# G8

**Perspectives from**

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*François Hollande • José Manuel Barroso*
*Ellen Johnson Sirleaf • Lord Stephen Green*
*Supachai Panitchpakdi • Guy Ryder*
*Maria van der Hoeven • Achim Steiner*
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*Sir Roger Carr • Paul Collier*
*Sir Nicholas Bayne • John Kirton*

THE UK SUMMIT: LOUGH ERNE — JUNE 2013

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# G8

## THE UK SUMMIT: LOUGH ERNE JUNE 2013


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# How to ensure fairness – a taxing question

**RECOMMENDATIONS**

- The OECD should update international tax rules to meet the needs of modern business, starting with e-commerce and intellectual property.
- G8 nations should commit greater funds to increase capacity of tax authorities and tax professions in developing economies.
- G8 nations should implement the highest anti-money laundering standards by 2017.
- Governments should work with the accountancy profession to strengthen rules and systems.

## A view from Michael Izza, chief executive, ICAEW

At this June's summit, G8 leaders have an opportunity to reinvigorate the international tax system to work better for business and society. With political leadership, the business community, the accountancy profession and civil society can help to forge a solution that encourages international growth and trade – and is fair. The G8 nations can't settle this problem alone but they can begin a debate for the wider global community to take forward at the G20 in September.

### Tax rules have been left behind

Tax law is struggling to keep up with the evolving nature of modern business. Many of our current rules were put in place when it was easy to see where value was created in a supply chain – in a factory, a laboratory or a shop – and when most businesses operated in their own home markets. Over recent years business has become more complex. A company doesn't need an office in a country to operate there. Its assets – intellectual property, people and capital – can be easily moved. When goods and services are sold through complex supply chains, it's harder to identify where profit is created, and the right amount of tax is paid.

Intellectual property and e-commerce are two areas where tax rules are behind how people do business. This should be the focus of international collaboration, initiated by the G8, the G20 and the OECD. Agreement on corporation tax reform will demand the highest levels of cooperation, because corporations are global and mobile.

We must also debate what tax is for, particularly the use of tax incentives by individual countries to encourage investment. Although it is entirely legitimate for countries to compete on this basis, it can make it difficult to move to fair and competitive cross-border tax arrangements. The goal is to make it easy for countries to collect the right amount of tax, and for businesses to pay the right amount of tax. This will also strengthen the public's trust in the contribution of business to society.

### Tax professionals and transparency can help developing nations grow

G8 nations should lead the way in strengthening the capacity of tax authorities in developing countries, providing more funding and sharing their expertise. This can happen between countries bilaterally, or through institutions like the World Bank. ICAEW works with the World Bank to develop professional capacity in nations like Bangladesh and Botswana. When it comes to strengthening tax systems, strong accountancy professions are just as vital as strong national rules and tax authorities. Accountants make tax systems work, and can help improve and strengthen them too.

Tax compliance and responsible business in developing and developed economies requires transparency to enable proper enforcement. The Financial Action Task Force's recently updated international recommendations provide for this by reinforcing obligations for transparency and beneficial ownership. We think all G8 nations should implement this by 2017.

### Politicians can't solve these problems alone; Chartered Accountants are here to help

The G8 summit in Northern Ireland provides an opportunity to make progress on international tax cooperation. But this goal cannot be achieved by politicians alone. G8 leaders have three tools at their disposal: greater cooperation on tax, capacity building, and improved transparency. It is the responsibility of ICAEW and the wider accounting profession, the business community, and civil society to help deliver this G8 agenda. ICAEW and its 140,000 chartered accountant members can play a fundamental role in the much-needed solution on international tax.

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COPPERBELT
energy

# CEC Invests in Sub-Saharan Africa

With the power sector in Sub-Saharan Africa (SSA) steadily opening up to private sector investment, the Copperbelt Energy Corporation Plc (CEC) has taken a strategic decision to form a new investment company to undertake power sector investments outside of Zambia.

CEC Africa Investments Limited (CEC Africa), as the company is known, is already a registered entity and the vehicle through which CEC will make international power sector investments, particularly in SSA.

Registered in Mauritius in early February 2013, CEC Africa will be structured so as to attract other equity investors interested to participate in SSA's power sector. In the initial stages, however, it has been formed as a 100% subsidiary of CEC.

Among the investments to be made through CEC Africa is the acquisition of a 60% stake in Nigeria's Abuja Electricity Distribution Company (AEDC) through KANN Utility Company Limited (KANN) – a 50% joint venture between CEC and XerXes Global Investments Limited.

KANN was confirmed as the preferred bidder to acquire the AEDC in November 2012, following a rigorous international bidding process. A Sale and Purchase Agreement was on 21 February 2013 signed between KANN, the Bureau of Public Enterprises and Nigeria's Ministry of Finance.

The consideration payable for the 60% interest in AEDC is US$164 million, out of which in accordance with the Sale and Purchase Agreement, US$41 million or 25% was paid on 21 March 2013. The balance is to be settled within six months of the Agreement being signed.

The AEDC has a franchise for distributing electricity in four states, comprising the Federal Capital Territory of Abuja, Niger, Kogi and Nasarawa.

Another project in which notable progress has been made is Arandis project in Namibia. Located in the mining town of Arandis, the 120MW Heavy Fuel Oil (HFO) power plant will utilise HFO fuel imported into the port of Walvis Bay. It will also include a waste oil recycling facility that will process waste oil from ships docking at Walvis Bay and other locations in Southern Africa.

The intention is for the project to supply power to Namibian national power utility, NamPower, under a long term power purchase agreement.

CEC is proud of these developments, which are a realisation of the company's aspiration of extending its mandate beyond the borders of Zambia and its vision to become the leading Zambian investor, developer and operator of energy infrastructure in Africa.

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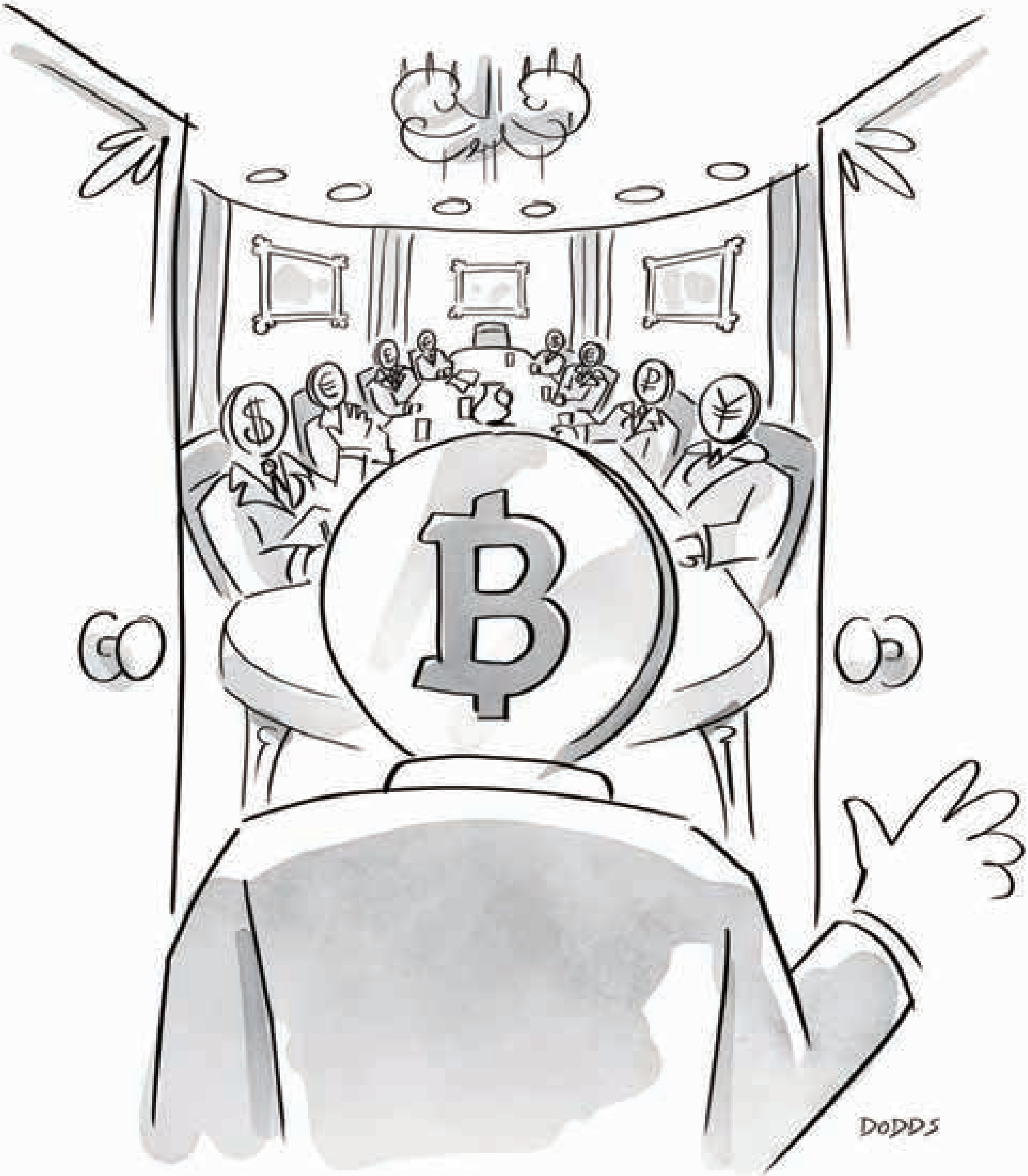


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REX FEATURES


# From County Tyrone to the World Cup

Moy Park may have started as a modest farming company in 1943 in Moygashel, a small village and townland in County Tyrone, Northern Ireland, but this year it will be one of the **sponsors of the 2014 FIFA World Cup™**

Over the past 70 years, Moy Park has grown from a small company with interests in many aspects of farming – including dairy, potatoes and egg production – to a £1 billion poultry business with 16 modern manufacturing facilities across the UK, Ireland and Europe.

Moy Park is Northern Ireland's largest food processing company, a top-20 UK food company and now a billion-pound business, employing 10,600 people across four countries.

The company, which has been part of Brazil-based Marfrig Group since 2008, processes 235 million locally produced chickens and two million turkeys per year, with its convenience division manufacturing 20,000 tonnes per month of coated and 'Ready to Eat' products. The company supplies own-label and Moy Park-branded chicken products to leading retailers and foodservice providers throughout the UK, Ireland and Europe, and is the industry-leading manufacturer of organic, free-range and higher-welfare chicken and turkey.

Now in its 70th year, Moy Park remains committed to Northern Ireland, and recently became responsible for the leadership and management of Marfrig's total European operations. The company attributes its success to maintaining close relationships and working

**Moy Park is the number-one poultry brand in Ireland, with more than 51 per cent of households buying the brand**


in partnership with its customers, suppliers, stakeholders and, importantly, more than 700 farmers in Northern Ireland and England, as well as continued investment in the business. In 2012, Moy Park joined forces with world-renowned chef Jamie Oliver to develop a range of higher-welfare chicken products under the celebrity chef's brand.

The manufacturing side of the business is not only one of the largest in Europe, but is undoubtedly one of the most modernised and sophisticated of its kind. Moy Park has spent almost £400 million on capital expenditure programmes over the past decade, making it a leading choice for retailers and foodservice customers for poultry production across Europe. In addition to this investment in processing facilities, Moy Park has driven an investment programme on farms of some £400 million in production capability.

Moy Park is the number-one poultry brand in Ireland, with more than

## Moy Park is Northern Ireland's largest food-processing company, a top-20 UK food company and now a billion-pound business, employing 10,600 people across four countries

51 per cent of households buying the brand. The company secured a two-year sponsorship deal with golf's European Tour to support the 2012 Irish Open at Royal Portrush and the 2013 Irish Open at Carton House, Kildare.

Today, Moy Park exports poultry meat to many countries and continents, such as South Africa and Russia. China remains a 'priority 1 status' target market, where significant development opportunities exist.

During 2012, Moy Park reduced energy costs as part of a resource-efficiency drive, creating a saving of over £2 million. Environmental initiatives include a reduction in electricity consumption by eight per cent – equivalent to the electricity required to power 3,500 homes for an entire year – while carbon emissions have been reduced by 11,288 tonnes – equivalent to the energy required to power nearly 3,000 return flights from London to New York.

Moy Park is proud of its extensive corporate responsibility programme and is the first company to be recognised in the UK's CR Index. The company remains committed to investing and improving all aspects of its corporate responsibility by working closely with its customers, suppliers, government bodies and local communities in order to make a positive contribution.

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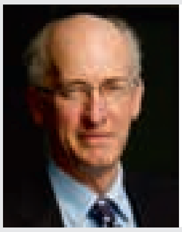
# A better railway for a better Britain



Sir David Higgins,
Chief Executive,
Network Rail

The Victorians "got" infrastructure. They understood the importance of connectivity and, in a remarkably short period of time, the foundations were laid for what became the modern, global economy. In one decade, the 1840s, the railway in Britain went from being a small, local means of transport, largely between coal mines and the nearest port, to the national network that we still depend on today. The idea of infrastructure as a key enabler for the social and economic life of a country was born. Britain went from being a political statement about national identity to being a living reality in which it was possible to travel and trade from one end of the country to the other in a way that no previous generation had been able to. The concept of time was transformed, as was the range of social and business interactions made possible by the new ability to travel and transport goods.

One hundred and sixty years later and everything has changed again – almost. Technologies and the means of communication, and transport, have multiplied in ways that would not have been conceivable to our 19th century forebears. The world has changed – and Britain has changed, and much for the better.

And yet what is equally remarkable is not just how much we still depend on that Victorian legacy, but also the way in which Britain has re-discovered the railway and its significance for the way we live and do business as a country. By the end of this decade more people will be travelling on British railways than ever before – and on a network half the size. What was seen for years as the ugly duckling of British transport is in danger of growing a few swan-like feathers.

What happened between that sudden burst of activity in the 1840s and now holds an interesting lesson for us all, not just about the railway, but infrastructure in general – and, in particular, what happens when you don't think strategically and holistically about the link between connectivity and the future of the economy.

