

# THIRD WORLD *Economics*

TRENDS & ANALYSIS

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## Developing countries oppose reopening of SDGs text

The Sustainable Development Goals (SDGs) were the subject of discussion – and bone of contention – in the March session of the UN negotiations to craft a post-2015 development agenda for the international community. While developed countries appeared keen to review the SDGs and their accompanying targets, developing countries insisted that the Goals agreed to by an intergovernmental working group last year should be integrated as they are into the development agenda.

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# SDGs and targets should not be reopened, says South

Developing countries have come out against attempts to revise the set of Sustainable Development Goals that will be a central element of the UN's post-2015 development agenda currently under negotiation.

by Ranja Sengupta

At the end of the recently concluded third session of the United Nations General Assembly negotiations on the post-2015 development agenda, it seemed clear that the divide between the developing and developed countries remains immense.

While developing countries want to focus on means of implementation, the global partnership for development, and monitoring and implementation issues, which for them are critical for the success of the Sustainable Development Goals (SDGs), the developed countries seem determined to reopen old debates which offer no end in sight at this juncture.

The negotiations session was held on 23-27 March at the UN headquarters in New York. The co-facilitators for the intergovernmental process are Ambassadors David Donoghue (Ireland) and Macharia Kamau (Kenya).

The session showed clearly the developed countries' keenness to revisit the SDGs and targets. But clearer was the developing countries' objection to opening up the SDGs and targets as contained in the Open Working Group (OWG) report that was adopted by the UN General Assembly in September 2014 as the basis for the current negotiations.

The Group of 77 (G77) and China, the Least Developed Countries (LDCs) Group, the African Group, the Caribbean Community (CARICOM), the Alliance of Small Island States (AOSIS) and the Pacific Small Island Developing States (PSIDS) made it unequivocally clear that they do not want any reopening, renegotiations or changes in the OWG document. In other words, the developing countries want the 17 Goals and 169 targets preserved as they are and integrated, along with the chapeau of the OWG report, into the post-2015 development agenda. The G77 and China also wanted the reservations that were made by member states to the OWG report to be recorded in the final development agenda.

The Goals and targets with the cha-

peau are the result of intensive negotiations within the OWG in 2013-14. The OWG had been established by the UN General Assembly, as mandated by the 2012 UN Conference on Sustainable Development, to formulate a set of SDGs.

The March session of the post-2015 development agenda negotiations was focused specifically on the SDGs. The earlier two sessions of January and February were on modalities and the declaration respectively (see *TWE* No. 588). The declaration is meant to set the broader framework underpinning the more specific elements of the development agenda, which would be spelt out in a separate outcome document. Both the declaration and the outcome document are expected to be adopted by a UN development summit in September 2015. It is important to note that the February discussion on the declaration also saw sharp differences between major Northern and Southern positions.

The main exercise for the March session was to look at the SDGs provided in the OWG report. The General Assembly in September 2014 had already adopted the SDGs in the OWG report as the basis of the post-2015 development agenda negotiations, and the large majority of developing countries had already stated in February that they wanted the SDGs sealed as they are and adopted as the goals and targets for the development agenda. Therefore initially it was not clear whether the aim of the March session was to look further than the goals and targets and move to the indicators or whether the goals and targets themselves were also open to further negotiation.

The first two days of the session were devoted to the discussion on indicators and the last two-and-a-half days were on the SDGs as a whole (the morning of 25 March was reserved for an interaction between the major groups or civil society stakeholders, the co-facilitators and the member states).

On 23 March the co-facilitators sent out a document with revised language

on 19 targets with the objective of “technical review or tweaking” and improving the set of targets. They requested responses from the member states. The document, entitled “Targets in the proposed SDGs framework”, suggested some numbers in some targets, language in conformity with global agreements but also suggested content addition in the case of a few targets. It was clear, however, that the 17 Goals were not to be touched.

### Technical tweaking or reopening the SDGs and targets?

This document on “technical tweaking” triggered a passionate discussion, with the developing countries strongly reiterating their position of not reopening the SDGs and their targets. They also demanded more time if they were to be suddenly faced with new proposals, in order to be able to go back to their capitals and get the necessary feedback.

They also stressed that the SDG report is a political document as it shows the political intent and is not therefore required to be a technically perfect document. Many also argued that while they themselves were not fully satisfied with the SDGs and felt many areas could be improved upon, they decided to accept it as opening it to further negotiation could actually lower the achievement level. As Vietnam put it, “Don’t let the perfect be the enemy of the good.” It is important to note that several developing countries and country groupings had mentioned that means of implementation could be significantly improved upon.

The Group of 77 and China, in a sharp statement, said that 134 members wanted to put on record that “Consistent with previous pronouncements on this issue the Group remains averse to the reopening of the Report of the Open Working Group on SDGs. Accordingly the Group firmly rejects any attempts to reopen the agreed Report of the SDGs by undertaking the so-called ‘technical proofing’ under the guise of the proposal received from the co-facilitators”. They reiterated their position that the OWG report must be entirely integrated into the post-2015 development agenda.

The Group also said “since the Report of the OWG-SDGs was adopted through a General Assembly resolution in its entirety, any attempt to adjust its contents may necessitate another negotiation of a General Assembly resolution

to accommodate the proposed amendments. Unfortunately the Group would not like to go in that direction.”

Further, the statement added, “as we engage in the process of negotiations it remains of uttermost importance to ensure adherence to agreed procedures and transparency. The Group would appreciate clarification on the origins of the text, how it was compiled and which stakeholders were involved in that exercise”.

Benin, on behalf of the LDCs, said that “the outcome of the OWG on SDGs should be integrated into the Post-2015 Development Agenda in its entirety although we have serious concerns about the Means of Implementation, especially elaborated under Goal 17. We are hoping that the Third United Nations Conference on Financing for Development will provide us an opportunity to strike a balance between the goals and targets and the means of implementation with a new package of additional resources and new mechanisms.” Any attempt to reopen the outcome of the OWG in the name of “technical and scientific proofing” would run a serious risk of further diluting the existing balance in the text, the LDCs emphasized.

The LDCs said there is still room for making the post-2015 agenda more ambitious in the ongoing exercise in developing the indicators, formulating the political declaration and articulating the follow-up and monitoring mechanisms.

Tonga, on behalf of the PSIDS, said the “substance and content of the SDGs document should remain intact” and that it “disapproved of any technical proofing”. The PSIDS also asked for adequate time to go through such new documents. They drew attention, however, to targets such as 13.b and 14.c in the work of developing indicators.

(Target 13.b reads: “Promote mechanisms for raising capacity for effective climate change-related planning and management in least developed countries, including focusing on women, youth and local and marginalized communities.” Target 14.c reads: “Ensure the full implementation of international law, as reflected in the United Nations Convention on the Law of the Sea for States parties thereto, including, where applicable, existing regional and international regimes for the conservation and sustainable use of oceans and their resources by their parties.”)

Namibia, on behalf of the African Group, said that it will not support any

attempt to open the document as the political balance will be disturbed. It also said that the Group is not convinced that by opening up the whole package, the language can be cleaned or its standard improved.

Belize, on behalf of CARICOM, said the grouping does not support any technical review or technical proofing of the report as a whole. It emphasized that the current task is to integrate the entire 17 Goals and 169 targets into the post-2015 agenda. Now only two areas, effective implementation and linkage between the global and the national, remain to be addressed, CARICOM stressed.

The Maldives, on behalf of AOSIS, reiterated that the SDGs had reached a razor-thin balance and AOSIS firmly rejected any attempt to reopen the SDGs. It also cautioned against technical proofing of the targets. AOSIS said to the co-facilitators, “Earlier you expressed your opposition to technical proofing, so you can imagine our surprise when this new document came on Monday [23 March].” It also asked for adequate time when new documents are presented and said that the time left is not enough to start these discussions again.

Major developed countries, on the other hand, were keen to pursue this “technical review”. Though they had problems with many of the suggested changes in the co-facilitators’ proposed list of 19, they in fact made it clear that they wanted not just these 19 but almost all of the other targets to be subjected to another review.

Australia, for one, suggested that the targets document “does not go far enough” and proposed other changes, e.g., in target 4.1 on primary education to raise the ambition level to include higher education. Australia argued that there is enough time for this exercise, for example by reducing time from the session on means of implementation scheduled for April, and suggested going over each of the 169 targets to check for any “room for improvement”. This elicited a soft warning from co-facilitator Kamau that such an extensive review could take the member states back to another OWG or, in other words, another one-and-a-half years to complete the exercise. He also reminded the member states that they should not forget the historical importance of the OWG process and its final report.

