

G20 Summit 2014: Expectations and Concerns

A Background Note

I. Evolution of G20

In September 1999, the finance ministers and central bank governors of the Group of Seven countries (the G7) announced their intention to “broaden the dialogue on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all.” This announcement marked the official birth of what subsequently became known as the Group of Twenty countries (the G20).

The already existing G8 group of countries, namely, USA, Japan, Germany, United Kingdom, France, Italy, Canada and Russia were joined by Australia, South Korea the European Union and number of emerging and developing countries, namely, Argentina, Brazil, China, India, Indonesia, Mexico, Saudi Arabia, South Africa, and Turkey to form the G20.

The G20 meets once a year, to discuss international economic issues. This event has come to be known as ‘Leaders Summit’, which brings together the Heads of State of the member countries. Till date, eight G20 Leaders Summits have been held in different member countries. The 9th G20 Summit will be held in Brisbane, Australia on 15–16 November 2014.

II. Civil society Efforts to Influence the Agenda and Outcomes of G20 Summit 2014

The official recognition of civil society (and the civil 20 process) started in 2013 in St. Petersburg, Russia. Civil society’s inclusion within the G20 process was a welcome step. The C20 (Civil Society) Summit is evolving as an international platform for dialogue between civil society representatives and government representatives of the G20 countries. The C20 Summit 2014, held in Melbourne, Australia on 20-21 June, focused mainly on four thematic issues - inclusive growth and employment, infrastructure, climate and sustainability, and governance. It came up with a set of recommendations to share with leaders of the G20 nations in the run up to the Brisbane Summit, 2014. Some of the major recommendations suggested in the C20 Australia, 2014 communiqué are:

- Reducing poverty and inequality through inclusive and sustained economic growth
- Development of a new, focused and measurable G20 Anti corruption action plan, an inclusive BEPS¹ process, beneficial ownership of transparency, country by country reporting and automatic exchange of information to address the issue of tax evasion and avoidance.
- Investment to support sustainable small scale farming as a way of ensuring food security and ensuring transparency in the negotiation of trade agreements
- Universal access to high quality health and education services financed through fair tax system
- Economic growth through creation of job opportunities
- Strengthening investment in both economic and social infrastructure
- Climate change as a stand-alone issue in G20 agenda
- To fund public infrastructure, arrangements of public-private partnership (PPP) should be transparent to enable independent monitoring.

¹ Base Erosion and Profit Shifting

III. Agenda of G20 Summit, 2014

The communiqué of the G20 Summit, 2013 had identified the agenda items for the November 2014 Summit. Enabling growth and creating jobs was decided as the top priority. Ten thematic issues, namely Anti-corruption, Development, Employment, Energy, Financial Regulation, Comprehensive Growth Strategy, Investment and Infrastructure, Reforms of Global Institutions, Tax, and Trade have been identified for the structure of discussion in the Leader Summit. Some of the specific issues on the agenda for the forthcoming G20 Summit are:

- Reducing the costs of corruption through transparency of ownership and control of companies.
- Combating tax avoidance and increasing the sharing of information between tax authorities and expanding the use of formal financial services.
- Addressing tax avoidance, particularly, base erosion and profit shifting (BEPS) by companies to ensure profits are taxed in the location where the economic activity takes place
- Removing obstacles to trade though easing the cost of trading across borders and facilitate participation by businesses in regional and global value chains.
- Strengthening development through increasing financing for infrastructure investment in developing countries
- Measures to lift labour force participation, particularly female work force participation and creating the right conditions for private enterprise to generate employment opportunities
- Improving the operation of global energy markets and energy efficiency.

Since its inception, leaders of the G20 nations have met regularly to discuss ways to promote growth and build economic resilience. Civil society organisations from a number of G20 countries have been trying to influence the G20 agenda by including the voices of people affected by the G20 decisions. The differences in priorities of G20 and C20 clearly indicate the limited success of civil society in influencing the G20 process until now.

For example, as stated earlier, the official G20 agenda for the Australia Summit, 2014 is restricted mainly to economic development with sustainable growth, job creation, financial transparency and open trade. In the agenda, 'Development' is defined as creating conditions for developing countries to attract infrastructure investment, strengthening tax system and improving access to financial services. Important aspects like social infrastructure, gender, poverty etc. are completely missing from this official G20 discourse.

IV. Some of the Expectations and Concerns with Regard to India's role in G20

As a member of G20, the Indian Government has voiced its opinion in favour of rebalancing global governance through the reform of international financial institutions like World Bank and IMF, checking external macroeconomic imbalances, scrutinising protectionist measures, and widening of G20 agenda to include development issues etc.

A number of issues have been identified in the official G20 agenda for discussion in the forthcoming Summit. The C20 process has also highlighted a few other important issues. Many of these issues are pertinent in the Indian context such as financial transparency, food security, inequality, inclusive growth and access to basic services (like health).

On three major issues, viz. financial transparency, food security and access to health — some of the key concerns in the Indian context and civil society expectations from the G20 Summit on how to tackle these problems internationally, have been discussed below.

i) Financial transparency: Concerns and Recommendations

Greater transparency in the global financial system is crucial towards addressing the challenge of illicit financial outflows (or movement of black money to offshore jurisdictions) from developing countries. The secrecy or opacity in the financial system undermines efforts towards sustainable development financing through mobilising domestic tax revenues. In addition, it also serves as a barrier to achieving G20 Summit 2014's most important agenda, i.e. enhancing or promoting economic growth.