If the 19th century saw the birth and consolidation of the modern railway in Britain, the 20th was largely a case of living off that asset. It was worked hard during the First World War without much care or attention; survived the depressed years of the 20s and 30s; was trashed again during the Second World War; kept going, just about, during the 50s, 60s and 70s; and was then privatised in the 90s. With hundreds of miles of railway closed as part of the Beeching cuts of the 1960s the future seemed to lie in other forms of transport, particularly road and air. The underlying assumption was that this was an industry in decline. The place of the railway, and its role in our national infrastructure and economy, was forgotten.

**The railway is once again what it was in Victorian times – an engine for growth that not only connects local communities, but also makes new possibilities happen**

And yet, exactly 50 years after Beeching, the railway in Britain is growing again, but the hard truth is that that growth has only been made possible because of a series of disasters which hit the railways in the 1990s. The de-railment of an Inter-City train on 17 October 2000, 13 minutes into its journey from King's Cross to Leeds not only resulted in the deaths of four passengers, but also in a recognition that those decades of under-investment had made the railways unsafe.

The tragedy was the catalyst that helped persuade successive British governments to invest heavily in the railways, as well as to create Network Rail – a not for dividend infrastructure company – to work alongside the privately owned train operating companies.

The subsequent decade has seen a huge transformation in the fortunes of what was once seen as Britain's dying railway. One million more trains use the network than 10 years ago. Those trains carry half a billion more passengers each year – a 50 per cent increase: an annual compound growth rate of five per cent for the past decade. And the growth rate shows no sign of slowing down. Last year it was eight per cent – even in difficult economic times. Few industries achieve that.

Little wonder then that a pan-European survey comparing the state of the railways across all 27 EU countries recently said that the UK was the most improved since the 1990s when measured across a range of 14 factors, including safety. We started from a low base, but we have come a long way. While the number of passengers travelling in Britain per km grew by 71 per cent from 1995 to 2008, the comparable figure for Germany and France were 19 per cent and eight per cent.

That success, however, is now creating its own problems. Because while the demand has soared, the physical size of the network has not. It is still, essentially, that left by Beeching, with the result that we have now got the second most densely used railway in Europe next to the Netherlands. We are, largely, squeezing more capacity out of the existing tracks.

That has major implications for wear and tear, particularly on a network that was first built 160 years ago, unlike the railways in the rest of Europe which were mostly rebuilt in the second half of the 20th century. Many of our 30,000 bridges, embankments and tunnels are over a century old – few of them built to standard specifications, and none of them designed to withstand climate change. So we have not just become world experts in looking after track in the last decade, we are also carrying out the biggest investment programme the railway has seen since Victorian times, both to maintain the existing network, and add extra capacity where possible.

In the three years from 2009 to 2012 we completed some 6,000 projects worth £12 billion, including rebuilding 850 bridges and 120 tunnels. Our plans for the next five years are even more ambitious, but at their heart is our desire to use a quantum leap in technology to show that we are as world class in how we manage, care for and develop our assets as we have become in track renewal. And, because we want to benchmark that expertise against best practice in the

**The King's Cross Western Concourse is said to have the longest single-span roof in Europe**

rest of the world, we have established a subsidiary company – Network Rail Consulting Ltd – to offer a global service. The aim is to demonstrate and sharpen our skills against the best in the business.

But Network Rail's core purpose remains firmly focused on Britain. The railway is once again what it was in Victorian times – an engine for growth that not only connects local communities, but also makes new possibilities happen.

And that is the lesson for infrastructure as a whole, whether it is transport, energy or tele-communications. The more you invest wisely, the bigger the return.

A plan to link cities in the North of England in the next five years will not only allow us to run 700 more trains per day in the region, but also release £4 of value for every £1 spent – that's the genius of infrastructure. That is why the government's plans for Britain's second high speed line is as much about the economic re-generation of the country as it is about introducing the latest high-tech trains. As with the Victorians, the starting point is connectivity, and the value that brings to the economy, and people's lives.

In 1852, the new King's Cross station, designed by Lewis Cubitt and built by George Turnbull, was opened on the site of what had been a fever and smallpox hospital. This autumn, 161 years later, passengers will once again be able to admire Cubitt's design, uncluttered by the somewhat unfortunate additions added in the 1970s, as we open a new piazza that will make Leicester Square look small. From there, passengers will be able to make their way to the new Western Concourse, which we opened last spring – a station with what is said to be the longest single-span roof in Europe. Dare we presume to think that Cubitt would have been proud. Say it softly, but Britain is re-discovering its love, and appreciation, of the railway.

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NetworkRail

# The UK's G8 agenda: trade, fair taxes and transparency

**As host of this year's G8 summit, UK prime minister David Cameron has set an agenda of trade, tax and transparency. Through these topics he hopes to address growth and stability**

Today, our greatest challenge is to restore strong and sustainable growth to the world economy.

When times are tough, some want to put the barriers up, to look inwards and to protect themselves from the world. But we have a precious opportunity to transform the global economy – not by less openness and less free trade, but by more. And we must do everything possible to seize it.

Trade is not a zero-sum game where one nation's success is another's failure. Trade makes the cake bigger so everyone can benefit. Take the free trade area between Europe and the United States on which we hope to launch negotiations when President Barack Obama is in Northern Ireland for the G8 Summit. This deal could add as much as £10 billion to the British economy and £63 billion ($97 billion) to US gross domestic product. But the rest of the world would benefit too, with gains that could generate €100 billion ($132 billion) worldwide.

Too often in trade, the voices defending special interests shout loudest. But it makes no sense to exclude vital parts of the economy. Everything must be on the table. And we must tackle the really tough regulatory issues so a product approved on one side of the Atlantic can immediately enter the market on the other. We will only reap the benefits if we keep the ambition high. Now is the time for business and political leaders to be making the case for this once-in-a-generation prize.

***Too often in trade, the voices defending special interests shout loudest. But it makes no sense to exclude vital parts of the economy. Everything must be on the table. And we must tackle the really tough regulatory issues***

An EU-US deal is just one building block of a more dynamic world economy. If G8 countries complete all of their current trade deals and those in the pipeline, it could boost the income of the whole world by more than $1 trillion.

Trade between developing countries is growing too. An Africa that can trade will be a lion of global growth. But a single truck still needs to carry up to 1,000 documents just to travel between the countries of the Southern African Development Community. So there is a huge prize to be won if we can sweep away trade bureaucracy, and a deal to do this at the WTO Bali conference in December could be worth $70 billion to the global economy.

But as we free up the world economy, we must make sure openness delivers the benefits it should for rich economies and developing countries alike. That means consistent and fair rules for the global economy. When countries open up to cross-border trade and global supply chains, they need to know that they will see the benefits in jobs, fair tax revenues and economic growth. So we need global rules that prevent tax evasion and aggressive avoidance, and enable governments to collect the taxes they are owed.

We also need to make sure that mineral wealth in developing countries becomes a blessing, not a curse. It is to the shame of the whole world that a lack of transparency allowed the illicit diamond trade to fuel appalling conflicts in Sierra Leone and Liberia. Today, we have a duty to make sure that resource wealth does not fuel conflict, corruption and crime.

So at the G8 in Northern Ireland I will push for fairer taxes and greater transparency alongside more open trade.

First, tougher tax transparency rules. We must fight the scourge of tax evasion by promoting a new global standard for automatic information exchange between tax authorities. And we must tackle aggressive tax avoidance by encouraging better global reporting to tax authorities in both the developed and developing world, and by letting tax collectors and law enforcement find out who really owns and controls each company.

Second, we must lift the veil of secrecy that too often lets corrupt corporations and officials in some countries run rings around the law. The G8 must move towards a global common standard for resource-extracting companies to report all payments to governments, and in turn for governments to report those revenues. This will encourage more investment in resource-rich countries and level the playing field for business.

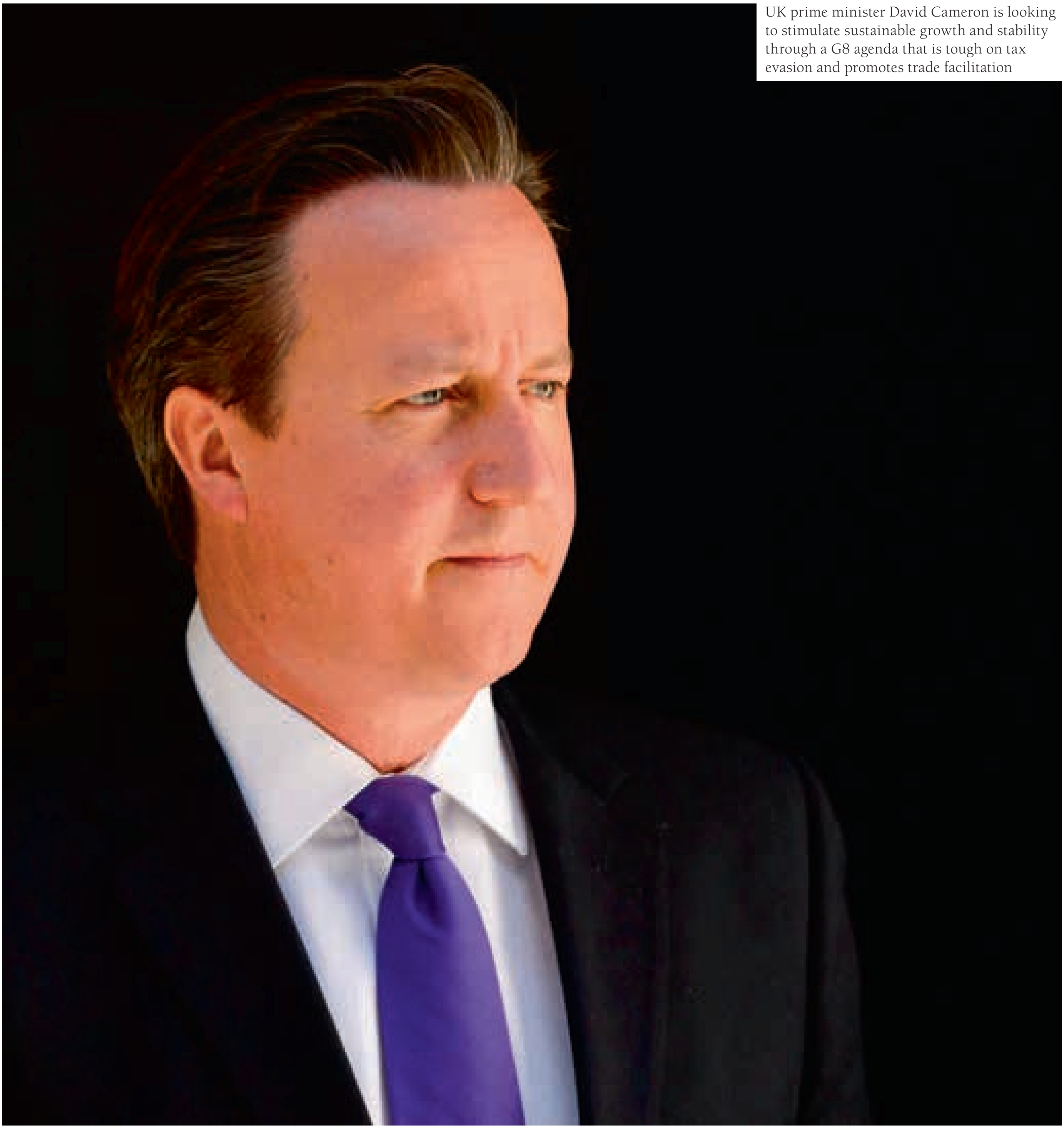
This is a pro-business and pro-development agenda. In Britain we are cutting corporation tax to just 20 per cent, the lowest rate in the G7. And I am proud to be a low-tax, free-enterprise politician.

But low taxes are only sustainable if what is owed is actually paid. We simply cannot have the situation where a small business is working hard to pay taxes but unable to compete fairly with rivals playing the system to avoid tax. Laying down the rules of the game and being prepared to enforce them is a vital foundation for open economies, low taxes and free enterprise.

This unique agenda can help the developed and developing world to grow together. But it cannot be delivered by governments alone. We need business to make the case for new openness about who really owns and controls every company. And we must all work harder to secure and fully implement the new standard that will see oil, gas and mining companies reporting project by project payments across the world without exception.

By promoting more trade, fairer taxes and greater transparency, Britain and America can once again lead the way in meeting the greatest challenge of our time: securing the growth and stability on which the prosperity of the whole world depends. ■

*Excerpt from an article published in* The Wall Street Journal, *13 May 2013.*



UK prime minister David Cameron is looking to stimulate sustainable growth and stability through a G8 agenda that is tough on tax evasion and promotes trade facilitation

PA WIRE/PA

# Sustainable growth in agriculture

Zacharia Elises expects to harvest more than five tons of maize this season at his 1.5 hectare farm plot in Catandica, Mozambique. This is more than three times the average yield in the area. Successful investments have been essential to tripling his yield.

The distributor Empresa de Comercialização Agricola (ECA) provided him with seeds, fertilizer and advice. ECA, one-third owned by local farmers, is in the middle of an economic cluster of related agricultural businesses. These range from seed and feed production to brewing, milling, and pig and poultry farming.

These businesses all receive financing from a Catalytic Fund launched in 2010 as part of the Beira Agricultural Growth Corridor. The fund is managed by AgDevCo and supported by international agribusinesses, the UK's DFID and the governments of Mozambique, Norway and The Netherlands. The Catalytic Fund provides 'social venture capital' on attractive terms to local entrepreneurs who have a solid business plan and the capacity to execute it.

## Creating opportunities

The concept of agricultural growth corridors was launched at the UN General Assembly in 2008 by Yara International ASA. The corridor concept adopts a business-development perspective to farming, using catalytic financing as a key mechanism to promote inclusive growth.

> **Fundamental change can be brought about by transforming smallholder farmers into emerging farmers**

So far, the corridor concept has been adapted in Mozambique and Tanzania.

The starting point for assessing the value chain and opportunity to build a cluster is to locate areas suitable for productive farming that have basic infrastructure available. Public-private partnerships, coordinated investments and government support help remove bottlenecks and reduce risk in the value chain. The corridor concept creates viable business opportunities and integrates smallholder farmers into those value chains.