The European Union said it was supportive of the work on indicators and technical proofing of targets. “We need

to preserve ambition and balance of the OWG process," the EU said. It welcomed efforts to make the targets more specific and measurable, and said this was not beyond the completion of the work on targets. The EU argued that the document on 19 targets was a move in the right direction towards addressing the unfinished business from the OWG. However, it was sometimes not convinced by the arguments in the document, for example on target 3.b. [The document had suggested deleting the word "essential" from "essential medicines" while talking of flexibilities in the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, on the ground that the Agreement itself does not limit the scope only to "essential" medicines.] The EU also felt other tweaking had "lowered the ambition". Notwithstanding these weaknesses in the changes suggested, the EU clearly stated that "there could be other targets that could be improved".

The individual EU members, in a consecutive set of statements, supported the EU position.

The United Kingdom, in a statement that raised many questions including from civil society organizations at the meeting, said that while it was committed to the SDGs, it wanted the targets strengthened. First, the UK wanted the targets "to command respect and drive action in each and every country". But the second reason it gave was that "the targets will determine how we will spend billions of dollars over the next 15 years – not only domestic resources, but also development assistance and private flows ... We therefore need the targets to provide a clear action agenda and a credible underpinning for significant flows of sustainable development finance".

This was not well received by many developing-country delegates and apparently attracted criticism from some of the European delegations as well.

Co-facilitator Kamau also explained the rationale behind the suggested modifications to the 19 targets. These were: (a) to remove the "x"s and "y"s in the targets; and (b) to make sure the ambition level is no less than and in conformity with already agreed international agreements. (Several targets had "x" as placeholders for specific percentages under the targets.) He also said that due to lack of time, they presented these proposed changes at the beginning of the session and not earlier but member states were free to take more time to reach a

full decision. "We don't expect you to definitely answer, but reflect," he said.

However, Kamau admitted that though the co-facilitators had already cut down on the number of changes, he got the feeling that they may have "overstepped the ambition level". Referring to a point that the UK had made on slums, he said though it was right, it was heavily contested in the OWG and ultimately had to be rejected. Opening such issues could make the member states go back to the OWG, he warned. He also rejected Australia's argument to improve target 4.1 to include higher education by saying many member states do not even have universal primary education.

A joint statement on the oceans, seas and marine resources was made by 21 countries (Australia, Costa Rica, Croatia, Cyprus, Estonia, France, Greece, Iceland, Italy, Lithuania, Malta, Monaco, Montenegro, Netherlands, New Zealand, Norway, Palau, Panama, Poland, Sweden and the US). It said, "The targets contained in goal 14 reflect the comprehensive set of actions required to ensure that the world's oceans and seas are well-positioned to contribute to sustainable development. As we turn our minds to implementation of the post-2015 development agenda, it will be important to ensure that the targets and indicators that we set ourselves are meaningful and achievable, whilst maintaining a high level of aspiration. To achieve maximum effectiveness, the targets and indicators must also be consistent with relevant international agreements and standards. Finally, with regard to target 14.c we would like to highlight the international consensus as expressed in Rio and by the General Assembly of the important role of international law as reflected in the UN Convention on the Law of the Sea (UNCLOS), which provides the legal framework for the conservation and the sustainable use of the oceans, and their resources."

Several member states stated their concern with the oceans and seas targets. However, the developing-country members underlined that any change to such specific targets will be distinct and will be outside the scope of a "reopening" of the SDGs document as such.

At the end of this discussion, many developing countries including Colombia and India stated that while they could see some merit in technical tweaking, after the discussion they were even more convinced that the SDGs document

should not be opened up for technical proofing as it was clear that many developed countries wanted to open up this review to many more than the suggested 19 targets.

At the end of the March session, it was suggested by the co-facilitators that they will propose another revised document, keeping very strictly in mind the criteria stated by Kamau above, and will give enough time to member states for consideration. Responding to a query from India, the co-facilitators stated that this revision will be limited to the 19 targets already put forward for improvement. While developing-country groupings promised to consider it, they did indicate that any change in substance would not be acceptable.

### Political direction on indicators

The first two days of the March session had focused on the subject of global indicators. The UN Statistical Commission (UNSC) presented a preliminary list of indicators for consideration by the member states. However, the UNSC made it very clear that this was at best a preliminary list and it needed years to actually come up with a workable and meaningful list of indicators. The UNSC offered to come up with an initial list of indicators by June 2015. (It is important to note that this list is mainly focused on global-level indicators while countries are free to use these for national-level indicators as well.)

Right from the week before, when the UNSC's preliminary list was made public by the co-facilitators, there had been considerable criticism of the list from several member states as well as from civil society organizations. Several questions had come up including on whether to limit the number of the indicators – some member states wanted a limited number, others did not – and on the need to have a preliminary list by June-July. But the more important question centred on whether these indicators should be negotiated by member states or whether the work on indicators should be carried forward as a technical exercise by the UNSC. Questions were also raised about the forum that would carry the onus of this mandate, i.e., whether it would lie with the General Assembly's post-2015 agenda process or with the High Level Political Forum on Sustainable Development (HLPF).

The co-facilitators had sought the response of the member states on these



specific questions over the entire week of the March session. On the last day of the session, there seemed to be an understanding in the room that the UNSC will be asked to work on the indicators as a technical exercise till March 2016 and these will not be negotiated by member states.

However, the vast majority of member states, most notably the G77 and China, wanted member states to provide a clear political guidance to the UNSC. They also wanted regular briefings on the progress and direction of this work. The G77 and China said, "The Group avails itself of this opportunity to reaffirm its ... commitment to provide political parameters to the UN Statistical Commission and in this connection would appreciate it if clear channels of communication with member states could be established to ensure further engagement and provision of inputs into the process of developing the much-needed global indicators." Several other member states, including Tonga on behalf of the PSIDS, echoed this sentiment and stressed the need for transparency and openness in the process of selecting indicators.

The G77 and China also agreed that the UNSC could submit the list next March for follow-up and review, perhaps to the HLPF as the body which would monitor implementation of the post-2015 development agenda.

### Agenda for the April session

The co-facilitators also sought the member states' opinion on the agenda for the next session, which is scheduled for 20-24 April. The topic of this session, means of implementation (MOI) and a global partnership for development, had been the subject of considerable debate during the OWG talks and continues to be perhaps the most critical but contested segment of the forthcoming post-2015 development agenda.

The Financing for Development process – which is running parallel to the post-2015 agenda process and is to culminate in July with the third International Conference on Financing for Development to be held in Addis Ababa – is closely linked to and has an important bearing on the MOI discussions in the post-2015 agenda process. However, opinions continue to be sharply divided on how to integrate the outcome of the

(continued on page 12)

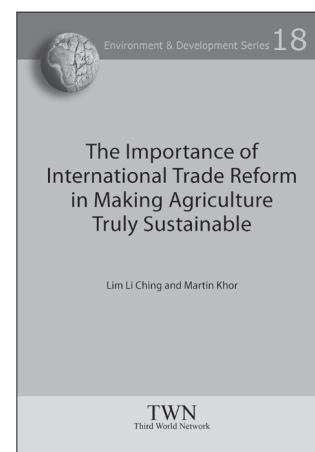
## The Importance of International Trade Reform in Making Agriculture Truly Sustainable

Lim Li Ching and Martin Khor

Reforms of the international trade regime require a significant reduction or removal of harmful subsidies currently provided mainly by developed countries, while at the same time allowing special treatment and safeguard mechanisms for developing countries in order to promote their smallholder farmers' livelihoods. Such reforms, coupled with policies in support of sustainable small-scale agriculture in developing countries, would improve local production for enhancing food security.

There is also a need for regulatory measures aimed at reorganizing the prevailing market structure of the agricultural value chain, which is dominated by a few multinational corporations and marginalizes smallholder farmers and sustainable production systems.

Policies that increase the choices of smallholders to sell their products on local or global markets at a decent price would complement efforts to rectify the imbalances. In addition, a shift to more sustainable and ecological agricultural practices would benefit smallholder farmers by increasing productivity while strengthening their resilience to shocks, such as climate change, and reducing the adverse impacts of conventional agricultural practices on the environment and health. The trade policy framework should therefore support such a shift.