1. **Beneficial Ownership Transparency:** The Australian government has recognised beneficial ownership transparency as a priority area. G20 should commit to recognising public registries of beneficial ownership as the emerging global standard for corporate transparency through their national legislations and participation in G20, FATF and similar forums. Corruption, crime, and tax evasion are facilitated by people's ability to hide their identity through secretive shell companies and other legal structures. Requiring the collection of beneficial ownership information, meaning the natural person who owns or benefits from the company, trust or foundation, and making the information available in accessible national public registries will help create a transparent corporate structure and foster a better functioning global financial system.
2. **Automatic Exchange of Information:** G20 should ensure that the automatic exchange process adapts to the needs, interests and capacities of developing countries allowing them to access the benefits of automatic information exchange while they adjust to the costs².
3. **Country-by-Country Reporting:** If companies were required to report sales, profits, and taxes paid in all jurisdictions in their audited annual reports and report tax returns, it would make it difficult to hide money off shore. Though the G20 has committed to country-by-country reporting, specifically through Action 13 of the G20/OECD Base Erosion and Profit Shifting, this reporting must be made public. Making this information public would help enable tax administrations in the poorest countries to respond to these challenges in their context as well as restore public confidence in tax systems.

Though the commitment of G20 leaders to addressing opacity in the global financial system is encouraging, the lack of spaces for developing countries to participate in these reform processes is a concern. Recent developments towards reform of the international tax system have been led by OECD and G20, raising important questions on legitimacy and representation of these forums. Without the involvement of developing countries on equal footing in the design and implementation of global standards, ensuring global ownership of these issues would remain a challenge.

ii) Food security: Concerns and Recommendations

1. Small scale farmers are becoming vulnerable with globalisation of agri-food system

² For more details on the loopholes in the standard, see:
<http://www.un.org/esa/ffd/tax/tenthsession/LetterFTConAEOI.pdf>

Food security, specifically, lack of access to food is a significant issue for the global community and particularly for developing nations, impacting adversely on their economic growth and resilience. Inequalities within the food system and challenges to small-scale farming models are strongly affected by global processes. Many of the companies, which enjoy the privileges of market concentration, are either multinational corporations or large domestic companies. Small-scale producers play a critical role both in global food supply as well as the food security and economic independence of the world's poor. However, many of these small-scale producers are disadvantaged by policies that limit their decision-making power in markets and fail to protect their rights (around land ownership, proper consent in land deals, labour conditions and gender equality).

2. Policy shifting from domestic spaces towards international arenas- limiting role of national governments

With globalization of agri-food system, decisions are often made at the international level, limiting the ability of national governments to respond in ways that empower smallholders and promote a more equitable food system. Large, multilateral organizations and the shift towards neoliberalism are moving policy decisions to global and private actors, such as the World Trade Organisation (WTO) and corporations. The upsurge in the use of preferential trade agreements is not only reducing tariff barriers, but also changing rules regulating other areas such as investment, industry standards, competition policy, intellectual property, labour and environmental regulations. While the inclusion of such provisions in trade agreements may open up international markets for capable domestic farmers, they effectively tie the hands of governments wishing to pursue national development strategies.

Recommendations:

1. Promote the central role of small-scale food producers to ensure food security, through measures to provide them access to finance and credit, research and development funding, support for producer organisations, and increased numbers of extension workers³.
2. Crafting and advocating for pragmatic and innovative public policies that can deliver on the promise of an equitable and inclusive food system for all and creation of formal mechanisms through which civil society organizations may deliberate with ministerial policy-makers about food security strategy.

iii) Access to Health: Concerns and Recommendations

1. Pharmaceutical research and Development (R&D) spending to rise in the coming years leading to spiralling drug costs.

Prices of new medicines and medical technologies are escalating. This is happening more in countries facing double burden of both communicable and non-communicable diseases. For example, the price of the latest medicine to treat hepatitis C is \$1000 per day (\$84,000 per 12 weeks).

Pharmaceutical industries argue that the high price of medicine is due to high cost of R&D. While the pharmaceutical industry claims that around 20 percent of its gross output is directed at R&D, the expenditure on R&D as percentage of sales turnover of pharmaceuticals industry remains less than 5 percent for last 30 years. In fact, the pharmaceutical industry is one of the most profitable, with super

³ Guinn. A and D Hamrick (2014): ' Changing Food Systems and Inequality: Implications for Food Security and Public Policy', Cross country Policy Brief, Oxfam supported by European Union

profit margins (to the tune of 200% to 4,000%) and most of the profits it makes are not ploughed back into research but distributed as dividends to shareholders.

2. Access to essential medicine (Generic vs. Branded) –a serious concern

Low public spending on drugs and non-availability of free medicines in government healthcare facilities are increasing the burden of out-of-pocket expenditure on households. While local generic manufacturers have been playing an important role in sustaining low prices of medicines, the situation has been changing. The implementation of TRIPS has put a stop on generic company's ability to produce generic equivalents of new medicines. Meantime, MNCs are buying part or all Indian companies, which would increase monopoly and decrease competition.

Although *India* is the fourth largest producer of drugs in the world and a world-class supplier of relatively cheap generic medicine, around 63 percent of Indians are without access to essential medicine (NSS, 2011-12). The market value and share of medicines covered by Drug Price Control Order (DPCO) is just 18% of the country's pharma market.

Recommendations:

1. Adopt measures to encourage generic competition including the use of the TRIPS flexibilities and patent pool (currently the Medicines Patent Pool is focusing on HIV)⁴. G20 countries must take the lead in adopting innovative ways to finance R&D on medicine and medical technologies independent of intellectual property rights;
2. Check on takeover of pharmaceutical companies by MNCs.

⁴ 'Tackling Inequalities in Access to Healthcare: Will the G20 Take up Global Leadership?', position paper prepared by Global Call to Action against Poverty (GCAP) Russia, GCAP China, International Forum on Indonesian Development (INFID), Indonesia People's Budget Initiative (PBI), India, June, 2014.