The two growth corridors, Beira in Mozambique and SAGCOT in Tanzania, have launched investment blueprints to identify further growth and investment opportunities. They also give further details on the corridor model and approach. The two corridors aim to catalyze combined investments of $5 billion over a 20-year period, supporting the countries' growth policies.

Fertilizers, improved seeds and extension services are needed to support viable business opportunities in African agriculture

Investment: Tanzania's President Kikwete and Yara's CEO and President Haslestad plant a mango tree at the launch of Yara's $20 million fertilizer terminal construction in Dar es Salaam

Zacharia Elises increases his yields by partnering with ECA, while also taking part in the company's profits by being a shareholder

Bicycle transportation in Africa: Lack of infrastructure is a key challenge to increasing productivity in agriculture

## Driving green growth

With a projected global population of 9 billion in 2050, and improved income levels fuelling dietary changes, agriculture businesses are set to expand. The increasing demand for food, feed and fuel must be met without compromising sustainability.

The multi-stakeholder Green Corridor initiative supports a sustainable approach to SAGCOT's investment ambition. Specifically, Yara, together with Syngenta, the universities of Sokoine in Tanzania and UMB in Norway, have launched a research project that examines the effects of best practice in sustainable farming. Preliminary field trials demonstrated the potential to double yields and farmer income levels without expanding farm acreages, and keeping greenhouse-gas emissions at the same level.

## Bringing it to scale

While several African countries have seen impressive economic growth figures over the past decade, food insecurity remains at severe levels. Not least, the poor – many of whom themselves are smallholder farmers – are at risk.

Fundamental change can be brought about by transforming smallholder farmers into emerging farmers, emphasising entrepreneurship, and allowing them to profit from the growing agricultural markets. This requires long-term leadership and commitment to collaboration, building the capacity and market conditions to enable farmers to thrive as the driving force of sustainable food security.

## Grow Africa

Bringing the experiences from Mozambique, Tanzania and similar examples to scale is now the key objective of the recently established Grow Africa Initiative. Conceived in 2011, Grow Africa is a partnership platform linking the African Union Commission, NEPAD and World Economic Forum, as well as the private sector, farmers' organisations and development partners. Grow Africa's objective is to help expand private-sector investment and catalyse transformative partnerships that can accelerate sustainable agricultural growth in line with country-identified priorities.

Grow Africa held its first Investment Forum in May 2012 to explore concrete partnership opportunities. In collaboration with the G8's New Alliance for Food Security and Nutrition, Grow Africa became instrumental in prompting private-sector commitment, totalling $3 billion for specific agriculture investments in seven African countries. Over the course of 2012, 16 multinational companies and 24 African regional and local players were engaged in concrete investment projects.

Grow Africa's position in today's world is unique. This is the only global partnership aimed at a holistic African agricultural transformation – an Africa-owned, country-led initiative, built on country-specific priorities.

**Yara delivers solutions for sustainable agriculture and the environment. Our fertilizers and crop nutrition programmes help produce the food required for the growing world population. Our industrial products and solutions reduce emissions, improve air quality and support safe and efficient operations. Founded in Norway in 1905, Yara has a worldwide presence, with sales to 150 countries. Safety is always our top priority.**

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# Today's world contains both threats and opportunities

## During his State of the Union Address, US president Barack Obama shared his view of domestic and global affairs

Thanks to the grit and determination of the American people, there is much progress to report. After a decade of grinding war, our brave men and women in uniform are coming home. After years of gruelling recession, our businesses have created over six million new jobs. We buy more American cars than we have in five years, and less foreign oil than we have in 20. Our housing market is healing, our stock market is rebounding, and consumers, patients and homeowners enjoy stronger protections than ever before…

But there are millions of Americans whose hard work and dedication have not yet been rewarded. Our economy is adding jobs – but too many people still cannot find full-time employment. Corporate profits have skyrocketed to all-time highs – but for more than a decade, wages and incomes have barely budged.

It is our generation's task, then, to reignite the true engine of America's economic growth – a rising, thriving middle class.

It is our unfinished task to restore the basic bargain that built this country – the idea that if you work hard and meet your responsibilities, you can get ahead, no matter where you come from, no matter what you look like or who you love.

It is our unfinished task to make sure that this government works on behalf of the many, and not just the few; that it encourages free enterprise, rewards individual initiative and opens the doors of opportunity to every child across this great nation…

Our work must begin by making some basic decisions about our budget – decisions that will have a huge impact on the strength of our recovery.

Over the last few years, both parties have worked together to reduce the deficit by more than $2.5 trillion – mostly through spending cuts, but also by raising tax rates on the wealthiest one per cent of Americans. As a result, we are more than halfway towards the goal of $4 trillion in deficit reduction that economists say we need to stabilise our finances…

The biggest driver of our long-term debt is the rising cost of healthcare for an ageing population. And those of us who care deeply about programmes like Medicare must embrace the need for modest reforms – otherwise, our retirement programmes will crowd out the investments we need for our children, and jeopardise the promise of a secure retirement for future generations…

Most of us agree that a plan to reduce the deficit must be part of our agenda. But let's be clear, deficit reduction alone is not an economic plan. A growing economy that creates good, middle-class jobs – that must be the North Star that guides our efforts. Every day, we should ask ourselves three questions as a nation: how do we attract more jobs to our shores? How do we equip our people with the skills they need to get those jobs? And how do we make sure that hard work leads to a decent living?…

While corporate profits have reach all-time highs, incomes have not changed much for more than a decade. Barack Obama hopes to reinvigorate economic growth through the middle classes

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But for the sake of our children and our future, we must do more to combat climate change. It is true that no single event makes a trend. But the fact is the 12 hottest years on record have all come in the last 15. Heat waves, droughts, wildfires, floods – all are now more frequent and more intense. We can choose to believe that Superstorm Sandy, and the most severe drought in decades, and the worst wildfires some states have ever seen were all just a freak coincidence. Or we can choose to believe in the overwhelming judgment of science – and act before it is too late…

Tonight, we stand united in saluting the troops and civilians who sacrifice every day to protect us. Because of them, we can say with confidence that America will complete its mission in Afghanistan and achieve our objective of defeating the core of al Qaeda.

Already, we have brought home 33,000 of our brave servicemen and women. This spring, our forces will move into a support role, while Afghan security forces take the lead. Over the next year, another 34,000 American troops will come home from Afghanistan. This drawdown will continue and by the end of next year, our war in Afghanistan will be over.

Beyond 2014, America's commitment to a unified and sovereign Afghanistan will endure, but the nature of our commitment will change. We are negotiating an agreement with the Afghan government that focuses on two missions – training and equipping Afghan forces so that the country does not again slip into chaos, and counterterrorism efforts that allow us to pursue the remnants of al Qaeda and their affiliates.

### Addressing the terrorist threat

Today, the organisation that attacked us on 9/11 is a shadow of its former self. It is true that different al Qaeda affiliates and extremist groups have emerged – from the Arabian Peninsula to Africa. The threat these groups pose is evolving. But to meet this threat, we do not need to send tens of thousands of our sons and daughters abroad or occupy other nations. Instead, we will need to help countries like Yemen, Libya and Somalia provide for their own security, and help allies who take the fight to terrorists, as we have in Mali. And where necessary, through a range of capabilities, we will continue to take direct action against those terrorists who pose the gravest threat to Americans…

America will continue to lead the effort to prevent the spread of the world's most dangerous weapons. The regime in North Korea must know it will only achieve security and prosperity by meeting its international obligations. Provocations will only further isolate them, as we stand by our allies, strengthen our own missile defence and lead the world in taking firm action in response to these threats.

Likewise, the leaders of Iran must recognise that now is the time for a diplomatic solution, because a coalition stands united in demanding that they meet their obligations, and we will do what is necessary to prevent them from getting a nuclear weapon.

At the same time, we will engage Russia to seek further reductions in our nuclear arsenals, and continue leading the global effort to secure nuclear materials that could fall into the wrong hands – because our ability to influence others depends on our willingness to lead and meet our obligations…

Even as we protect our people, we should remember that today's world presents not just dangers, not just threats; it presents opportunities. To boost American exports, support American jobs and level the playing field in the growing markets of Asia, we intend to complete negotiations on the Trans-Pacific Partnership. And we will launch talks on a comprehensive Transatlantic Trade and Investment Partnership with the European Union – because trade that is fair and free across the Atlantic supports millions of good-paying American jobs.

We also know that progress in the most impoverished parts of our world enriches us all – not only because it creates new markets and more stable order in certain regions of the world, but also because it is the right thing to do. In many places, people live on little more than a dollar a day. So the United States will join with our allies to eradicate such extreme poverty in the next two decades by connecting more people to the global economy; by empowering women; by giving our young and brightest minds new opportunities to serve, and helping communities to feed, and power, and educate themselves; by saving the world's children from preventable deaths; and by realising the promise of an AIDS-free generation, which is within our reach.


AP/PA

Barack Obama says that the US will stand with citizens in the Middle East as they demand universal rights and support stable transitions to democracy

### A beacon to those who seek freedom

America must remain a beacon to all who seek freedom during this period of historic change. I saw the power of hope last year in Rangoon, in Burma, when Aung San Suu Kyi welcomed an American president into the home where she had been imprisoned for years; and when thousands of Burmese lined the streets, waving American flags, including a man who said, "There is justice and law in the United States. I want our country to be like that."

In defence of freedom, we will remain the anchor of strong alliances from the Americas to Africa, from Europe to Asia. In the Middle East, we will stand with citizens as they demand their universal rights, and support stable transitions to democracy.

We know the process will be messy, and we cannot presume to dictate the course of change in countries like Egypt, but we can – and will – insist on respect for the fundamental rights of all people. We will keep the pressure on a Syrian regime that has murdered its own people, and support opposition leaders that respect the rights of every Syrian. And we will stand steadfast with Israel in pursuit of security and a lasting peace. ■

*Excerpts from the 2013 State of the Union Address delivered by President Obama and approved by the White House for this publication*

Advertisement

# Fighting Smart in the Battle Against MDR-TB

Multidrug-resistant tuberculosis is increasing; its symptoms devastating. But through education, empowerment and efforts to improve access to quality medicines, the Lilly MDR-TB Partnership is improving health outcomes of those affected by TB around the world

### India

Shardaben and Jyotiben are former TB patients from a village in Gujarat, India. Here they share their experiences with other women during an awareness session hosted by the Self Employed Women's Association (SEWA), which is supported by the Lilly MDR-TB Partnership. Other projects focus on educating healthcare providers, such as local pharmacists, to support India's treatment programme.

### Russia

The Lilly MDR-TB Partnership has collaborated with Partners in Health for many years to provide training and support services in Tomsk, a remote region of Siberia. These best practice learnings are now being applied in other regions to train doctors and nurses in MDR-TB infection control. By empowering nurses, it is possible to free up the doctors' time to deal with the most serious cases.

### China

Doctors in China inspect a chest x-ray from a person suspected to have TB. The doctors had attended a training course on MDR-TB, hosted by the Chinese Medical Association and World Medical Association, and supported by the Lilly MDR-TB Partnership. The work also includes support of six pilot centres to develop and show effectiveness of training and engagement of local healthcare professionals.

### South Africa

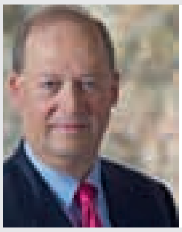
Every day, this young girl accompanies her mother to a clinic in Cape Town's impoverished Gugulethu suburb so her mother can receive TB medication. The child wears a mask while sitting in the clinic's waiting room to avoid inhaling TB bacteria from patients waiting to be attended to. As in Russia, part of the Lilly MDR-TB Partnership's South African work focuses on educating and empowering nurses.

the Lilly MDR-TB partnership

www.lillymdr-tb.com / mdrtb@lilly.com

The Lilly MDR-TB Partnership is funded by the Eli Lilly and Company Foundation UKCPR00128a Date of Preparation 07 May 2013

# Trade, transparency and the global tax system



J. Richard Stamm
Vice Chairman,
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PWC International
Limited

In framing the June 2013 G8 meeting, UK Prime Minister David Cameron has focused on the topics of trade, transparency and abuses in the global tax system. These three issues are inextricably linked to one another. Trade policy must consider tax issues and the transparency of information on trade and tax matters is at the core of establishing confidence in the economy and trust between governments and their citizens.

The tax abuse discussion falls into two general categories. First, there is pure tax evasion – the illegal acts of citizens or businesses which simply ignore the laws of countries, hide their income or otherwise pursue tactics that are inconsistent with the enacted laws of a country and thereby deprive governments of tax receipts. When the United States measures its "tax gap", it finds that it is comprised mainly of unreported individual income or employment taxes. Transparent information sharing between governments can help with this problem. The issue of taxes lost due to unreported cash income is a large issue in every economy – and a seemingly intractable one, as well. We believe that there are ways to capture some of this tax. Governments must do their part to establish expectations, make it more risky to not be compliant, and should direct their tax audit resources toward the most likely points of evasion, while actively pursuing electronic information that allows verification of the income which is reported by individuals against the other available information. Taxpayers who wish to be compliant and evidence substantive efforts and controls should be respected on a "trust, but verify" basis, using modern data analytics and fewer manual audit techniques.

The second area of discussion is avoidance, or aggressive avoidance, as it is often described. This sort of planning is often seen as falling into the description of being "legal, but not moral". Concern that global corporations are avoiding paying their "fair share" of taxes has recently gained considerable attention from governments, multinational organisations and the media. Some of the tax avoidance discussion is based on misunderstandings that, while understandable given the complexities of the tax laws, threatens to obscure the real issue at hand:  the international tax system is out of date and in urgent need of overhaul. Central to this overhaul are considerations of trade policy and transparency around information.

**Today, the global economy is driven by such things as brand, intellectual property and the exchange of information**

It is helpful to understand that for most of human history, the world has run on a goods economy. Tax systems evolved to administer the exchange of physical products. Value creation was tied to geographic location: a company's products were generally designed, manufactured in and shipped from one place. Differences in tax regimes were relatively few, easy to understand and generally comprised choices about legal structure and location of the business.