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# Wide gaps at WTO on public food stockholding issue

The WTO membership still find themselves far apart in many areas of the agriculture negotiations, including over the vexing question of public food stocks.

by Kanaga Raja

GENEVA: "Wide gaps" remain among the WTO membership on the G33 grouping's proposal for a permanent solution on the issue of public stockholding for food security purposes, the Chair of the agriculture negotiations has told the Special Session of the WTO's Agriculture Committee.

The Committee was holding a dedicated session on the subject of a permanent solution in the afternoon of 20 March. The session was preceded by an informal meeting in the morning that discussed the issues of market access and domestic support.

According to trade officials, the Special Session of the Agriculture Committee, chaired by Ambassador John Adank of New Zealand, took up in the morning of 20 March two papers, one by Paraguay and the other by Argentina, on possible new approaches to tariff reduction.

However, these papers, as well as a series of consultations in smaller groups on market access and domestic support held by the Chair, have shown that differences remain on many of the key points, in particular on the question of whether the existing Rev. 4 draft agriculture modalities text is the basis for further negotiations, trade officials added.

"The issues are certainly becoming much more familiar with delegations but the convergence is still the real challenge that we face here," said the Chair in wrapping up the 20 March meeting.

## Discussion on market access and domestic support

According to trade officials, reporting on his consultations among a smaller group of countries on market access, Adank said: "While the discussions suggested some possibilities for convergence, it's clear that different views continue to exist regarding the suitability of various approaches."

"The concerns raised by members on certain aspects of the proposals are familiar because many of these are linked to the fact that members in the WTO have

extremely diverse tariff structures. This means, of course, that the results of any formula approach will affect each member differently. These issues were present when we were negotiating the 2008 draft modalities and they persist today," he added.

The Chair said that his task is to find a path to convergence and he will hold more consultations on this.

According to trade officials, there were two new unofficial papers from Paraguay and Argentina, both suggesting that tariff reductions in agriculture should at least partly be achieved by members exchanging requests and offers with each other instead of using the formula in the Rev. 4 text.

Paraguay has proposed that members' offers be based on an average tariff reduction figure that would also be subject to a minimum cut, while Argentina has proposed a request-offer approach that is not based on any targets or formulae.

According to trade officials, Paraguay has proposed a tariff-cutting formula that would specify an average cut across all agricultural products – except those that have bound tariff ceilings below 10% or are duty-free – subject to a minimum cut. Countries would be free to propose bigger or smaller cuts for individual products, provided the averages and minimums are respected. The proposed cuts would be "initial offers", and a country would then enter into two months of bargaining if other countries request, for example, steeper cuts for products that they export.

According to the proposal, the least developed countries (LDCs), small and vulnerable economies (SVEs) and countries that have joined the WTO "very" recently would not have to make any cuts.

According to trade officials, Paraguay has also provided some tentative figures (highlighted in square brackets): a 54% average and 20% minimum cut for developed countries; a 36% average and 15% minimum cut for developing countries in general (apart from the LDCs,

SVEs and "very" recent new members); and a 30% average with a 10% minimum cut for new members except those that joined "very" recently. The cuts would be phased in over a suggested period of five years (six cuts) for developed countries, and 10 years (11 cuts) for developing countries.

According to trade officials, while several countries said that the proposal had helped to focus the discussions, some had reservations, saying either that it was not ambitious enough or that it was too ambitious.

Chinese Taipei, on behalf of the recently acceded members (RAMs), said that there should be no distinction between those that joined recently and those that joined earlier on, since the membership negotiations resulted in all of them having lower bound tariff ceilings than the rest of the membership – 17% on average for these new members, compared with 40% in developed countries and close to 62% in developing countries.

According to trade officials, Argentina has proposed that countries request tariff cuts from their trading partners, which could then respond with offers. The approach would be same in agriculture, non-agricultural market access (NAMA) and services.

Some members however rejected Argentina's proposal outright, saying that the outcome would be too unpredictable, that the negotiations would take too long, and that smaller countries with less bargaining power would be at a disadvantage.

According to trade officials, members also remained divided on the amount of flexibility to be allowed for all countries on tariff reductions for products that are politically sensitive, and for developing countries on "special products (SP)" and a "special safeguard mechanism (SSM)".

On the issue of domestic support, trade officials said that the focus has been on the concept of "overall trade-distorting domestic support" (OTDS), which comprises the Amber Box, the Blue Box and *de minimis*.

The Chair reported that his consultations on this issue had been "very useful. In short, it was seen by many to be a valuable concept in terms of its design to reduce trade-distorting support, limit box-shifting, and/or level the playing field. However, the discussions also helped to uncover some important issues which attract sharply differing views. These will require further serious effort."

"Over the next few weeks, I intend to continue similar consultations on each key element of the domestic support toolbox, bearing in mind that of course they are interrelated," he said.

In the ensuing discussions, the European Union said that the Rev. 4 text would mean an 80% reduction in OTDS for itself and a 70% cut in the Amber Box. Thanks to the reform of its Common Agricultural Policy, the EU said that it is willing to take up the challenge of the Rev. 4 text.

The US said that it is committed to the post-Bali work programme and to the view that members should contribute commensurate with their positions.

According to trade officials, China supported the G33, saying that the Rev. 4 text is the only negotiating document on the table. Referring to some members that have said they have difficulties with the Rev. 4 text, China said that it wants to know what these difficulties are. It said it can consider the difficulties that some members have, but cannot negotiate the whole of the Rev. 4 text.

China also contested the notion of new ideas, saying that these must be consistent with the mandates and should not be more flexible for some while asking others to do more.

On market access, China said that the July 2004 framework mandate spells out a tiered formula for reducing tariffs, and there is no mandate for a request-offer approach. It further said that any recalibration should not be used to dilute the rights of some members while reducing obligations for others. As the largest net importer, China said that it is not a demandeur. It can contribute but it has already made considerable concessions.

With respect to the issue of domestic support, India said that the Rev. 4 text is the basis for the negotiations and those with difficulties should say what they are.

Australia said that the issue boils down to two main questions: What is the US prepared to do, either if others do not "contribute" (by making their own cuts) or if others do contribute? What is China prepared to do?

The Cotton-4 grouping said that the domestic support discussions will have implications for cotton.

According to trade officials, Brazil said that the tiered formula is the best means so far to achieve ambitious results in market access and domestic support.

South Africa said that it is willing to work with proposals in the Rev. 4 text.

On the issue of market access, India said it is constructively engaged but that should not be interpreted as supporting the simplification of tariff reduction formulas.

According to trade officials, India disliked the Paraguay paper, saying that it turns special and differential treatment on its head. While it accepts that the Rev. 4 text was never agreed, India pointed to the July 2004 and the Hong Kong ministerial decisions. It had heard in other contexts of ministerial decisions that have to be respected, and the tiered formula is a ministerial decision.

It also said that the issues of SP and SSM were also in the July 2004 framework. The design may differ and that can be negotiated but the concept cannot be scrapped, it said.

The EU welcomed the Paraguay paper but said that it needs further discussion. It said that more elements can be further simplified. Using average cuts undeniably helps to make the negotiations simpler but the EU will refrain at this stage from discussing numbers, as it needs to see the contours first to match it with NAMA as well as the two other agriculture pillars.

### Public stockholding for food security

Reporting on consultations held since the first dedicated session on 28 January, the Chair reminded members that trade ministers had agreed in Bali that a permanent solution to the issue of public stockholding for food security purposes should be found by the 2017 WTO Ministerial Conference and that the membership subsequently agreed in November 2014 that the permanent solution should be pursued as a priority, with the goal of securing a deal by the end of this year.

According to trade officials, the Chair said that his latest consultations have shown that a "wide gap" exists between the proponents of the G33 proposal and more sceptical members (among them the European Union, Australia, the United States and Japan) who had expressed concerns about the G33 initiative.

In particular, said the Chair, the consultations highlighted two broad concerns about the G33 proposal:

- the impact on the "architecture" of the WTO Agriculture Agreement in allowing programmes based on government-guaranteed prices for farmers (market price supports) into the Green Box, which covers domestic support with

little or no impact on trade; and

- the "unintended consequences" of public stockholding programmes on the domestic market of the country with the programme, on export markets and on the food security of other members.

"There is a clear need for further consultations aimed at getting deeper into the substance of a possible outcome," the Chair said, adding that "greater willingness from members on all sides is needed to make them go anywhere."

