we come to the question of whether or not the supposed rising well-being is leading to the protests we see in Turkey, Brazil, Egypt and other lands. This is sometimes referred to as the revolution of rising expectations and it obviously is at odds with ideas of revolution resulting from increasing poverty and oppression.

"As for the present wave of protests, there is obviously not a single thread between the militant protests in Greece and those in Brazil, but it should not be forgotten that the Brazilian economic miracle has stalled and that the political class has been getting away with astounding corruption.

"India and China have also experienced economic slowdowns and political dysfunction.

"If a single thread is to be sought throughout all the global protests, with all their specificities, it might be this: the global political and economic order is in terrible disarray, the global economic system is in trouble, climate change is putting enormous new stresses on life, critical raw materials (especially petroleum) are in increasingly short supply, food production is falling short, and politics at every level is failing miserably to respond." *(IPS)* ❐

OECD proposes plan to curb international tax avoidance

The world's leading economies are considering a new blueprint for tackling international tax avoidance, but economic justice groups say this fresh proposal takes inadequate account of the plight of developing countries which are major victims of corporate tax dodging.

by Carey L. Biron

WASHINGTON: Finance ministers from the Group of 20 (G20) countries received on 19 July a previously requested strategy under which the world's largest economies could crack down on international tax avoidance, particularly on the part of multinational corporations.

The 15-point action plan was created by the Organization for Economic Cooperation and Development (OECD), a Paris-based think-tank funded by the world's richest countries. The G20 requested the study in February, as tax avoidance has moved to the top of the global agenda, particularly in the context of governments struggling to fill state coffers in the aftermath of the global economic downturn.

Yet some analysts have also suggested that, against the backdrop of countries such as Brazil, China, India and Russia quickly becoming some of the world's most powerful economies, the current exercise could be developed countries' last attempt to steer the conversation on international tax policy.

"The joint challenges of tax evasion and tax base erosion lie at the heart of the social contract," Angel Gurria, secretary-general of the OECD, said on 19 July in Moscow, where he handed over the new blueprint to government officials gathered ahead of the G20 summit in September, which Russia is hosting.

"Our citizens are demanding that we tackle offshore tax evasion by wealthy individuals and revamp the international tax system to prevent multinational enterprises from artificially shifting profits, resulting in very low taxes or even double non-taxation and thereby eroding our tax base."

The OECD strategy would now seek to strengthen coherence among its members' tax systems, aimed at filling the gaps between those systems – through which multinational corporations, in particular, have become adept at slipping.

A major thrust of the new strategy deals with ways to corral the new powerhouses of the digital economy, which in recent years have become adept at extremely complex – some say only marginally legal – tax strategies. Such companies, making use of extensive offshore subsidiaries, have recently been the focus of a strengthened tax-avoidance discussion in the United States and in Europe.

The action plan, which the OECD says it will roll out over a two-year rulemaking process, also tries to increase transparency. It would require companies to engage in country-by-country reporting of profits, for instance, in order to make it more difficult for phony "shell" offices to quietly shift profits made in one country to another that offers lower or non-existent tax rates.

Gurria noted that these 15 actions would "result in the most fundamental change to the international tax rules since the 1920s!"

Built on an earlier general report, the plan received widespread initial plaudits from government officials. Russian Finance Minister Anton Siluanov "commended" the report for hewing to "the basic tenets of fairness – that it allows multinational corporations to prosper without loading a higher tax burden on domestic companies and individual taxpayers."

US Treasury Secretary Jacob J. Lew also "welcomed" the action plan, which he said was created in part with US participation. "This is a major step toward addressing tax avoidance by multinational firms in the global economy and represents a concerted effort to raise standards around the world," Lew noted in a statement sent to Inter Press Service (IPS). "We must address the persistent issue of 'stateless income', which undermines confidence in our tax system at all levels."

Entrenching global inequality?

Yet the plan received a more cautious appraisal from certain civil society organizations, with some warning that the OECD's membership has led it to overlook the importance of developing countries in combating tax avoidance in today's context. Indeed, it is in these countries where illicit outflows of capital are having major, damaging impacts on already strapped governments' abilities to fund their public sectors.

"We are encouraged to see this unequivocal acknowledgement that when multinational corporations game the system – and the evidence shows that they are – everyone else loses: governments, citizens and other businesses," Nicole Tichon, executive director of the Tax Justice Network USA, an advocacy group here, told IPS. "We agree that this is a global problem and will require a global solution, but this plan needs to more carefully consider the additional plight of developing countries."

One of Tichon's colleagues in Africa expanded on this point. "In poor nations we are largely failing to capture tax revenue from major international corporations which should be harnessed to ensure better social and economic opportunities for citizens," Alvin Mosioma, the director of Tax Justice Network Africa, says.

"This is why the current OECD reform process needs to include at its heart serious representation from developing nations rather than keeping them to the margins. That developing countries are kept out of this key process runs the real risk of further entrenching global inequality."

Others are taking issue with the new plan's failure to recommend that country-by-country reporting of corporate profits – seen as a critical tool in halting the currently rampant shifting of earnings among multinational companies – be made public.

According to the OECD's top tax official, the action plan does recommend such reporting, but he admits that those reports would not be publicized. "This country-by-country reporting will be for tax administrations and not [the] public," Pascal Saint-Amans, director of the OECD's Centre for Tax Policy and Administration, told IPS. "What matters is that tax inspectors have the information. Confidentiality issues [could stop] countries from agreeing to public country-by-country reporting."

Indeed, a similar fight is currently taking place in the United States, which last year instituted a landmark regulation requiring multinational companies to publicly report all payments made to foreign governments. Yet earlier in July a court overturned that rule in part because of the requirement that these reports be made public.

Some anti-poverty groups are going so far as to suggest that the OECD's tax fixes are already obsolete, having been far outstripped by the decentralized model that the most aggressive modern corporations have been able to follow.

"This plan is papering over the cracks in a broken system, rooted in an outdated and irrelevant model of corporate taxation," Murray Worthy, a tax campaigner at War on Want, an advocacy group, said in a statement. "It might be able to tackle the worst of corporate tax dodging, but it won't fix the system." *(IPS)* ❐