Today, the global economy is driven by such things as brand, intellectual property and the exchange of information. Businesses operate by product line, at least regionally and often globally. Tax codes force decisions to be made about where to record something inherently global and largely intangible: I can download an app in London that was developed in New Delhi and distributed by a company in Silicon Valley. Where is the value created, and how should it be recorded? If the tax laws are changed unilaterally by a single country, what might this do to world trade?

As tax codes evolved, governments have acted with the best intentions, designing laws to meet various national priorities, such as foreign investment and job creation. Corporate tax laws are an important tool in this process. Because taxes are a cost of doing business, governments try to attract investment by minimising this cost; corporations claim the reliefs to which they are entitled. However, to obtain the behaviour they wish, governments should also provide certainty about both the protection they afford if companies comply and the consequences if they do not. As was found in our firm's recent CEO Survey, lack of certainty – whether regarding

taxes or otherwise – is something that hurts business confidence and impedes economic activity.

I believe the vast majority of companies have been genuine in their efforts to comply with existing laws. Professional networks like ours also play a role: operating under sets of professional standards and network codes of conduct that govern what we do and for whom we will act. Our network's Global Tax Code of Conduct, originally written in 2005, requires tax services grounded in national and international law, properly disclosed and supported by actual facts and circumstances. As a result, PwC and I suspect other accounting networks routinely and regularly advise against certain kinds of tax planning arrangements. We believe we have an important and positive role to play in the tax systems of the countries in which we operate. In essence, we help these systems work.

Nevertheless, the best of intentions may not mix well with outdated national tax systems. An overhaul is necessary, but where to start?

I suggest that a viable answer cannot be found without adapting systems that date from the mid-20th century: the spine of how the US taxes international transactions was created in 1962, during the Kennedy Administration. In the UK, key elements date from 1965. The core of the Organisation for Economic Cooperation and Development's (OECD) model for international taxation dates from the 1970s. If tax codes are to adequately reflect national priorities and values, they also need to reflect modern reality.

There is no easy way to resolve these issues. It is not reasonable to say any one country can deal with this issue alone, and indeed, one-off actions risk multiple claims to taxation of single streams of income as well as creating impediments to global investment and trade flows. Governmental cooperation and coordination is essential to arrive at a sensible result that does not discourage growth, trade and investment.

Progress is being made: recent meetings of the G20 and comments preceding the June G8 meeting have focused on the need to address taxation of international commerce. The OECD's recent paper on Base Erosion and Profit Shifting (BEPS), while not proposing a specific answer, does nevertheless present a solid framework and, importantly, proposes to include in discussions not only OECD member countries, but also emerging markets.

Comprehensive reform of tax laws and treaties is needed, around the world, to create a balanced, modern and effective tax system. It will take some time to get it right, and governments will need input from business. Weighing the costs of delay against long-term benefits, it is clear to me that with concerted and deliberate focus by governments working together, a durable result is possible.

These are not simple matters, but we do not live in simple times and doing nothing is no longer an option. As the current economic climate forces a discussion about what we want our future to be, and as governments and citizens alike begin considering priorities for the next years and decades, we must move the discussion from a critique of individual corporate decisions and consider whether our tax systems stand ready to reflect our modern needs and priorities. And we must get started – now.

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# G8: taking responsibility to ensure economic and social development

## French president François Hollande on his expectations for the G8 Lough Erne Summit and his hopes for the direction of the group as a whole during this time of economic change

On 17 June 2013, I will travel to Lough Erne to attend the G8 summit at the invitation of British prime minister David Cameron.

It is a crucial meeting for our countries and for the world. It is a meeting designed to enable collective decisions and action to be taken for the benefit of all. It is a test for the G8, a group of advanced economies that must lead by example. The challenge is to work together to do everything in our power to build a safer, more prosperous, more sustainable and fairer future.

I would like the G8 to send a strong message on growth and jobs to the world, as it did last year at Camp David. At a time when the economic outlook remains uncertain and unemployment has risen to intolerable levels, we need to come up with economic policies that promote growth and jobs. We will do so seriously and ambitiously, thereby restoring our fiscal credibility and improving our competitiveness.

***At a time when the economic outlook remains uncertain and unemployment has risen to intolerable levels, we need to come up with economic policies that promote growth and jobs. We will do so seriously and ambitiously, thereby restoring our fiscal credibility***

France is ready to assume all its responsibilities in taking action with its partners. France supports the three priorities put forward by the United Kingdom's presidency of the G8 – fairer taxation, more transparent economic activity and reciprocal trade, which are also drivers for growth in our economies.

France wants to see historic steps taken in tackling tax avoidance, tax evasion and tax havens. It is time for a standard to be adopted for automatic information exchange between tax administrations. It is also time to establish the best possible regulations in the fight against money laundering and illicit flows of capital.

France would like to see greater transparency in the extractive industries sector and fully supports the Extractive Industries Transparency Initiative. It is normal that companies be required to make data for each country and for each project public in the extractive industries sector and beyond.

France recognises that international trade significantly contributes to growth. Our economies and our societies have nothing to gain from protectionism or, at the other extreme, from unbridled competition. Trade must be fair, in other words, and reciprocal, equitable and based on common rules that are applied by all.

France supports the three priorities put forward by the United Kingdom's presidency of the G8 – fairer taxation, more transparent economic activity and reciprocal trade

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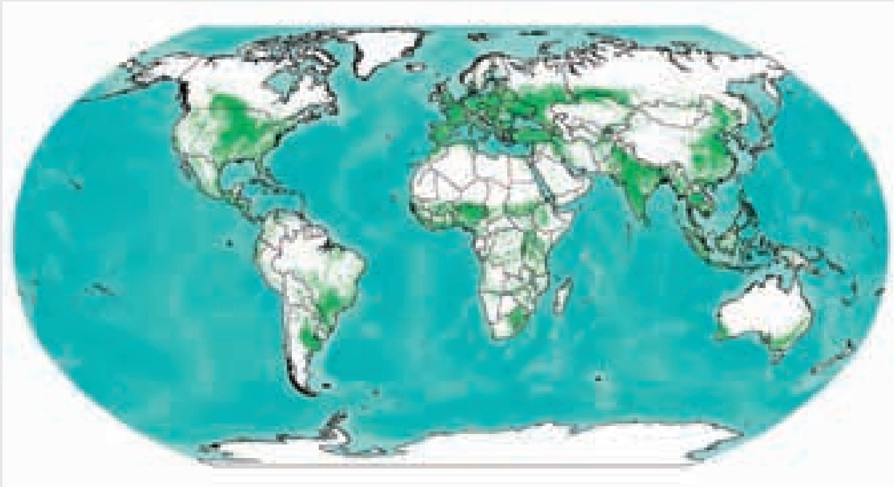
France would like to see a stronger partnership between the G8 and Africa. Since the beginning of this year, French troops have been deployed in Mali to re-establish the territorial integrity of the country and to ensure security and stability in the Sahel region and beyond. Africa is the continent of the future, with two decades of growth and a doubling of international investments in 10 years.

There can be no growth or development that is not sustainable. To address the issue of climate change, we will meet, I hope, in France in 2015 for the United Nations climate change conference. It is the responsibility of the international community as a whole to ensure the success of the negotiations. The G8 must do its part and give a strong political impetus to curb carbon emissions.

Of course, the G8 cannot do everything alone. But let it not be said that we, the G8 leaders, did not seek to assume all our responsibilities in promoting economic and social development for the benefit of all. ■

# GEOGLAM: where policy and science meet

The Group on Earth Observations' Global Agriculture Monitoring (GEOGLAM) initiative is one of several emerging initiatives of the Group on Earth Observations (GEO) where policy and science meet. In 2011, as part of its Action Plan on Food Price Volatility and Agriculture, the G20 committed to "improve market information and transparency in order to make international markets for agricultural commodities more effective". In its Final Declaration from Cannes (November 2011), the G20 invited GEO to "lead the development of an initiative to coordinate satellite monitoring observation systems in different regions of the world in order to enhance crop production projections and weather forecasting data".

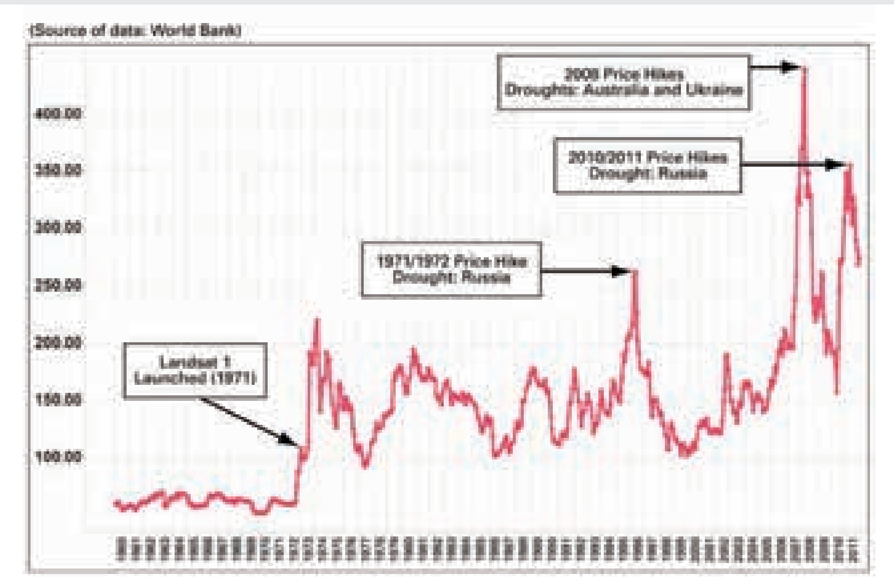


Global cropland distribution

One example of the effects that significant weather events in producer/exporter countries have on crop prices is shown below in data from the World Bank. The graph illustrates wheat prices (in $/metric ton) for the period from 1960-2011. The first decade (1960-72) shows a relatively stable situation with price volatility increasing thereafter, and particularly so since 2007. Droughts in Australia, Russia and the Ukraine and the effect that they have had on wheat prices are shown on the graph.

Also shown on the graph is the launch in 1972 of the first in a series of Landsat satellites designed to observe the Earth's landscape. Landsat-8 was successfully launched earlier this year (February 2013), resulting in a 40+ year record of how the Earth's landscape is changing, including croplands, forests and urban areas.

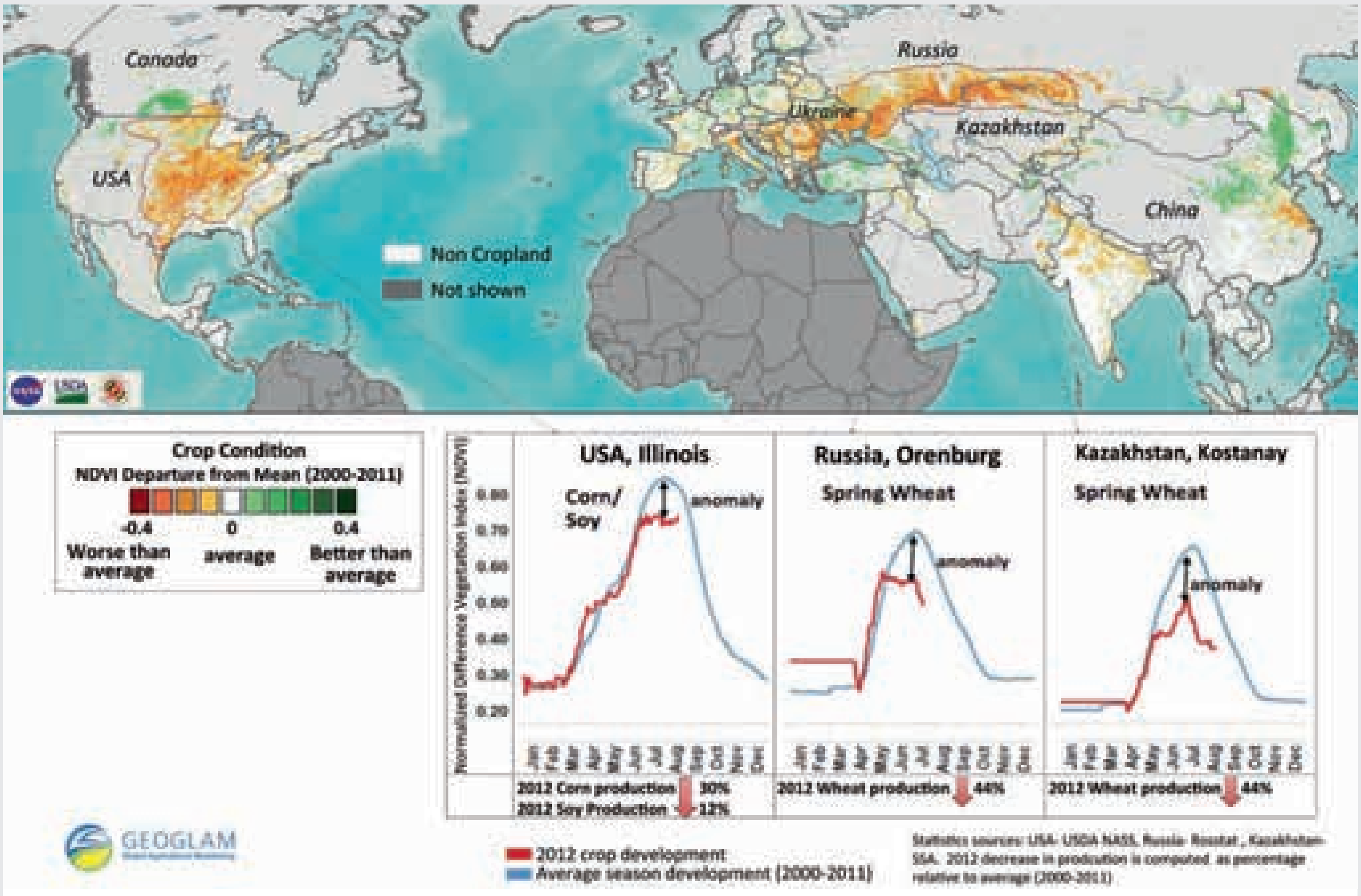
The observations of these croplands from space are a key element in the policy/science spectrum, where both opportunities and challenges associated with their use emerge. Satellites from space agencies around the world afford us the opportunity to collect consistent, sustained global observations of cropland areas. Clearly, agricultural measurements from the ground are essential, and will remain so. Supplementing traditional ground-based observations with space-based observations, however, provide and/or strengthen global transparency.