He also said that the ideas expressed so far by the non-proponents on how to resolve these issues have been fairly diverse and rather preliminary in nature. Some of the ideas expressed by the opponents of the G33 proposal include finding a solution on the basis of the AMS (Aggregate Measurement of Support) calculation method.

The Chair further said that it was also suggested that it should be possible to find ways of guaranteeing fair prices for producers and feeding the poor without leading to distortions of markets. The views expressed are quite divergent and rather tentative, he said.

At the session, the US tabled a new proposal on "elements for discussion" on public stockholding for food security. According to trade officials, the US said that its purpose was to "provide a common and basic understanding of the various facets surrounding the issue ... and assist in providing a basis for recommending a permanent solution to the issue," focusing on:

- reviewing the efficacy and trade effects of public stockholding for food security purposes, including the experiences of members with existing food security and public stockholding policies;

- reviewing public stockholding for food security policies and the WTO, including evaluating policies currently permitted by WTO rules and how existing policies are constrained by those rules;

- developing best practices and recommendations, including identifying practices that address food security objectives within the constraints of current WTO rules and recommending a permanent solution to the issue of public stockholding for food security.

According to trade officials, the US said that it was committed to moving forward on the issue but that the Agriculture Agreement already provides room for pursuing food security objectives. Trade ministers had already examined the G33 proposal and could not



come to an agreement on it, thus resubmitting the same proposal without changes would seem to be a “fruitless pursuit,” the US said.

Amongst others, the US proposal calls on members to consider developing a set of best practices for public stockholding policies, specifically to:

- identify any practices in implementing public stockholding programmes that would address members’ food security objectives within the constraints of current WTO rules;
- identify those practices that achieve members’ food security objectives in the most economical, targeted and effective manner;
- identify those practices that are not trade-distorting, do not adversely affect the food security of other members, and avoid unintended consequences; and
- establish a comprehensive list of notification and enhanced transparency procedures.

According to trade officials, members of the G33 said that they would study the US proposal. They however said that the mandate given by trade ministers was to find a permanent solution to the public stockholding issue, and not to expand the discussions into a review of existing programmes, which would delay the permanent solution.

China said that members should be alert against the risk of expanding the scope of the discussions. The best way to move forward at this critical juncture is to focus on the discussions as mandated by Bali, it added.

Indonesia, on behalf of the G33, said that it would need time to study the proposal. It said that there needs to be a clear mandate to find a permanent solution to the issue of public stockholding for food security purposes, and not to expand the discussions into a review of existing programmes. If members were to go along the road (set out by the US), it would look like a lot of work will need to be done before they come up with a permanent solution, it added.

According to trade officials, India said that the US proposal may result in an outcome where members are being advised as to what kind of food security policies they should adopt, which is not part of the mandate. Time is running out, it said.

India also responded to remarks by Australia that since the meeting of 28 January, there had not been anyone from the G33 coming around and offering to discuss the issue. It said that “it is not our responsibility to go banging on the doors of others and asking ‘what’s

wrong with our proposal’”. It is a collaborative effort and not the responsibility of one side or the other to initiate the negotiations on this, it added.

According to trade officials, G33 members defended the group’s proposal, with India saying that the current rules allow public stockholding programmes to be classified as Green Box support.

Several G33 members including India and the Philippines also said that they are willing to discuss concerns about the potential spillover of public stockholding programmes onto international markets and how these concerns could be addressed through appropriate safeguards.

The EU said that the “integrity” of the Green Box needs to be maintained and trade-distorting market prices support kept out of it.

Australia said that it could never accept price support programmes being transferred to the Green Box. According to trade officials, it highlighted its concerns about one unnamed member which it said stockpiled purchased wheat for food security and had also exported more than 4 million tons in the first six months of 2014, or 20% of Australia’s total annual wheat exports.

Japan said that it had systemic concerns regarding the G33 proposal, particularly the unintended consequences of such programmes.

There was also a debate at the meet-

ing on whether a “Friend of the Chair” should be appointed on this issue. According to trade officials, G33 members were of the view that it would be a good idea for the Chair to appoint a Friend of the Chair to deal specifically with this issue, while mainly developed countries including the EU were of the view that this wasn’t really an issue.

The Chair concluded that what was seen in the dedicated session is some elaboration of the points that members have been making.

On the US submission, he said that a number of members want to look at it in more detail, adding that there are now two submissions on the table for discussion – the G33 and US proposals. There is no monopoly on a solution to this issue, he added.

The Chair noted that there is a lot of debate about whether the US proposal is within the mandate or not. Obviously, the mandate makes it clear that the goal is to reach agreement on a permanent solution. Exactly what that comprises is up to members, he said.

It seems necessary for members to listen carefully to what each other is saying, Adank said, adding that it is a collective responsibility for everyone to participate.

“We won’t arrive at an agreement without that kind of engagement,” he said, adding that he will continue to consult with members on this issue and how to take it forward. (SUNS7989) □

## TFA entry into force unlikely before Nairobi meet

**The WTO’s new Trade Facilitation Agreement may not be able to come into force this year due to the time required to secure national-level ratification in individual member states.**

*by Kanaga Raja*

GENEVA: At the current pace of the process of ratifications of the Trade Facilitation Agreement (TFA), it seems unlikely that the agreement will secure the two-thirds ratification needed in time to enter into force by the end of the year.

At a meeting of trade ministers of key countries on the sidelines of the World Economic Forum in Davos early this year, Kenya as the host country for this year’s WTO Ministerial Conference had expressed the hope that this can be achieved by then.

But a meeting of the WTO Preparatory Committee (PrepCom) on Trade

Facilitation on 24 March showed that so far only four countries have ratified the TFA, while a dozen others spoke of processes underway in their countries.

The agreement needs ratification by at least two-thirds of the WTO members accepting the Protocol before the TFA can be inserted among the agreements in Annex 1A of the WTO Agreement to make it binding on those ratifying it.

The Protocol of Amendment inserting the TFA into Annex 1A was adopted by members at a WTO General Council meeting on 27 November 2014. The Protocol will enter into force in accordance



with paragraph 3 of Article X of the WTO Agreement; it will need to be ratified by two-thirds of the WTO's membership of 160 and the acceptance instruments lodged in the WTO before it can enter into force (with its rights and obligations kicking in for the ratifying members).

However, no deadline has been set for when this will be achieved.

### Ratification hurdles

According to trade officials, at the PrepCom meeting, many members expressed hope of seeing the agreement enter into force by the tenth Ministerial Conference, to be held in Nairobi, Kenya, on 15-18 December 2015.

Trade officials noted that Kenya's Foreign Minister Amina Mohamed had said that she would like WTO members to achieve entry into force of the TFA by the Nairobi meeting.

So far, however, only four WTO members – Hong Kong-China, Singapore, the United States and Mauritius – have secured domestic acceptance of the TFA, said trade officials.

Some 12 members reported that their domestic ratification process for the TFA was underway, with the European Union, Switzerland, Chile, Norway, Korea and Nicaragua highlighting target dates for gaining the required approval.

According to trade officials, several developing countries highlighted some domestic legislative hurdles that they will need to overcome before they can secure acceptance of the TFA.

Several African countries indicated that they were not in a position to ensure the ratification of the TFA by the Nairobi conference.

The Chair of the PrepCom, Ambassador Esteban Conejos of the Philippines, said he understood that a considerable number of additional WTO members have started the ratification process. The challenge, he said, is that the process is domestic in nature and differs from country to country.

According to trade officials, Georgia, Mexico, El Salvador, Morocco, Saudi Arabia and Colombia said that their efforts at domestic ratification had begun.

The EU said it hoped the European Parliament would give its approval to the TFA during its session in September.

Japan said that the government's cabinet had decided on 10 March to submit the TFA to parliament for approval.

China said that the domestic consultation process with relevant agencies was

completed and that the matter was now before the State Council for approval.

According to trade officials, Switzerland reported that its two houses of parliament had approved the TFA on 20 March and that the only remaining barrier was a possible referendum. It however said that it hoped to deposit its instrument of acceptance in the summer.

Chinese Taipei said that its cabinet had approved the TFA on 12 February and that it was now before its legislature for approval.

Norway said that it expected to secure acceptance of the TFA before August.

Chile said that its goal was to secure acceptance in June, when the country will undergo its trade policy review at the WTO.

Korea said that it was still deciding whether the TFA requires adoption by its parliament or whether it just needs to be approved by the government.