Monthly wheat prices ($/MT) 1960-2011

The map above shows the percentage of cropland at a 1km resolution, and was created using satellite and ground-based data at the global, regional and national level. Cropland statistics from the Food and Agriculture Organization (FAO) and International Food Policy Research Institute (IFPRI) were used to calibrate the product to ensure compliance with those data sources. The 25 countries producing 80% of the world's food supply are visible. This map, available for viewing and downloading at *http://beta-hybrid.geo-wiki.org*, is now being used to develop crop-type distribution maps, and, combined with crop calendars, to optimize the future collection of satellite data for GEOGLAM. The map was prepared by the International Institute for Applied Systems Analysis (IIASA) as a contribution to GEOGLAM.

The map on the opposite page indicates how satellite imagery can provide the global community with timely information on crop conditions and prospects prior to crop harvest. It shows a snapshot of daily maps that are available in real time of a satellite-derived index, called Normalized Difference Vegetation Index (NDVI). This vegetation index provides information on crop growth and condition. The anomaly image shows the




**Crop Conditions during the 2012 Northern Hemisphere Summer Droughts**

cropland NDVI departure from Average (2000-11) on 30 July 2012, highlighting hotspots of crops under stress during the 2012 droughts that affected the United States and the Black Sea region. The time series curves below the map compare the daily development of croplands in 2012 (red) to average (blue) in three important crop-growing regions: Illinois, USA; Orenburg Oblast, Russia; and Kostanay Oblast, Kazakhstan. The crop development through the season depicted by NDVI shows consistent negative anomalies with regard to a 10-year average during critical development stages, with the highest discrepancies during the peak crop-development period. In 2012, crops in the US, southern Europe and the Black Sea region suffered from prolonged high temperatures and low soil moisture, which resulted in significantly reduced production. The negative impact on crops was seen in the satellite imagery well ahead of harvest. And while speculation often starts between seasons, any improvement in production forecasts during the season should have a positive impact on price stability. Increased global transparency brought by Earth observations, harmonized methodologies and international coordination and cooperation will have a positive impact on both production forecasts and price volatility, making international markets for agricultural commodities more effective – the stated intention of the G20. The map was produced by the University of Maryland (UMD) in collaboration with the National Aeronautics and Space Administration (NASA) and the United States Department of Agriculture (USDA).

Currently, Argentina, Australia, Brazil, Canada, China, the European Commission, France, Germany, India, Japan, Kazakhstan, Mexico, Russia, South Africa, Thailand, Ukraine, USA, the Asian Development Bank (ADB), the Committee on Earth Observation Satellites (CEOS), FAO, IFPRI, IIASA and WMO are actively participating in GEOGLAM. The early efforts are focusing on the four main commodities – corn, rice, soybeans and wheat. Activities are designed for the major producing countries (development of a global agricultural monitoring system), countries that may be both producing and at risk (development of national capabilities) and for countries at risk (development of regional capabilities).

Like any other GEO initiative, participation is voluntary and open to all GEO Member countries (90 to date) and any of the nearly 70 Participating Organizations (including international organizations with an interest in Earth observations, UN agencies, and scientific associations). In November 2012, GEO Members approved broadening stakeholder engagement in GEO to include foundations, development banks, other non-governmental organizations and commercial entities. GEO would welcome additional participation and contributions to this important initiative. There are few greater needs than creating and ensuring a food-secure world.

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GROUP ON EARTH OBSERVATIONS

# Strengthening the EU's economic partnership with the world

## José Manuel Barroso, president of the European Commission, sets out the EU's views on the main topics identified for this year's G8 summit

This G8 summit in Northern Ireland is particularly emotional. The summit places on the global stage the local and national efforts, supported not least by the European Union, that over two decades have returned peace and reconciliation to this most beautiful and hospitable part of Europe. I would like to commend the United Kingdom presidency for this choice.

It also has a personal significance for me: it was under the last UK presidency of the G8 in 2005 that I attended at Gleneagles my first G8 summit as president of the European Commission.

Of course, no UK presidency would forego 'teatime' and this summit has three 'Ts' as priorities: trade and the economy, taxation and transparency. Let me briefly set out our views on these main issues.

First, on trade: free and unimpeded international trade among open economies is a vital engine for growth, jobs and development. The European Union has always been a staunch supporter and promoter of free trade and of the multilateral system. While working tirelessly to promote progress in key areas of the Doha Development Round, we are also deepening our trade and economic relationships with many countries and regions across the world. The most prominent examples right now are the Transatlantic Trade and Investment Partnership with the United States, on which we want to launch negotiations before the summer, and the free trade agreement that we have started negotiating recently with Japan.

The bilateral trade agreements that we have initiated and concluded are not in contradiction with our multilateral ambitions and certainly do not replace our commitment to the World Trade Organization (WTO) and the Doha Development Agenda. Indeed, they are a stepping stone towards free and multilateral global trade.

We will continue to try to move forward the multilateral agenda where possible. For example, we are fully engaged with our partners to conclude a WTO trade facilitation agreement, which would have a huge positive impact for developing and least developed countries. The G8 summit should make the case for such an agreement and then, together with the G20, provide the political impulse needed to close the deal at the WTO ministerial meeting in Bali in December. This G8 should also back and outline actions to further trade in Africa, for example by lowering trade costs, stimulating infrastructure financing and coordinating support better.

The presence in the next G8 of the co-chairs of the United Nations High Level Panel on global development beyond 2015, also gives us an opportunity to reiterate a strong message of our collective commitment to achieve the Millennium Development Goals and to start preparing a post-2015 development framework that has the fight against poverty and sustainable development as its key objectives.

We will, of course, not ignore the broader picture of the world economy at the Lough Erne Summit. If we compare the situation with a year ago, confidence is gradually returning. In Europe, we have averted the existential threat to the euro, but we still have huge challenges to tackle, not least to promote growth and create jobs. We therefore will have to stay the course of growth-friendly fiscal consolidation, structural reforms and targeted investment, while ensuring that our economic and monetary union is built on a rock-solid architecture and continuing to stabilise the financial sector.

Much has already been achieved. We have completely overhauled the way in which we are coordinating our economic policies in order to achieve sustainable growth on the back of sound public finances and increased competitiveness. And we are making good progress on establishing a banking union that will reduce the risk of future banking crises with new supranational supervision and resolution mechanisms, as well as strengthened regulation and capital requirements in line with the G20 commitments.

However, the situation remains fragile and there is no room for complacency. This is true for Europe and for other parts of the world. Sustained efforts are needed in order to ensure the return of financial stability, growth and jobs worldwide. It is therefore very important that G8 leaders take the opportunity to have a very frank exchange of views and update each other on our joint efforts to speed up the return of growth and jobs.

On the second T, taxation, I strongly welcome the new willingness to join forces and cooperate more effectively to fight tax evasion and avoidance, in Europe and worldwide.

Tackling these issues is, above all, a matter of fairness. In difficult economic times it is particularly urgent to ease the burden on honest tax payers and businesses and hold those accountable who do not respect the rules of the game. Tax evasion and avoidance costs the European Union €1 trillion every year, which is the equivalent to the EU's next seven-year budget. The global bill is much higher. That is money that should be available to spend on education, skills, healthcare and infrastructure investment in both developed and developing countries.

Within the EU we are taking common action on exchange of information, on tax havens and on aggressive tax planning. There is a new willingness among our members to finally agree a strengthened savings tax and the mandates to negotiate tax agreements with partner countries. This is complemented by new rules for stronger administrative cooperation and greater transparency, which should come into effect as soon as possible. So in Europe, the arsenal for fighting tax evasion is being used and stepped up.

***The EU has been a strong advocate of greater transparency in payments made to host governments by extractive industries***

José Manuel Barroso, president of the European Commission, is looking forward to open and candid discussions at the UK's G8 Lough Erne Summit

EUROPEAN UNION, 2013

# Bermuda: committed to high standards

Bermuda is recognised as a commercially responsible jurisdiction with a robust and flexible regulatory system. The workforce is well educated and skilled to meet the demands of a leading international financial centre.

Bermuda is fully committed to the highest standards of regulation, transparency and good governance. This can be seen through the continued updating of our Proceeds of Crimes Act; the establishment of the Office of the Ombudsman; the signing of numerous tax information exchange treaties; an open parliamentary process; and the accessibility of Parliamentary Committee meetings to the public, just to name a few examples.

The international financial services industry in Bermuda, which accounts for the majority of economic activity, is led by Bermuda-based global insurance and reinsurance companies. This is followed by the tourism industry, which is a vital and integral component of the Bermuda economy. Many of the key insurance and reinsurance companies are publicly traded. All insurers and reinsurers are regulated by Bermuda's integrated regulator of the financial service sector, the Bermuda Monetary Authority. As such, Bermuda's business model values the benefits of compliance with international standards and international cooperation on crime, regulatory and tax matters.

The Bermuda Monetary Authority and the Government have managed our financial services industry prudently, ensuring that Bermuda is well regarded as an international financial center.

Bermuda was, in fact, the first country to ascend to the Organisation for Economic Cooperation and Development (OECD) white list after its creation in April 2009 for the purpose of compliance with the Internationally Agreed Tax Standard.

To date, Bermuda has signed 39 agreements to exchange tax Information (TIEAs) with various countries globally, with more under negotiation. Bermuda also received high recognition by the European Union (EU) for early engagement of discussions on equivalence to the EU Solvency II Directive. This is a testament to the prudent management of our financial services industry.

Bermuda has in fact signed a TIEA with every member of the EU that is as at 20 May 2013 a signatory to the Multilateral Convention on Mutual Assistance in Tax Matters, except for Greece, Lithuania, Poland, Romania, Slovenia, and Spain. However, Bermuda has already concluded TIEA negotiations with and is awaiting signature of the TIEAs with Greece, Poland and Spain. Also Bermuda has previously contacted Slovenia, hence the only remaining EU member signatories to the Multilateral Convention on Mutual Assistance in Tax Matters as at 20 May 2013 with which Bermuda needs to seek contact is Romania.

With respect to non-EU member countries that are signatories as at 20 May 2013 that do not have a TIEA with Bermuda, Bermuda has already contacted the majority of those 12 countries to request a TIEA.

Bermuda continues to be recognised for its leadership role globally in the area of international cooperation on tax matters. In September 2009, Bermuda was appointed as one of the vice chairs of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum). Bermuda is the only small jurisdiction in the world to receive this distinction that allows Bermuda to represent the interest of all small jurisdictions in this regard.

In April 2013, Bermuda announced it would adopt the United States of America Treasury Department's Model Foreign Account Transaction Compliance Act (FATCA) intergovernmental agreement Model 2, and the UK FATCA intergovernmental agreement Model 2. This represents an intergovernmental assurance by Bermuda that the USA and the UK will receive FATCA information on an automatic basis directly from foreign financial institutions in Bermuda. This gives assurance that the Government of Bermuda will not hesitate to deploy its TIEAs for group requests from the USA and UK tax authorities, thus providing the incentive for there to be very few recalcitrant clients and within a short period no recalcitrant clients.

Bermuda has also announced that it will use FATCA intergovernmental agreement Model 2 in Bermuda's commitment to support and engage discussion on participation in the G5/EU Multilateral initiative on FATCA.

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GOVERNMENT OF BERMUDA
Ministry of Finance

AP/PA

The European Union has always been a staunch supporter of free trade and is deepening its relationship with countries and regions globally

But, as we know, in a globalised world, tax avoiders are taking advantage of gaps and loopholes in the different tax regimes around the globe. So we are convinced that there is a need to improve tax governance everywhere. Let us therefore foster a unity of purpose at the global level. The G8 summit is a great opportunity to inject further momentum. Our work should focus on the compatibility of standards for automatic exchange of information, taking into account the particular features and legal requirements of all countries involved. The EU would strongly support a joint effort towards a new multilateral standard in the context of the Orgnisation for Economic Co-operation and Development. We believe that our EU savings tax directive can be an important point of reference here.

Fairness is also the driver behind the work to combat corruption, and this brings me to the third T of the UK presidency, transparency. The EU has been a strong advocate of greater transparency in payments made to host governments by extractive industries. With the brand-new update of the EU transparency and accounting directives, we will hold governments and companies involved in the sectors of oil, gas, mining and forestry more to account and protect citizens around the globe from unfair distribution of their national wealth. We hope to see the timely implementation of our new rules in EU members and encourage more and more countries to join in the global effort to subscribe to the Extractive Industries Transparency Initiative. We are also ready to team up with individual resource-rich countries to help them reap the full benefits of this new transparency. Transparency should also be further enhanced on land tenure. We clearly see a role for the G8 to push further the implementation of the ground-breaking Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests endorsed by the Committee on World Food Security in May 2012.

For us, agriculture and food security remain a priority in development cooperation as we made clear in our Agenda for Change. The EU provides more than half of global aid, of which around €1 billion per year alone is dedicated to boosting agriculture and food security. The EU is and remains the world's most generous donor of development assistance, also with its multi-annual aid programmes as of next year.

On other issues, the summit is a time for more than T: other topics have their firm place on the G8 agenda, such as international and security issues or climate change. We will discuss the crisis in Syria, the tensions on the Korean Peninsula or the situation in Mali, and we will take stock of the successful work in supporting the transition in the Southern Mediterranean through the G8 Deauville Partnership. Here too, I expect the G8 to provide a clear political signal and reaffirm its leadership.

The European Union, as a full member of the G8, remains committed to play an active role in the G8. I am looking forward to open and candid discussions with fellow leaders in Lough Erne. ■

# Enabling the flow of global trade

Global technology company Huawei believes we must continue to work together to provide universally high standards of communications infrastructure to enable trade to continue to flourish in today's interconnected world.

Trade is the lifeblood of human interaction and has been since the dawn of mankind. It is in our DNA to trade goods and services with each other, early man learned to barter fur, weapons, food and labour to improve their lives. The exchange of cultures, language, business practices and social values followed, creating cultural enrichment and intellectual advancement. This was underpinned by technological innovation and improved channels of communication.

### The role of the ICT sector

The technological advances of the past 100 years, most notably in communication and media, have made trade more global, immediate and visible. The development of the telephone, and more recently the mobile phone and the internet, have proven to be among the most important facilitators of trade in the 21st century. In many ways, they are the modern wheel, sail and turbines of earlier generations. Human beings can now communicate and transact business from opposite sides of the planet at the touch of a button or the click of a mouse, through devices that can be used almost anywhere. Remarkably, more people in the world today own a mobile telephone than own a toothbrush. We live in the Information Age, where access to data through different communication channels and devices is increasingly regarded as a fundamental requirement.

The information, communication and technology (ICT) sector is one of the global success stories of the past thirty years. Huawei has grown to become a leading company in this market, with products and services across the entire ICT spectrum – from networks, through enterprise solutions, to devices and all stations in between. The success of the global ICT sector has both helped create and is the direct consequence of an interconnected, competitive global marketplace. In a world that is both more connected and interconnected than ever before, it is essential that the ICT industry should constantly reinvent and improve itself, to continue

to drive trade and continual social and economic improvement.

Companies such as Huawei are playing their part to ensure business innovation is supported by a suitably robust communications infrastructure. This helps ensure the benefits are shared and nobody is excluded. The ICT industry needs to improve the way all business is conducted, ensuring that it functions evermore efficiently and meets the highest standards of functionality, capacity and security. This enables people and businesses to communicate, inform, learn and transact with speed and confidence.

### Next generations of technology

As more and more people and businesses learn to use the most modern and available means of communicating, they demand ever better tools, offering greater capacity to meet the rising levels of data they use. This is why successive generations of mobile communications have been developed, and why globally agreed standards cater for the inexorable rise in demand for bandwidth and allow information and content to flow at ever greater speeds. Huawei and other businesses are already developing the next-generation technologies, which will soon become vital elements of the world's communication infrastructure.

### Coordinated approach

Shared technical standards, equal access to markets and respect of Intellectual Property Rights are the foundations on which this global market is based. Ultimately, respect for these operating standards and legal principles are the basis of social and economic progress and rising living standards. It is in the best interests of Huawei and the companies we compete against to work together in developing technical standards; this is how we can all ensure that we deliver a good experience for governments, corporations and consumers.

In the UK, the host of the 2013 G8 meeting, the demand for bandwidth, both fixed and mobile, is accelerating and the expectation of download speeds continues to grow apace. Governments and policymakers around the world are adopting different strategies to ensure their citizens are well served by the infrastructure they have available, but all share common objectives on how to meet this demand efficiently, in a timely fashion and at the lowest cost to the end user. The solution is to deploy the most advanced and cost-effective equipment. This means sourcing from an interconnected global supply chain to deliver the best possible services to businesses and consumers.

The ICT industry has made the world a more available, transparent and prosperous place. It is incumbent on all governments and businesses to continue to work together to ensure this remains the case for all those who use its technologies.

Victor Zhang, CEO of Huawei UK

### ABOUT HUAWEI

Huawei, headquartered in Shenzhen, Southern China, is a leading global information and communications technology provider. Through years of innovation, investment in research and development (R&D) and strong partnerships, it has become a market leader in the supply of telecom networks, handsets and devices, and cloud computing. It has achieved a leading position in all parts of an industry that is collectively worth many trillions of dollars worldwide.

Huawei, founded by Ren Zhengfei in 1987, is a private business, wholly owned by its employees, with more than 65,000 of its employees owning shares in the company. In 2012, it achieved sales of US$35 billion and employed 150,000 staff. Its products have been deployed in more than 140 countries, serving over one third of the world's population. Approximately two thirds of its sales are generated outside of China. The company invests a minimum of 10 per cent of its annual revenue on R&D.

Huawei opened its first office in the UK in 2001, and now employs more than 850 people in 10 offices. At a meeting with David Cameron, the Prime Minister of the United Kingdom, in September 2012, Mr Zhengfei announced a major direct investment into the market. Huawei committed to investing US$1billion and to procuring US$1billion in services in the UK over the next five years. The company will also increase its workforce to 1,500 over the same period.

Huawei aligns its Corporate Social Responsibility and business strategies to integrate sustainability into the core of its business operations. Through its Bridging the Digital Divide strategy, Huawei aims to better allocate information resources by developing effective communications networks in underdeveloped regions that would enable more people to have access to communications and information systems. To achieve this goal, Huawei is consistently expanding the coverage of communications networks in underdeveloped regions and providing training opportunities for local technicians and talent.

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HUAWEI

# Levelling the playing field

## With a formidable agenda of trade, tax and transparency, and leaders experienced in summitry, the stage is set for a transformative G8 summit

*By* John Kirton, director, G8 Research Group

The 39th annual G8 summit, hosted by the British prime minister David Cameron in Lough Erne, Northern Ireland, on 17-18 June 2013, promises to be a significant event in several ways. With its central themes of trade, tax and transparency, it explicitly returns the G8 summit to its traditional economic agenda, and thus to a closer, more cooperative relationship with the newer G20 summit. The Lough Erne Summit modernises the G8's historic accomplishments on development by moving beyond development assistance to emphasise good governance, the rule of law, domestic resource mobilisation and accountability in developing countries themselves. In its demanding political security agenda, the summit seeks to deepen democracy by reinforcing the transformation that has been felt in North Africa and the Middle East after the Arab Spring, extending it to Mali and other conflict-afflicted African states, supporting it in Myanmar and even extending it to a Syria that is now engulfed in a escalating civil and interstate war in which there is a looming threat of chemical weapons use.

Moreover, the G8's Northern Ireland location, a first for summits hosted in the United Kingdom, symbolises the progress that the G8 has made in fostering peace and prosperity in its once-troubled communities at home. It shows that a warm, welcoming, creative and innovative Northern Ireland is open for business, cultural exchange and community building with the rest of the world. The summit thus offers hope to a troubled world that rising sectarian violence can be removed. It constitutes an authentic, multidimensional expression of the G8's core mission, which is to globally promote open democracy, individual liberty and social advance.

***The summit offers hope to a troubled world that rising sectarian violence can be removed. It constitutes an authentic, multidimensional expression of the G8's core mission***

### Returning to the roots of the G8 summits

Lough Erne will return G8 summits to their roots in other ways. With its highly focused, high-stakes agenda and isolated, informal, idyllic setting, the summit is designed to bring out the best in democratically devoted, like-minded leaders when they are alone together, determined to tackle the world's toughest problems and lead the world in new ways. As host for the first time, David Cameron brings three years of summit experience. He will be backed by Canada's Stephen Harper and Germany's Angela Merkel both at their eighth summit, and the European Union's José Manuel Barroso at his ninth and Herman Van Rompuy at his fourth. The United States's Barack Obama will attend his fifth, and the first of his second presidential term, having served as host of the successful Camp David Summit in 2012. France's François Hollande will be at his second. Russia's Vladimir Putin and Japan's Shinzo Abe will return after an absence of several years, the latter with a strong domestic mandate to put Japan decisively back on the growth path. This combination of leaders both politically secure at home and experienced at summitry abroad bodes well for Lough Erne's success.

In their two days together, these leaders will tackle a formidable, full-strength, interlinked agenda. Their economic work starts with the pressing need to return recession-ridden Europe to financial stability and economic growth, to reinforce the still fragile recovery in the US, Canada and Russia, and to replace deflationary stagnation and high deficits and debts with sustained growth in Japan. Here, the key instrument is not ever more discretionary fiscal stimulus and deeper deficits, but freer trade, through fighting protectionism, finalising the historic trade, investment and economic partnership agreement between the EU and Canada, and advancing negotiations for similar agreements from the EU with the US and with Japan. Additional progress comes from an initiative on dementia, to control soaring healthcare costs and the human tragedy that lies beneath them.

### Supporting fair tax systems

As economic growth depends critically on confidence and trust, the G8 leaders will further focus on strengthening fairness in the tax system, from multinational corporations that park their profits in low-tax jurisdictions off shore, and from those who avoid or evade paying taxes at home by sending their money to tax havens abroad. Higher standards, automatic information exchange and modernised approaches to transfer pricing will be used to enhance fiscal responsibility and fairness among their corporate and individual citizens in tough economic times. The G8 will thus reinforce the G20's extensive work on building stronger financial regulation and supervision at home, and a more level regulatory playing field internationally.

On development, G8 leaders will stress transparency through reducing conflict, corruption, bribery and money laundering, through raising the rule of law, property rights, domestic taxation and good governance in developing countries, through enhancing openness about aid flows, and through taking actions that the G8 members and their developing country partners can implement at home. Having oil, gas and mineral firms provide more information about their finances can help turn the resource curse into a resource cure for the many developing countries with natural wealth. Behind this lies the G8's own commitment to accountability, with a full report on the implementation of its many development commitments due to be delivered and discussed at Lough Erne. Included in this task is building on the New Alliance for Food Security and Nutrition that was launched at Camp David last year, delivering the G8's historic commitments on maternal newborn and child health made at its Muskoka Summit in 2010, and acting to meet the Millennium Development Goals by their fast approaching due date in 2015. Here, David Cameron comes to the table with impressive credibility and capability, having just reaffirmed his government's commitment to raise the UK's development assistance to 0.7 per cent of gross national income in 2013, despite severe fiscal constraints.

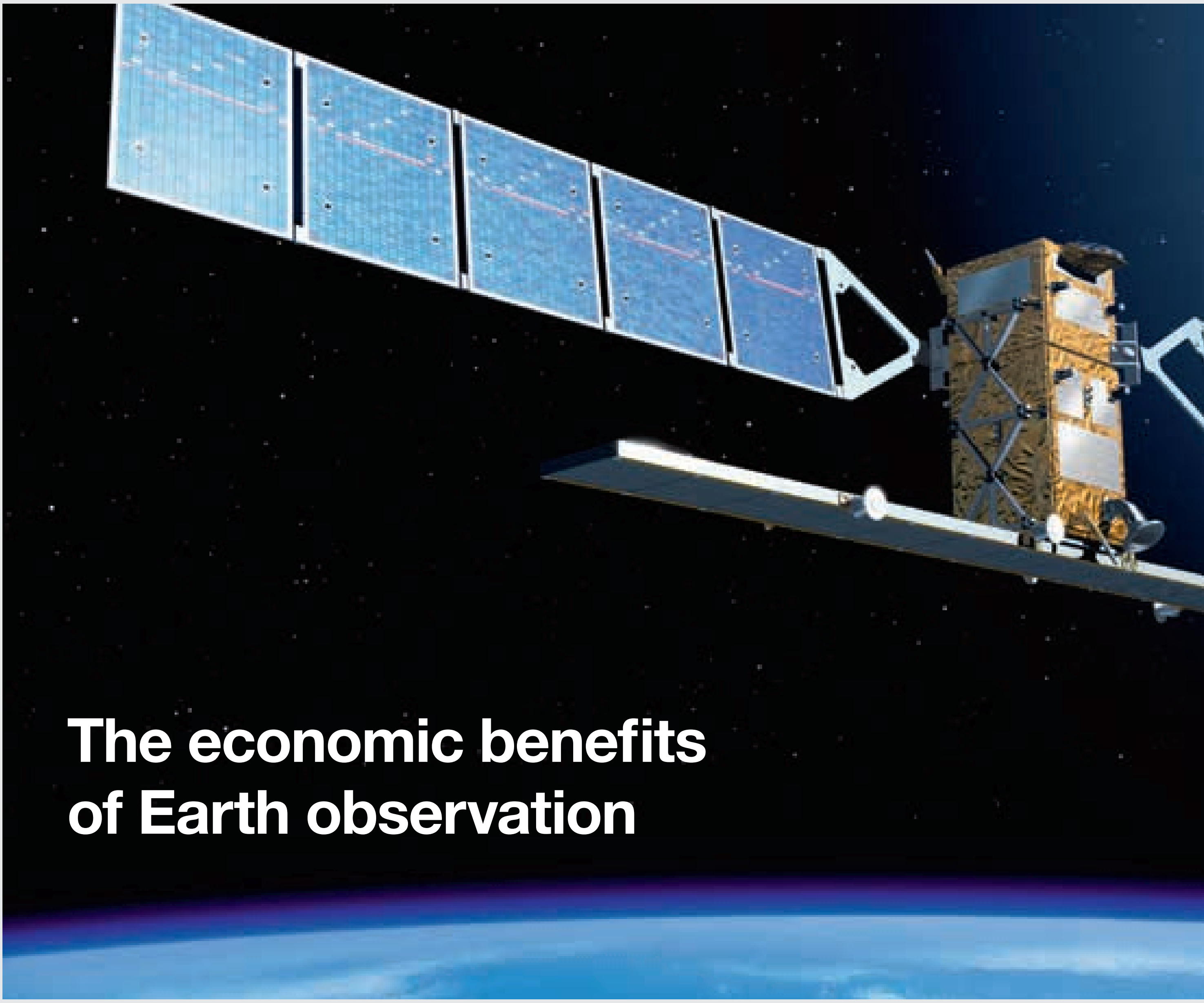

Stimulating business is a priority for all of the G8 members, but this year's agenda also addresses the tax systems and corporate transparency that underpin global trade

DPA/PA

The leaders' political-security agenda starts with fostering peace and democratic development across the Middle East and North Africa, Mali and other conflict and coup-afflicted countries, in a reforming Myanmar and in Afghanistan, where the last combat forces from G8 countries are soon due to depart.

Crying out for action is Syria, to stop its government's slaughter of innocent civilians, to provide them with badly needed humanitarian relief, and to halt the escalating threats of chemical weapons, terrorist sanctuaries and regional war. Beyond lie action against nuclear proliferation in Iran and North Korea, the deadly terrorism that recently erupted in Boston, London and Dagestan, and perhaps territorial disputes over small islands that may be escalating in Asia, the South Atlantic and elsewhere. The G8 will also try to reduce sexual violence against women in conflict zones and beyond.