According to trade officials, South Africa underlined that it was not possible to indicate with any degree of certainty how long its acceptance process would take. The parliamentary roster is determined by the speaker of the house in consultation with the opposition, and does not take into account extraterritorial timetables, it said. While many have expressed their wish to see the TFA enter into force by the Nairobi conference, South Africa said that it is simply not in a position to share that endeavour because of these constraints.

Nigeria also said that the ratification process will be very challenging as it will require domestic legislative changes. It however appreciated the aspirations of securing entry into force of the TFA by the Nairobi meet.

Guinea informed the PrepCom that a workshop on the TFA in Conakry was cancelled due to the Ebola outbreak. It expressed hope that the workshop could be rescheduled soon in order to speed up the acceptance process.

Colombia said that the TFA would require two readings before its two houses of parliament as well as review by the constitutional court. With the latter step taking up to 3-4 months, it would be a "photo finish" to secure acceptance by the Nairobi meeting, it said.

### Category A notifications

According to trade officials, the PrepCom Chair also informed members that 55 notifications have now been received from developing-country mem-

bers outlining their "Category A" commitments. (Category A contains provisions that a developing country or a least developed country designates for implementation upon entry into force of the TFA or, in the case of a least developed country, within one year after entry into force.)

Conejos said that he was especially heartened to see the first notification from a least developed country (Senegal). "I understand that more notifications are currently being prepared, which is a very welcome development," he said.

According to trade officials, the PrepCom took note of the receipt of 10 new Category A notifications since its last meeting. In addition to Senegal, the new notifications are from Montenegro, Botswana, Nigeria, Macao-China, Gabon, Egypt, Macedonia, Jamaica and Pakistan.

Meanwhile, the secretariat gave a presentation on its new notification database as well as a new webpage for the Trade Facilitation Agreement Facility (TFAF), both of which will be up and running shortly.

According to trade officials, South Africa asked about the available funding for the TFAF. Trade officials said that 1.3 million Swiss francs is currently in the TFAF from previously committed funding for needs assessment programmes, but that substantial new funding pledges are expected and will be posted on the WTO website when they are finalized.

The Chair informed members that the next PrepCom meeting will take place on 10 June. (SUNS7990) □

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# Crisis resolution and international debt workout mechanisms

Given the growing vulnerability to financial crisis in many countries, an international debt workout system has become all the more necessary.

by Yilmaz Akyuz

Debt restructuring is a component of crisis management and resolution, and needs to be treated in the context of the current economic conjuncture and vulnerabilities.

International debt workout mechanisms are not just about debt reduction, but include interim arrangements to provide relief to debtors, including temporary hold on debt payments and financing.

They should address liquidity as well as solvency crises but the difference is not always clear. Most start as liquidity crises and can lead to insolvency if not resolved quickly. Liquidity crises also inflict serious social and economic damage, as seen in the past two decades, even when they do not entail sovereign defaults.

International mechanisms should apply to crises caused by external private debt as well as sovereign debt. Private external borrowing is often the reason for liquidity crises. Governments end up socializing private debt. They need mechanisms that facilitate resolution of crises caused by private borrowing.

Only one of the last eight major crises in emerging and developing economies was due to internationally issued sovereign debt (Argentina). The Mexican and Russian crises were due to locally issued public debt; in Asia (Thailand, Korea and Indonesia) external debt was private; in the Brazilian and Turkish crises too, private (bank) debt played a key role alongside some problems in the domestic public debt market.

We have had no major new crisis in the South with systemic implications for over a decade thanks to highly favourable global liquidity conditions and risk appetite, both before and after the Lehman Brothers bank collapse in 2008, due to policies in major advanced economies, notably the United States. But this period, notably the past six years, has also seen considerable build-up of fragility and vulnerability to liquidity and solvency crises in many developing countries.

Sovereign international debt problems may emerge in the so-called "front-

tier economies" usually dependent on official lending. Many of them have gone into bond markets in recent years, taking advantage of exceptional global liquidity conditions and risk appetite. There are several first-time Eurobond issuers in sub-Saharan Africa and elsewhere.

In emerging economies, internationally issued public debt as a percentage of gross domestic product has declined significantly since the early 2000s. Much of the external debt of these economies is now under local law and in local currency. However, there are numerous cases of build-up of private external debt in the foreign exchange markets issued under foreign law since 2008. Many of them may face contingent liabilities and are vulnerable to liquidity crises.

## Crisis intervention

An external financial crisis often involves interruption of a country's access to international financial markets, a sudden stop in capital inflows, exit of foreign investors from deposit, bond and equity markets, and capital flight by residents. Reserves become depleted and currency and asset markets come under stress.

Governments are often too late in recognizing the gravity of the situation. International Monetary Fund (IMF) lending is typically designed to bail out creditors, to keep debtors current on their obligations to creditors, and to avoid exchange restrictions and maintain an open capital account. The IMF imposes austerity on the debtor, expecting that it would make debt payable and sustainable and bring back private creditors. It has little leverage on creditors.

There are problems with standard crisis intervention: austerity can make debt even less payable; creditor bailouts create moral hazard and promote imprudent lending, and transform commercial debt into official debt, thereby making it more difficult to restructure; and risks are created for the financial integrity of the IMF.

Many of these problems were rec-

ognized after the Asian crisis of the 1990s, giving rise to the sovereign debt restructuring mechanism, originally designed very much along the lines advocated by the UN Conference on Trade and Development (UNCTAD) throughout the 1980s and 1990s (though without due acknowledgement). However, it was opposed by the United States and international financial markets and could not elicit strong support from debtor developing countries, notably in Latin America. It was first diluted and then abandoned.

The matter has come back to the attention of the international community with the eurozone crisis and then with vulture-fund holdouts in Argentinian debt restructuring. After pouring money into Argentina and Greece, whose debt turned out to be unpayable, the IMF has proposed a new framework to "limit the risk that Fund resources will simply be used to bail out private creditors" and to involve private creditors in crisis resolution.

If debt sustainability looks uncertain, the IMF would require re-profiling (rollovers and maturity extension) before lending. This is left to negotiations between the debtor and the creditors. However, there is no guarantee that this can bring a timely and orderly re-profiling. If no agreement is reached and the IMF does not lend without re-profiling, then it would effectively be telling the debtor to default. But it makes no proposal to protect the debtor against litigation and asset grab by creditors.

There is thus a need for statutory re-profiling involving temporary debt standstills and exchange controls. The decision should be taken by the country concerned and sanctioned by an internationally recognized independent body to impose a stay on litigation. Sanctioning standstills should automatically grant seniority to new loans, to be used for current account financing, not to pay creditors or finance capital outflows.

If financial meltdown is prevented through standstills and exchange controls, a stay is imposed on litigation, adequate financing is provided and contractual provisions are improved, the likelihood of reaching a negotiated debt workout would be very high.

The role of the IMF in crisis management and resolution is incontrovertible. However, the IMF cannot be placed at the centre of international debt workout mechanisms. Even after a fundamental reform, the IMF board cannot act as a sanctioning body and arbitrator because

of conflict of interest; its members represent debtors and creditors.

The United Nations successfully played an important role in crisis resolution in several instances in the past.

The Compensatory Financing Facility – introduced in the early 1960s to enable developing countries facing liquidity problems due to temporary shortfalls in primary export earnings to draw on the Fund beyond their normal drawing rights at concessional terms – resulted from a UN initiative.

A recent example concerns Iraq's debt. After the occupation of Iraq and collapse of the Saddam Hussein regime, the UN Security Council adopted a resolution to implement a stay on the

enforcement of creditor rights to use litigation to collect unpaid sovereign debt. This was engineered by the very same country, the United States, which now denies a role to the United Nations in debt and finance on the grounds that it lacks competence on such matters, which is said to mainly belong to the IMF and the World Bank. (IPS) □

*Yilmaz Akyuz is chief economist at the South Centre in Geneva. This article is partly based on South Centre Research Paper No. 60 by Akyuz titled "Internationalisation of Finance and Changing Vulnerabilities in Emerging and Developing Economies". The views expressed in this article are those of the author and do not necessarily represent the views of, and should not be attributed to, IPS - Inter Press Service.*

## Challenging the power of the one percent

**Lydia Alpizar Duran, executive director of the Association for Women's Rights in Development, issues a call for collective struggle in a world of interconnected economic, ecological and human rights crises.**

When you are faced with the task of moving an object but find it is too heavy to lift, what is your immediate and most natural response? You ask someone to help you lift it. And it makes all the difference.

And so in the face of unprecedented economic, ecological and human rights crises, we should not hunker down in our silos, but rather join together and use our collective power to overcome the challenges.

The recent World Social Forum (WSF) in Tunis showed that "Another World Is Possible" if we work collectively to address the structural causes of inequality. It is for this reason that the Association for Women's Rights in Development (AWID) has pledged to work together with ActionAid, Civicus, Greenpeace and Oxfam.

The gathering of approximately 70,000 activists in Tunis, the various workshops held on alternate economic models – including an AWID-led session on "Feminist Imaginations for a Just Economy" – the protests against shrinking spaces for dissent and the calls for social justice are critical in a world where the economic, ecological and human rights crises are interconnected and getting worse.

This is the power of the WSF. This 13th edition, held for the second time in

Tunisia's capital, is a reminder, and a call to action that it is people power that will change the world.

### Interrelated

Changing the world, especially where women's rights and gender justice are concerned, means recognizing and bringing visibility to the interrelatedness of issues. While in the past 20 years there have been notable achievements for women's rights and gender justice, there is still so much more to be done.

At the centre of the current global crisis is massive economic inequality that has become the global status quo. Some 1.2 billion impoverished people account for only 1% of world consumption while the million richest consume 72%. The levels of consumption in the Global North cannot be sustained on this planet by its peoples or the Earth itself. They are disappearing whole ecosystems and displacing people and communities.

The challenges are not only increasing, but also deepening. Many women and girls, trans and intersex people continue to experience multiple and intersecting forms of discrimination and vulnerability throughout their lives. These include the disproportionate impact of poverty, religious fundamentalisms and

violence on women, growing criminal networks and the increasing power of transnational corporations over lands and territories, deepening conflicts and militarization, widespread gender-based violence and environmental destruction.

Women have been caretakers of the environment and food producers for centuries, and are now at the forefront of its defence against habitat destruction and resource extraction by corporations. Violence against women who defend the earth occurs with impunity, at precisely the moment when "women and girls" are also receiving the attention of various corporate philanthropic actors as drivers for development.

Government and institutional commitments to address inequalities for the most part have been weak. And while people's mobilization and active citizenship are crucial, in all regions of the world the more people mobilize to defend their rights, the more the civic and political space is being closed off by decision-making elites. This year's Political Declaration from the United Nations' 59th Session of the Commission on the Status of Women (CSW59) is just the latest example.

Twenty years after the Beijing Declaration – the most progressive 'blueprint' for women's rights of its time and the result of 30,000 activists from around the globe putting pressure on 189 participating government representatives – women's rights and feminist groups were shut out of the CSW 'negotiations' with the result that the Declaration is weak and does not go far enough towards the kind of transformative change necessary to truly achieve the promises made in Beijing.

The forces of justice, freedom and equity are being relentlessly pushed back. There is an urgent need to strengthen our collective voices and power, to further expand our shared analyses and build interconnected agendas for action.

The WSF contributes to doing just that. At this year's WSF, there was a diversity of feminist activists in attendance and the systemic causes of global inequalities were addressed in intersectional ways linking new relationships to land, and land use to patriarchy, food sovereignty, decolonization and corporate power. These connections make the struggle seem huge but also make possible solidarity between movements.

As a global network of feminist and women's rights activists, organizations



and movements, AWID has been working for over 30 years to transform dominant structures of power and decision-making and advance human rights, gender justice and environmental sustainability. In all that we do, collaboration is at the core.

I strongly believe that we cannot achieve meaningful transformation unless we join together in all of our diversity. So for AWID, joining with the struggles for environmental sustainability, just economies and human rights is another step in a long trajectory of working with and for other movements.

Together we can take bolder steps, push each other further, and draw upon our combined knowledge and collective power to amplify our voices. Working together is the only way to reverse inequality, and to achieve a just and sustainable world. (IPS) □

*The views expressed in this article are those of the author and do not necessarily represent the views of, and should not be attributed to, IPS - Inter Press Service.*

(continued from page 5)

Addis Ababa conference into the post-2015 framework. A large majority of developed countries want the Addis outcome to be the sole determinant of the MOI segment of the post-2015 agenda. On their part, most developing countries, in particular the G77 and China, have requested that the Addis outcome be seen as complementary to the MOI targets already agreed to under the OWG process.

The co-facilitators proposed the merging of discussions with the Financing for Development process and having a joint session in April. Most member states seemed to agree to this proposal.

But it was clear that while the developing countries were interested in devoting as much time as possible to the discussions on MOI, the developed countries seemed eager to cut it short for discussing other matters. When the co-facilitators suggested shortening the ses-

sion to four or, later, three-and-a-half days, many developing countries disagreed, pointing out the critical importance of the MOI-related discussions for the success of the post-2015 development agenda. The G77 and China pointed out that reducing the time for MOI discussions will send out the incorrect signal that MOI is not important for the post-2015 development agenda. The Maldives, on behalf of AOSIS, emphasized that "MOI will bring the sustainable development agenda to life".

The G77 and China also stressed that the April session must include a discussion on technology transfer and development. This suggestion found support from many member states including Belize on behalf of CARICOM. Benin, on behalf of the LDCs, said that the discussion should hinge on MOI as in the OWG report and that a review of the Financing for Development zero draft should be made to check where and how it integrates with the MOI targets as laid out in the OWG report. □

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# *Saving the corporate tax*

The *Tax Justice Network* explains why the corporate income tax is worth defending, in light of what amounts to a smear campaign against the levy.

The corporate income tax is under attack around the world. Politicians, businesspeople, think-tanks, large accountancy firms and economists who think they understand tax are calling for ever more draconian cuts. Some are even urging outright abolition of the tax.

Corporate tax rates have plunged since the 1980s worldwide, meaning that an ever-smaller share of soaring corporate profits are being used to finance schools, roads, hospitals and the rule of law.

As headline tax rates have fallen, corporate tax avoidance and evasion are getting steadily worse. Multinationals are gorging on a fast-expanding feast of tax cuts and loopholes, often with the help of tax havens like Luxembourg or Ireland or Bermuda, and large accountancy firms that are their most powerful lobbyists and supporters.

A long-running smear campaign against the corporate income tax has created a widespread belief that the corporate tax is a bad, inefficient tax.

This perception is based on profound myths, fallacies and misunderstandings. This article skewers these myths and reveals why the corporate income tax is one of the most precious of all taxes.

It holds the whole tax system together. It curbs political and economic inequalities and helps rebalance distorted economies. It protects democracy. It boosts financial transparency and accountability and curbs criminal behaviour. It stops large multinational corporations and their wealthy owners from extracting wealth from societies by free-riding off taxpayer-funded public goods such as roads, education systems or courts. It protects developing countries in particular, boosting self-reliance and curbing their dependence on foreign aid. It underpins economic growth. And it raises trillions in revenue that is used as a basis to pay for essential public services.

Most of these good things cannot easily be measured, so they often get airbrushed out of economists' models. Yet they are no less important for that.

## **Ten reasons to fight for the corporate income tax**

### **1. Revenue**

Corporate tax revenues make up roughly a tenth of all taxes in rich countries, worth many hundreds of billions of dollars each year. The share in developing countries is higher. These taxes are irreplaceable.

### **2. Backstop: Corporate taxes hold the whole tax system together**

Corporate income taxes are a fundamental backstop to the personal income tax. Many countries set up their corporate taxes for this reason.

If the corporate tax were abolished, this would tear a giant hole in the personal income tax for wealthy people. They would simply form shell corporations and escape their income taxes by claiming that their earnings are not ordinary personal income but the income of the corporation.

As more people use the corporate vehicle as a tax shelter,

tax authorities would be pressured to cut top personal income tax rates to try and deter this behaviour. The entire tax system would become compressed, subsidizing the rich at the expense of the poor.

This "backstop" role alone is a killer reason to defend the corporate income tax.

### **3. The corporate tax curbs inequality and protects democracy**

Corporate profits are soaring as corporations muscle in on economic returns which, in an earlier age, would have gone to employees and society generally through wages, benefits and taxes. These soaring profits translate into steadily growing corporate political power. So corporate taxes curb both economic and political inequalities.

Most corporate wealth is owned by wealthy people, in every country. In the United States, for example, nine-tenths of corporate stock is owned by the top tenth of the income distribution. These wealthy capital owners are the ones who ultimately pay most of the corporate income tax.