The democratically devoted G8 leaders will be supported by the contribution of their civil society in a broad and balanced way. A Business Eight summit of corporate leaders has enlisted private-sector support for the initiatives that G8 governors take, while faith leaders are showing how human dignity and justice are a compelling call for the otherwise divided global community. As at previous summits, they will help an astute British host and his colleagues work together on the economy, development and security to build a better world. ■



# The economic benefits of Earth observation

Space-based applications have been increasing strongly over the past decade due to mature space technology, improved computing and communication capacities and their economic potential. Earth observation has been the fastest-growing programme of the European Space Agency over the past years.

The economic potential of space shows up in various ways. Classical business opportunities arise across the whole spectrum of the value-added chain, from development and manufacturing to operations and services, as well as from upstream to downstream. But the commercial potential of space also exists at a higher level: by providing platforms and infrastructure for information exchange and informed decision-making, space applications contribute to better governance, more efficient use of resources, increased competitiveness and a general boost of the economy. Furthermore, space utilisation can yield evidence for long-term processes that increase knowledge and understanding as a basis for responsible action. This aspect of space is especially relevant to tackling the challenge of climate change. Last but not least, space activities create benefits that are not always quantifiable in financial indicators, but that are tangible in enhancing the safety and quality of life for citizens.

Euroconsult states that in 2011 global institutional space budgets (civilian and military combined) added up to a total of roughly US$70 billion, about US$30 billion of which were spent within the military domain. As for markets, the Space Foundation estimates that in 2011 total commercial space revenues amounted to US$217 billion. Of these, about US$111 billion were generated by commercial space services, such as in the areas of telecommunication, Earth observation and navigation. US$106 billion in turn, was linked to the associated infrastructure, comprising the production of space assets, launch services and ground assets. Beyond these direct markets, space infrastructures like GPS or Galileo are enabling technologies that open even bigger markets, such as for geo-location based services.

Earth observation is an important and visible subset of space applications. An already traditional field is satellite meteorology, but many other application types are coming up. ESA Member

States recognise the importance of Earth observation, spending more than 22% of the EUR4.3 billion ESA budget in 2013 on this domain, making it the largest of this agency's programmes. Even for developing states, Earth observation is often the entry point for their space activities, as it delivers important information to manage the country. Earth observation is suitable for fostering employment and supporting industrial competitiveness, more so in times of financial crisis. The added-value sector of Earth observation is particularly relevant in this regard, and the potential business models are manifold. For example,

## Space utilisation can yield evidence for long-term processes that increase knowledge and understanding as a basis for responsible action

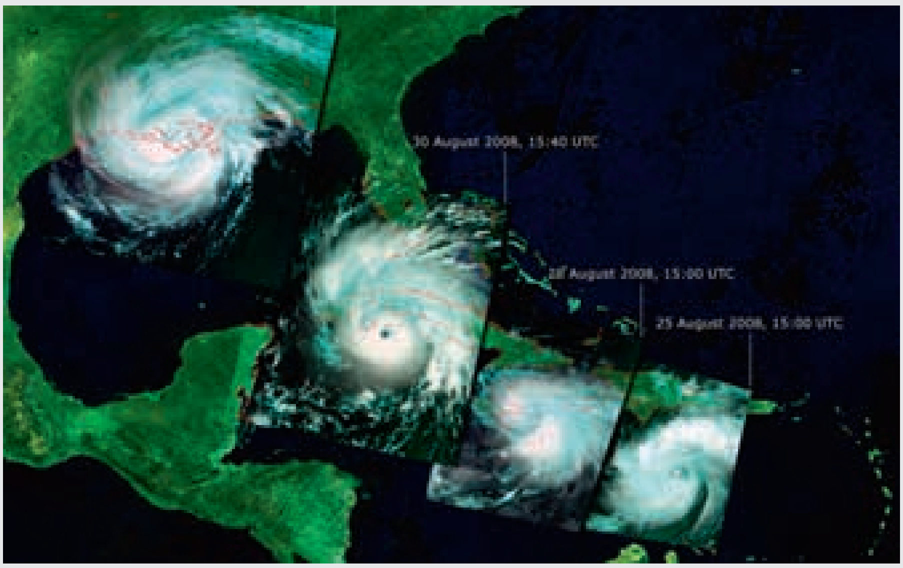
insurance companies rely on observation data to assess damages, satellite images are used to produce maps for car navigation, and digital elevation models (DEM) are necessary for planning mobile phone networks.

Earth observation thus illustrates the secondary effects of space investments mentioned above: not only do such investments create revenues per se, they also introduce follow-up activities that create new business opportunities, growth and jobs in turn. Global Monitoring for Environment and Security (GMES), currently being renamed to Copernicus, is a case in point. It is a European Union- (EU) led Earth observation programme providing consistent and coherent long-term measurements of key geophysical parameters as well as imaging information. Featuring a space component (coordinated by ESA), an in-situ component and a service component, GMES/Copernicus will support the implementation of key policies in pursuit of strategic objectives as laid down in the Europe 2020 strategy for smart, sustainable and inclusive growth.
The space component of GMES/Copernicus will feature dedicated satellites (the so-called Sentinels), but it will also make use of contributing missions that have not been specifically set up for this particular programme.

GMES/Copernicus will boost the economy by providing ample business opportunities, especially in the downstream service sector. A study recently presented by the European Commission's Vice President estimates that GMES/Copernicus will create 83,000 jobs in the EU.

The example of Landsat, a US satellite programme whose charging policy was changed to free and open access in 2008, shows that the utilisation of space-based information and its commercial exploitation increase dramatically when the raw data is available at no cost. In 2011, over 100 times more data was downloaded from Landsat than in 2007. A recent study by the European Association of Remote Sensing Companies (EARSC) shows that the similar results can be expected for GMES/Copernicus: a free and open access scheme to Sentinel data would boost economic activity and raise public tax income. These benefits by far outweigh the income that could have been achieved by selling the data instead.

GMES/Copernicus illustrates the huge potential that Earth observation holds and that needs to be unleashed for the benefit of all citizens, in Europe and worldwide.




**Satellite meteorology is already a traditional field of space applications**

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# The UK's role in the G7 and G8

## In analysing how successive UK prime ministers have helped to shape the G7 and G8 summits, there are some interesting observations to be made

*By* Sir Nicholas Bayne KCMG, fellow, International Trade Policy Unit, London School of Economics and Political Science; and guest editor

Although the United Kingdom did not initiate the G8 summit, it was always an enthusiastic participant. From the start it developed a distinctive view on what the summit should do and how it should work. Successive UK prime ministers saw it as the personal instrument of the heads of state and government and used it themselves for this purpose. They wanted its procedures to be simple and coherent, under the direct control of the heads themselves. James Callaghan set the pattern at the Puerto Rico Summit of 1976, which he described as follows: "The numbers attending are small and compact. Discussions are business-like and to the point. We do not make speeches at each other. We talk frankly but also as briefly as we can, and a lot of ground is covered."

Margaret Thatcher used the summit to reinforce her domestic policies. She had to attend the Tokyo Summit of 1979 barely a month after gaining power. There she was delighted to find a consensus among her peers in favour of the austere anti-inflationary measures that she saw as necessary to rescue the UK's economy. Throughout her decade in office she valued the summit for the backing it gave, at the highest level, to the painful and unpopular strategy she had to pursue at home. Twice she interrupted her election campaigns, in 1983 and 1987, to attend the summit. She also favoured a simple format and walked out of the opulent banquet at the end of the Versailles Summit of 1982. Her sudden departure left four members of her sherpa team behind, still at the table. They had to catch the first flight home the next morning, still in their dinner jackets.

Her successor, John Major, had to chair the 1991 London Summit within a year of taking office. The agenda was overloaded: economic recession, unfinished trade negotiations, debt relief for poor countries, which Major promoted personally, preparations for the next year's United Nations environment conference and help for central European countries escaping from communism. In addition, Thatcher had already committed the G7 heads to invite Soviet president Mikhail Gorbachev, their very first guest. Major presided over a worker-like summit, but was convinced the heads would make more impact if they chose a shorter agenda, adopted lighter procedures and issued shorter documents. From then on he campaigned for summit reform, especially to allow the heads to meet on their own, leaving out the foreign and finance ministers. He made little progress: the Americans worried over their president being unsupported; the Germans wanted both coalition partners present; and everyone had their pet projects for the agenda.

Yet John Major's campaign enabled Tony Blair, who chaired the summit twice, to revive it as the personal instrument of the heads. At Birmingham in 1998, Blair reformed the summit format radically. He invited heads only, without their ministers, who met beforehand. He chose an agenda of just three items – employment, crime and international finance – so that the summit documents were only half as long as the year before. Russia was invited as a permanent member, turning G7 into G8. For several years thereafter the results achieved by the summit improved greatly. Yet gradually the agenda and the documents grew longer and the G8 ceased to keep its promises. As Blair prepared to host the Gleneagles Summit in 2005, further changes to the format were required.

### The impact of 9/11

The increased security threat after 9/11 influenced where the summit was held. A self-contained site was needed, which could accommodate all participants under one roof. It should give the media reasonable access and allow for public demonstrations, but at a safe distance. Earlier summits had not met all these criteria. As a golfing hotel in open country, Gleneagles fulfilled them admirably.

The agenda was cut back to two subjects: Africa and climate change. Blair had strongly backed the G8's involvement in Africa, in support of the new approach developed by African leaders from 2001 onwards. But the initial impetus was fading. The G8 heads at Gleneagles made new commitments on debt relief, trade access and aid volume, while African leaders were associated with the discussions. Climate change was a divisive subject, because the United States resisted commitments to reduce greenhouse gas emissions unless large emerging powers such as China did the same. Blair therefore invited Brazil, China, India, Mexico and South Africa to Gleneagles and associated them with the debate. Agreement was reached on climate science, on developing new technology and on a forum for future exchanges where all would take part.

Over the course of the G8's history, UK prime ministers have, to various degrees, preferred discussions to be frank and targeted in order to effect real change

Gleneagles was a highly successful summit, although the commitments with immediate effect, on debt relief and climate change, were better observed than those for future delivery, on trade and aid volume. Subsequent G8 summits did less well. They did not respond to the growing financial crisis, while they failed to find a formula for engaging the emerging powers on terms acceptable to all. When heads of state and government needed

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to agree on a common response after the collapse of Lehman Brothers in September 2008, Gordon Brown could see that the G8 could not deliver. The emerging powers, which were less damaged by the crisis, had to take part in any summit on equal terms. He was therefore one of the pioneers of the G20 summit and chaired its second meeting, in London in April 2009. The G20 soon became established as the 'premier forum' for international economic cooperation, but on a different footing from the G8. Finance ministers were always involved alongside the heads, and there was an organic link to the International Monetary Fund. Whatever its merits, the G20 could not be the personal instrument of the heads. The G8 could still aspire to this, if it could find a new sense of purpose compatible with its reduced status.

US president Barack Obama was initially sceptical of the G8. He was not impressed by the confused L'Aquila Summit of 2009 – the first he attended. He recoiled from the ambitious plans proposed by France for the 2011 Deauville Summit. Yet he realised that the G8 was the ideal place to discuss sensitive issues such as the Arab Spring beginning in Tunisia and Egypt, which the G20 would find hard to handle. He did not let the G8 lapse, but took his turn to chair the summit at Camp David in 2012. It mixed economic and political content as the agenda focused on energy security, food production and nutrition, and the economic transition in Afghanistan, while there was lively debate on the eurozone.

***In preparing for the 2013 event at Lough Erne, David Cameron has drawn on the UK's past experience to prepare a summit that can make the most of the G8's current potential***

In preparing for the 2013 event at Lough Erne, David Cameron has drawn on the UK's past experience to prepare a summit that can make the most of the G8's current potential. For the site, he has picked another country golfing hotel. For the format, he has insisted on simplicity, with no additional ministerial meetings taking place beyond those of the foreign and finance ministers. For the content, he has set a short agenda that focuses on trade, tax and transparency.

On trade, in their early days the summits successfully helped to conclude multilateral trade negotiations. But thereafter the G7 and G8 found it progressively harder to reach agreement, while the G20 has struggled too. In 2013, the focus will shift to bilateral and regional trade agreements, where there is a surge of activity among G8 members. The European Union is close to agreement with Canada, while EU negotiations with the US and with Japan are about to start. Japan is preparing to become part of the Trans-Pacific Partnership, promoted by the United States, while Russia has at last become a member of the World Trade Organization. There is thus a chance for mutually reinforcing progress, where each G8 leader can contribute.

**Putting one's house in order**

Tax evasion and tax avoidance are issues of growing worldwide concern and will feature at the G20 St Petersburg Summit. But they deserve specific concern at Lough Erne. The mature economies of the G8 have to ensure their own houses are in order before they engage in the wider debate. As the parents of the world's leading multinational firms, they need to grapple with the ingrained problems of cross-border tax treatment.

Transparency has wide application in a globalised economy. It is important for property rights and determining beneficial ownership. It is essential in the extractive industries – mining and hydro-carbons – to ensure that revenues are fairly distributed and do not just enrich a few. Transparency is finally the vehicle for strict summit accountability. David Cameron has given high priority to this since he began attending the summits, as it reduces the risk that G8 commitments are not met.

Through this strategy, which combines content, format and location, the present UK prime minister is seeking to make the G8 summit once more a personal instrument of the heads of state and government. David Cameron has drawn on the experience of his predecessors and used this as the foundation for what he can achieve himself. ■

# Gibraltar – a diversified economy

Gibraltar is a British Overseas Territory that is a self-governing and self-financing parliamentary democracy within the European Union (EU), located at the southernmost tip of the Iberian Peninsula. The territory covers 6.5 km² and has a land frontier with Spain. Gibraltar is a separate and distinct legal jurisdiction and its parliament is solely responsible for the enactment of all domestic laws, in addition to the transposition of EU directives.

Gibraltar has an extensive and diversified service-based economy. The principal contributors to Gibraltar's economic base are financial services, maritime services, e-gaming and tourism. It is forecast to grow from £1.1 billion to £1.65 billion between 2011 and 2015, and the Government of Gibraltar has maintained a budget surplus throughout the recent economic slowdown that has affected much of the developed world.

Gibraltar's EU membership provides passporting rights in banking, investment services, insurance, insurance mediation and reinsurance across all 30 EU and European Economic Area countries and access to a market of 500 million people.