So the tax is one of the most progressive taxes a state can levy. It reduces inequality within and between countries.

### **4. National tax 'competitiveness' is fool's gold: corporate taxes enhance national welfare**

Many people have been fooled into thinking that cutting corporate taxes obviously must make a country more tax-'competitive.' The opposite is likely to be true.

The tax 'competitiveness' ideology falls apart once you examine it. The corporate tax is not a cost to an economy but a transfer within it: from one wealth-creating sector (corporations) to another wealth-generating sector, government, which creates and protects wealth through education, roads, courts, police services and so on.

Corporate tax cuts carry multiple and diverse costs that hurt national welfare, and cause immense leakage: a large portion of corporate tax cuts flow to foreign shareholders.

Nor do corporate tax cuts generally attract much useful investment either. They tend to attract unproductive profit-shuffling and accounting nonsense: the least useful stuff.

### **5. Corporate tax cuts ricochet around the world**

One country's tax rules spill over to affect other countries. When a country cuts taxes on corporate income, corporations may shift foreign paper profits towards that country in response, undermining other countries' efforts to tax those profits. Tax havens have made a business model of doing this.

For example, just one aspect of recent moves by the UK to turn itself into a corporate tax haven is estimated to cost developing countries alone over \$6 billion annually. And when one country does things like this, others tend to follow suit, in a devastating race to the bottom.

### **6. Corporate taxes are particularly important for developing countries**

Tax cuts and incentives are typically more harmful for developing countries than for rich countries. This is partly because corporate taxes make up a much bigger share of taxes than in rich countries. Taxing large, centralized corporations

is far easier for weak tax administrations than chasing after large numbers of often poor individuals or microbusinesses. Their tax administrations are also generally weaker and more vulnerable to corruption and special-interest lobbying from those seeking to secure tax benefits.

Corporate tax cuts by developing countries generally involve a damaging transfer of wealth from poor countries to multinational corporations and their shareholders in rich countries.

#### 7. Corporate taxes can rebalance economies

Corporations worldwide are awash with trillions of dollars' worth of idle cash, which they are not investing productively. This is a reason for stagnant growth in many countries. If they have all this idle cash but aren't investing, why would giving them more cash through tax cuts make them invest more? Tax cuts are like pushing on a string.

Corporate taxes, by contrast, transfer money away from a corporate sector that is letting it sit idle, into the hands of a government sector that is mandated to put it straight to work – educating children, building roads and schools, and so on. This stimulates demand and ultimately feeds corporate profits, and helps bring stagnant economies back into balance.

#### 8. The corporate tax curbs rent-seeking

Many corporations engage in what economists call rent-seeking: unproductive wealth extraction, rather than wealth creation. Examples include oil producers benefiting from an oil price windfall, or players in the financial sector taking risks at taxpayers' expense, or lobbying to secure tax breaks. Rent-seeking tends to be unusually profitable but it fosters bad governance and damages entrepreneurialism and inclusive economic growth.

Given that rent-seeking tends to earn supersized profits, the corporate tax will disproportionately address rent-seeking, for the benefit of all.

#### 9. Tax cuts won't stop at zero

So-called "tax competition" – or "tax wars," to use a more economically literate term – happens when countries and states dangle tax lures to try and tempt corporations to relocate to their jurisdiction. Others follow suit, in a race to the bottom. The result is a growing cornucopia of tax and non-tax subsidies for multinationals, paid for by poorer sections of society.

The race doesn't stop when multinationals' net contributions hit zero: they turn negative, and keep sinking. There is no limit to corporate players' desire to free-ride off taxpayer-provided public goods and services and subsidies.

#### 10. Corporate taxes spur transparency and more accountable government

A state that taxes corporations needs accurate information about their financial affairs. The corporate income tax spurs states to require corporate transparency and accountability, helping them track taxable profits, not to mention nefarious activity. It is no coincidence that in many tax havens a lack of a corporate income tax goes hand in hand with a lack of good information about corporate owners and corporate finances.

### Mythbusters

Some of the common arguments used to attack the corporate income tax are worth noting – and rebutting.

#### Myth: "Tax avoidance is legal, so what's the problem?"

Journalists and pundits often describe particular companies' tax shenanigans as "perfectly legal" or, worse, "perfectly legitimate." This is usually factually wrong, because they cannot know. The best they can say is that the scheme has not been shown to be unlawful. This is not the same as saying it is

lawful.

An official with the PwC accountancy firm in London recently said that their firm had sold tax schemes that they knew would only have a 25% chance of withstanding a court challenge. Plenty of what is labelled "corporate tax avoidance" is in fact unlawful. And many schemes that may be lawful, of course, are abusive from the all-important economic perspective.

#### Myth: taxes are too high; tax cuts will stop avoidance and curb 'offshore'

It is often asserted that corporate tax rates are "too high" and that tax cuts will reduce avoidance. The evidence suggests that the opposite may be true. As corporate tax rates have halved since the 1980s, tax avoidance, evasion and the use of tax havens have exploded.

Avoidance generally happens for reasons other than the tax rate: notably the ease and cultural acceptability of doing so, and the availability of tax 'planning' advice. Successful lobbying for countries to introduce tax cuts and loopholes is usually followed directly by prodigious use of those loopholes by the same accountancy firms and corporations that lobbied for them.

And as explained above, if corporate tax rates fall far below personal income tax rates, wealthy folk start setting up shell corporations to avoid the higher rate. In which case, corporate tax cuts will lead to more avoidance, not less.

#### Myth: tax is theft

Some argue that tax is theft from people's hard-earned wealth. This tiresome argument is flat wrong. Tax is not theft if you get something in return. Corporations take benefits from society – roads, educated workforces, police and armed forces, sewage systems, courts – and should contribute towards them, like everyone else.

More philosophically, under what system of rights could tax be theft? Obviously not legal rights: the law says you must pay your taxes. Moral rights? What moral justification could there be for a corporation to free-ride off benefits provided by society?

#### Myth: the corporate tax is unfair "double taxation"

Some say that the corporate tax is unfair "double taxation" because corporate income is taxed first at the corporate level, then again when individuals pay tax on the dividends that corporations pay out. This argument is a nonsense.

First, plenty of dividend income escapes the personal income tax. In the US, for instance, two-thirds of stock dividends go to tax-exempt entities: if the corporate tax were abolished, two-thirds of corporate profits would never get taxed.

And Economics 101 tells us that there is a circular flow of income in an economy. Companies earn economic profits, which they pass on to employees and suppliers and shareholders, who spend it, contributing to corporate profits. Money goes around and gets taxed as it pops up in different places. So all taxes are double or multiple taxes.

This "double taxation" argument is pointless. And why is there not the same level of concern about "double taxation" suffered by poor people, for example when they pay taxes first on their income, then on goods they buy with that "already-taxed" income?

#### Myth: the corporate tax is inefficient and should be replaced by VAT

For all the complexities involved in taxing corporations, abolishing the corporate tax would make matters much worse.

The corporation is a centralized tax collection agent: abolishing the corporate tax would need swarms of tax inspectors with butterfly nets to catch all the shell corporation shenanigans that would proliferate, as explained above.



Corporate tax cuts or avoidance also cause losses and distortions elsewhere, whether through higher deficits, higher taxes for others, or unbalanced and distorted economic growth.

Corporate tax cuts are subsidies, and tax avoidance opportunities encourage corporate managers to take their eye off producing better or cheaper goods or services and to focus instead on the sugar hit of tax engineering. Multinationals also use tax avoidance as a weapon to out-compete and eliminate smaller, locally-based competitors. This stifles true market competition and harms efficiency.

#### **Myth: corporate bosses have a fiduciary duty to minimize taxes**

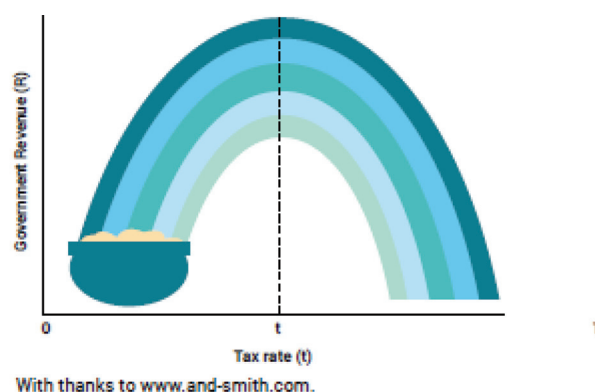
Some argue that corporate managers have a fiduciary duty to their shareholders to avoid tax. This is false. The Tax Justice Network in 2013 obtained a formal legal opinion demonstrating beyond doubt that there is no such duty in the UK. In the US, the all-important Delaware courts have explicitly asserted that “there is no general fiduciary duty to minimize taxes”.

This will be the case in other countries. Imagine if fiduciary duties required corporate bosses to despoil the environment or use slave labour in foreign factories because this maximized narrow shareholder value. It is unthinkable. Corporate bosses clearly have responsibilities to others besides shareholders.

#### **Myths and bamboozlement: the Laffer Curve and dynamic scoring**

The idea behind the “Laffer Curve” is that at a zero tax rate you will get no tax revenue, and at 100% nobody will do any work and everyone will dodge tax, so you will also get zero revenue. In between lies the ‘sweet spot’ of maximum revenue, as the tongue-in-cheek graph shows. The argument then goes that if your country lies on the right-hand side of the curve, then cutting taxes should boost revenue!

#### **The Laffer Curve rainbow**



Who does not like a free lunch? The Laffer Curve is a foundation of “supply-side economics” popularized in the era of Ronald Reagan in the 1980s. In real economies, however, the Laffer Curve has proved to be a nonsense.

All the evidence shows that tax cuts reduce revenues – duh! Let’s build 100 luxury space stations, and cut taxes to pay for them! □

*The above is the summary version of the report “Ten Reasons to Defend the Corporation Tax” by the Tax Justice Network and is reproduced with the kind permission of TJN. The full report is available on the TJN website ([www.taxjustice.net](http://www.taxjustice.net)). The Tax Justice Network is an independent international network dedicated to high-level research, analysis and advocacy in the field of international tax and the international aspects of financial regulation.*

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working paper, “Financialization and the Rise in Comovement of Commodity Prices”, I examine whether financialization of the commodity futures market can explain the remarkably synchronized rise and fall of commodity prices in 2008. For the empirical analysis, I extract common factors that explain trends in prices of 41 commodities and study the correlation between this common factor and the flow of money into the futures market.

Results show that financialization can explain the rise in comovement between commodity prices after accounting for other macroeconomic variables such as demand from emerging markets and depreciation of the US dollar. These results imply that as financialization of the commodity futures market proceeded and more traders entered the futures market, market liquidity increased. Much of the rise in liquidity was due to increasing investment in commodity indices, which meant that futures of unrelated commodities were being bought and sold together as parts of portfolios. This increase in liquidity across different commodity markets led to the synchronized rise (and fall) in commodity prices.

This growing influence of high finance on commodities has several ramifications. Commodity futures markets have existed in the United States since 1865, enabling producers and consumers of commodities to hedge against unexpected changes in prices. But, as the futures market is taken over by financial interests and prices become more volatile, it may lose its usefulness for producers and consumers.

More importantly, as prices will become more unstable, the financialization of commodities will lead to price spikes like the ones we witnessed in 2008-11. The most vulnerable

people in the world will be affected the most because they spend higher proportions of their incomes on food and are unable to smooth their consumption over time. In 2008, a majority of those negatively impacted were members of women-headed households who had limited access to land and other resources. Most of the countries that were affected were poor, food-importing countries that had neither the budgetary means nor the option to restrict exports and shield their populations from high prices. □

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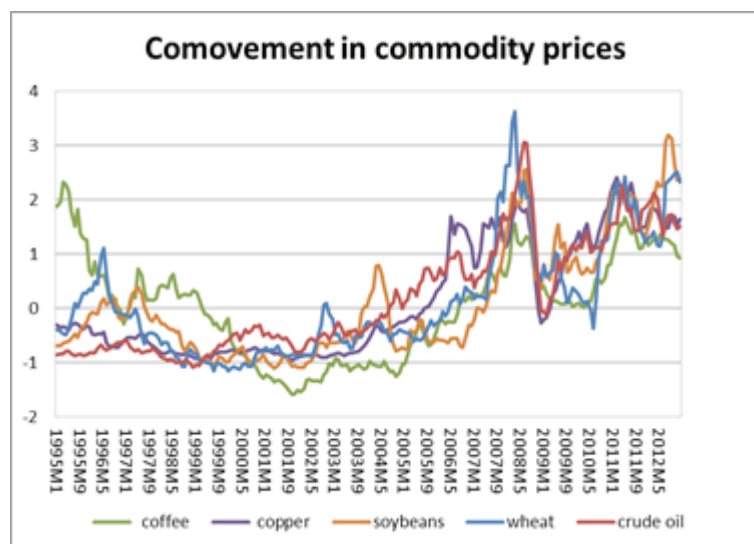
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# Why did commodity prices move together?

Financialization of the commodity futures market led to simultaneous sharp movements in prices across a wide range of commodities back in 2008-11 – and can trigger more of such damaging volatility in time to come.

by Manisha Pradhananga

Remember the 2008-11 food price spike? It led to food riots in many parts of the world and increased the number of malnourished people by 80 million worldwide (USDA 2009). What many people don't know about the price spike is that besides the rise in magnitude, it was distinctive for the breadth of commodities affected. Prices of a wide range of commodities, including agricultural (wheat, corn, soybeans, cocoa, coffee), energy (crude oil, gasoline) and metals (copper, aluminium), all rose and fell together during this period.



Source: IFS, commodity prices. Normalized by demeaning and dividing by standard deviation of each series

It is not unusual for prices of *related* commodities to move together; if two commodities are either complements or substitutes in production or consumption, then a demand or supply shock in one commodity market may be transmitted to the other. For example, prices of certain industrial metals may move together if they are jointly used to produce alloys. Similarly, prices of grains such as corn, wheat, rice and barley may move together if they are substitutes in consumption. However, commodity-specific shocks cannot explain comovement of *unrelated* commodities, like the one observed in 2008-11 (Gilbert 2010, Frankel and Rose 2009).

Many of the factors that were initially given as explanations for the price spike – such as drought, or the use of corn and oilseeds to produce biofuels – are thus unable to explain this rise in comovement between commodity prices. Only factors that can affect many commodity markets simultaneously can be considered as explanations. In a recent paper, I focus on one of these factors, financialization of the commodity futures market, and explore the links between financialization and comovement.

The term “financialization” has been used in the broader literature to loosely describe a range of developments related to the rising dominance of financial markets, institutions and

interests in the US economy since the 1970s (Epstein and Jayadev 2005, Orhangazi 2008). This concept of financialization has been extended to the commodity futures markets, where financial actors and interests have similarly played an increasingly dominant role in the functioning of the market.

Financialization in the commodity futures market refers to the massive inflow of investment in the market, and the rise of commodities as an investment asset. Futures contracts of commodities like oil, wheat, corn, soybeans etc. are now considered a financial asset like stocks and bonds. According to the Bank for International Settlements, the number of open contracts in the US exchange-traded commodity derivatives market increased sixfold between 2001 and June 2008, from around 6 million to 37 million. These new investors are neither producers nor direct consumers of the underlying commodities, and they increasingly control a large share of the market. Between 1995 and 2001, “bonafide” hedgers, who are producers and consumers of commodities, controlled 70% of the market in crude oil; by 2006-09 they controlled less than 43%.

This financialization of commodity futures markets may cause comovement between unrelated commodities in three ways. First, if commodity futures are bought and sold not based on expectations of future demand and supply of the particular commodity, but based on other portfolio considerations or herd behaviour. This is especially true for financial traders who buy and sell commodity derivatives not individually but as a group of securities based on preset weights of commodity indices like the Standard and Poor's-Goldman Sachs commodity index (S&P GSCI). If a large portion of “investment” in the commodity derivatives market is controlled by such passive index trading (like it was in 2008), then it is likely that prices of commodities will move together.

Second, if commodity speculators trade in two or more commodity markets, a fall in the price of one commodity may cause the price of the other commodity to also fall. For example, if the price of commodity A falls, speculators might have to sell commodity B to cover margin calls in the market for commodity A (in which they have a long position), thus leading B to move with A.

Finally, as the weight of energy commodities like crude oil is high in commodity indices like the S&P GSCI, shocks (supply or speculative bubbles) in energy markets might be transmitted to other commodity markets, even if there are no changes in the fundamentals of those specific commodities.

## Empirical analysis

In my recent Political Economy Research Institute (PERI)

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