Gibraltar offers a competitive low tax rate within the EU. This, together with the fact that there is no tax on dividends, interest and royalties, no VAT and no capital gains tax makes it a very favourable jurisdiction in which to do business, and it has become a catalyst for the development of the wider region.

## Financial services

Gibraltar's financial services sector contributes circa 20 per cent of GDP.

i. **Insurance** – over the past 20 years, Gibraltar's insurance industry has expanded from just 12 licensed insurers in 1993 to 56 licensed insurers writing new business today. In 2011, the total gross premium income that was written by insurance companies in Gibraltar was £3.2 billion, and these companies held assets worth over £7.5 billion. Gibraltar motor insurers currently write 10 per cent of the total UK motor market.

ii. **Banking** – there are 16 banks and building societies currently licensed in Gibraltar, employing over 500 people. They range from large global institutions to specialist private and investment banks and building societies. They are able to provide a full breadth of solutions to their clients' needs in all areas of banking.

iii. **Experienced Investor Funds** – almost 100 experienced investor funds have been established in Gibraltar since the Financial Services (Experienced Investor Funds) Regulations 2005 came into effect in August 2005. The Government introduced new Financial Services (Experienced Investor Fund) Regulations in 2012, which allow large funds to use reputable and substantial administrators based in jurisdictions of equivalent standing to Gibraltar. The new Regulations also allow funds to redomicile to Gibraltar yet continue to use their existing reputable administrator, representing a significant advantage for funds moving to the EU with, inter alia, the advent of the Alternative Investment Funds Managers Directive (AIFMD), which is due to be implemented by July 2013.

**Gibraltar's EU membership provides passporting rights in banking, investment services, insurance, insurance mediation and reinsurance**

iv. **Tax information exchange agreements** – in line with the Government of Gibraltar's commitment to transparency and effective exchange of information, Gibraltar has to date negotiated and signed 26 tax information exchange agreements with OECD and EU member states. Gibraltar is on the G20-instigated OECD 'white list', and is currently negotiating or concluding similar agreements with several other countries. Signed tax information exchange agreements are listed on the OECD's Exchange of Information website – www.eoi-tax.org. Of the 26 signed agreements, 19 have entered into force, the latest of which were agreements with Malta (April 2012), Iceland (April 2012) and India (March 2013).

v. **Gibraltar's Financial Services Regulator** – the Financial Services Commission (FSC) is an independent statutory corporate body established by Gibraltar's parliament. The FSC is responsible for the licensing and regulation of all financial services activity in Gibraltar. This includes banking, insurance, investment services and trust and company management. Further information can be found at www.fsc.gi.

The Government of Gibraltar takes regulation and compliance very seriously, whether it is complying with all EU directive obligations, the highest standards of regulation in financial services or online gaming. Gibraltar is one of very few EU jurisdictions to have no overdue transpositions of EU directives, despite Gibraltar's size and lesser resources compared with most other EU jurisdictions.

Gibraltar has committed to enter the US FACTA and to enter into similar arrangements with the UK in accordance with the same timescale. Furthermore, building on its actions as regards the EU Savings Directive, it has also committed to the pilot multilateral exchange of tax information announced recently by the UK, France, Germany, Italy and Spain.

## Maritime services

Gibraltar forms the eastern shore of a bay that has been of commercial importance from mankind's earliest days. The Phoenicians recognised the advantages of its protective geographical features and founded the colony of Melcarthos on the north shore during the ninth century BC. Shipping and port services are significant contributors to the economy. Each year, 71,000 vessels pass through the Straits of Gibraltar. Today, the shipping industry accounts for circa 25 per cent of Gibraltar's economy.

Bunkering, a shipping term for ship-to-ship transfer of fuel, remains a longstanding and prominent sector. Gibraltar is the largest bunkering port in the Mediterranean and one of the largest in the world, providing over 4.5 million tons of fuel to vessels each year.

The Gibraltar Ship Registry (GSR) is a member of the Category I Red Ensign Group of the UK and UK dependency registers. The advantages of registering a

ship in Gibraltar are many, not least fiscal: membership of the Red Ensign Group; the GSR is also an EU Member States' Register and its vessels are entitled to full EU cabotage privileges.

The Gibraltar Yacht Registry is a reliable register of yachts, and independent of the commercial registrations. Forming part of the Gibraltar Maritime Administration, the high-quality registry offers a professional, efficient and cost-effective service, and is an ideal choice for yacht owners who want the confidence of belonging to a British Register and flying the Red Ensign.

## E-Gibraltar

The Government of Gibraltar has been developing strategies to create a dynamic setting through which businesses can trade electronically, supported by a faster and more reliable framework of communications, infrastructure and legislation in order to assist the growth of electronic trade.

Since manufacturing, packaging, delivery and fulfilment, as well as other physical activities, can be outsourced to different countries, the use of Gibraltar as a sound location for e-business activities is by no means limited to electronically downloadable goods, services or transactions.
With its highly developed business services infrastructure, unique physical proximity to the markets of the EU and Africa and its excellent, weather-protected port facilities, this quality, low-tax jurisdiction can also be used as a transhipment or physical distribution centre for many types of competitively priced VAT-free products and services.

## E-Gaming

This is a vibrant sector of the economy that has helped to bring prosperity to Gibraltar. E-gaming accounts for circa 20 per cent of GDP. Gibraltar is regarded as the most important jurisdiction in internet gaming worldwide, the 'Silicon Valley' of online gaming and 60 per cent of the UK's remote gaming business takes place from Gibraltar. E-gaming is tightly regulated and Gibraltar standards are recognised worldwide, covering money laundering, technical and security standards, as well as the controls required to ensure player protection.

Gibraltar will continue a selective approach to licensing, with a high bar to entry and only the world's leading brands being considered for a licence. There are currently 25 licensed operators in this sector, which amounts to some 2,200 individuals in employment.

## Tourism and transport

Every year, millions of visitors come to Gibraltar by air, land and sea, meaning that tourism accounts for circa 30 per cent of Gibraltar's GDP. Total visitor arrivals in Gibraltar reached 12 million in 2011.

Gibraltar has been described as having a British work ethic with a Mediterranean lifestyle. The region's warm and sunny climate has undoubtedly played a major part in attracting businesses to 'The Rock' and the opportunity to pursue outdoor sports such as sailing and golf are compelling too. A new airport opened in 2012, with daily flights to an increasing number of UK destinations. Malaga airport is only a short drive along the coast from the airport, and serves numerous European cities.

In summary, Gibraltar's expertise in financial services, e-gaming and maritime services, together with its Mediterranean lifestyle, make it a very attractive commercial domicile, and one that is expected to grow and prosper over the coming years.

- **The Hon Fabian Picardo, Chief Minister, HM Government of Gibraltar**
- **The Hon Gilbert Licudi, Minister for Financial Services, HM Government of Gibraltar**
- **Mr James Tipping Finance Centre Director, HM Government of Gibraltar**

**www.gibraltar.gov.gi**

# The G8 economies and global growth

## Recovery in the global financial markets is taking place, although it remains weak. What can G8 leaders do to foster growth and restore confidence?

*By* Robert Fauver, former US G7/G8 sherpa

The annual G8 economic summit once again takes place under a cloud of economic uncertainty. Since the global financial crisis of 2008, every summit has faced a very mixed short-term economic outlook. In almost every case, late in the year preceding the summit, economic data tend to suggest that sustained economic recovery is finally at hand. But in each of the past several years, data in the first quarter of the year of the forthcoming summit suggested weakening prospects, especially for consumer confidence. This weakening of the outlook set the stage for economic uncertainty around the time of recent G8 summits. Once again, the fourth quarter of 2012 suggested a promising short-term economic outlook, but data released during the first several months of 2013 served to diminish that early optimism.

In addition, the renewed financial market tensions in the eurozone have continued to muddy the outlook – not only for Europe, but also for the entire world economy. This year, tension within the financial markets has focused on Cyprus; last year it was on Greece, and the year before on Spain and Italy. Unresolved problems in the eurozone continue to hang over the prospects for solid and sustained economic recovery. Meanwhile, the policy decision by Cyprus – backed by the European Union and the International Monetary Fund (IMF) – to tax private deposits held in commercial banks runs the very real potential risk of undermining confidence in private banking institutions throughout the eurozone. This new precedent for seizing private deposits could weaken an already shaky European financial sector. It is essential for the G8 to clarify its own commitment to the rights of private depositors in commercial banks. The G8 leaders should make this commitment as part of their public communiqué.

The latest IMF projections continue to suggest a weak global recovery. Growth in the industrial countries is expected to be only one or 1.5 per cent – roughly the same as last year. While this is indeed positive real growth, it is not sufficiently strong to reduce the high unemployment rates that continue to plague the industrial countries. And it does not represent a significant return to sustained expansion within the industrial world.

Anticipated negative growth in Europe, especially in Germany, during the first half of 2013 will make sustained recovery difficult. Weak fiscal positions reduce the flexibility for European governments to implement discretionary stimulus programmes. Moreover, weak financial market conditions constrain monetary authorities' ability to inject liquidity into the euro area.

### New fiscal policy in Japan

In Japan, there is a new government experimenting with an anti-deflation policy. In the face of negative growth in the fourth quarter of 2012, the government is implementing a fiscal stimulus aimed at rekindling domestic demand. It has urged the Bank of Japan to abandon its anti-inflation stance. Haruhiko Kuroda, the newly appointed governor of the Bank of Japan, agreed to this advice and has committed the bank to a goal of two per cent inflation. This will require considerable new injections of liquidity into Japanese financial markets.

Meanwhile, the US economy continues to experience a mixed performance. Job creation has begun to strengthen. The housing market has firmed and begun to recover from the losses of recent years. Interest rates remain historically low. The equities market has recovered the losses resulting from the financial crisis of 2007-08. But corporate investment continues to be low by normal recovery standards. The costs of healthcare reform are becoming clearer and are higher than anticipated. This situation hangs over consumer and business confidence, as does the unresolved debate in Congress over the medium-term budget outlook.

The Federal Reserve remains committed to a policy of sizeable liquidity injections – at least until unemployment falls to the


Like the US, Japan has been injecting liquidity into its economy – a move that could make monetary policy more complex in the medium term

AP/PA

REX FEATURES

The Frankfurt Stock Exchange in Germany, where an anticipated negative growth in the first half of 2013 will make a sustained recovery difficult

***The latest IMF projections continue to suggest a weak global recovery. Growth in the industrial countries is expected to be only one or 1.5 per cent – roughly the same as last year***

6.5 per cent range. This means that the two largest G8 countries – Japan and the United States – are simultaneously experimenting with massive liquidity injections into their domestic economies. While they may have some value in the short term, these liquidity injections will probably make monetary policy more complex in the medium term. Removing this high level of liquidity, which represents an untested policy tool, will be difficult in the future. But in the meantime, liquidity levels within the G8 economies will be historically high – a situation that could lead to global commodity price increases.

With China undertaking a policy that is designed to shift away from export-led to domestic growth, the outlook for its pick-up in real growth is limited. China will continue to grow in the range of eight per cent, but the medium-term outlook suggests that its days of double-digit real growth are over.

One danger in the G8 outlook – and, indeed, the global outlook – is the hope by most countries that exports will pick up, thus easing the demands on the domestic growth outlook. This desire could lead to policies aimed at exchange rate depreciation in some countries. As is always the case, this desire for export growth could in turn produce competitive exchange rate devaluations. It will be incumbent on G8 leaders at Lough Erne to explicitly reject the use of exchange rates as a means of fostering domestic growth.

A second danger is the lack of a clear, coordinated and cooperative strategy for rebalancing growth in the global economy. The G8 could and should devise a complementary strategy for strengthening and sustaining the current weak recovery. Clearly defined policy commitments would enable investors and consumers to plan for the future. Private investors would be able to calculate how their own investment strategies would be affected by policy commitments and would then be able to evaluate the risks associated with their decisions. The current lack of precision and policy strategies creates uncertainty in private investor markets.

A G8 leaders' statement that clearly defines each member's policy commitments and the cooperative structure for joint actions would be an important step in restoring confidence to global markets. While the policy requirements for each member are somewhat different – monetary flexibility within Europe is greater than that of Japan or the US, for example – a strategy that accommodates those differences and specifies the role for each country would be a welcome example of G8 leadership. It would also provide an important lead-in to the upcoming G20 leaders' meeting in St Petersburg in September. ■


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# Rethinking the world of work to innovate

There is a universal acceptance by business leaders that innovation is the key to productivity and performance. However, the role that corporate buildings can play in supporting a company's performance and its people's creativity and innovation is still widely misunderstood.

For most corporations, buildings and their upkeep represent their second- or third-highest overhead, so the ability to identify unused space has the potential for substantial cost savings. Recent research by Vodafone estimated that flexible working could save British business alone £34 billion, just by reducing the number of empty desks and therefore the amount spent on redundant space.

Johnson Controls has analysed more than 200,000 office desks and knows that typically only 49 per cent of them are in use during office hours[i]. As new ways of working become even more widely adopted, the percentage of unoccupied desks and money wasted will increase if companies do not adapt their real estate portfolios. But to understand how a building is being used, you need information.

Advances in technology means that it is now possible to get data on how workspace is being used in real time. This information can be run through an intelligent analytics programme that clearly shows how space is used and highlights any areas of under-used space. The power of such data will not only allow those responsible for corporate buildings to ensure that the amount of real estate that they occupy is right for the business, but also that the space inside is designed to suit the needs of the people who work in it.

The so-called "rightsizing" of a company's real estate can have a rapid impact on the bottom line and performance. However, this is only part of the story – the role of the workplace in the future will be to foster collaboration and innovation in what is a more competitive, global and complex world of business.

Ubiquitous technologies, such as broadband and mobile internet, mean that most employees can perform many of their daily tasks at home or elsewhere. As the workforce is becoming increasingly remote, the intelligence of an organisation becomes more dispersed. This means that people will collaborate in networks and therefore investment in the right technology and workspaces will become increasingly important for organisations to flourish and be competitive. Indeed, we believe that without a focused collaboration strategy, organisations will miss opportunities to bring products and services to market.

**Ubiquitous technologies mean that most employees can perform many of their daily tasks at home or elsewhere**

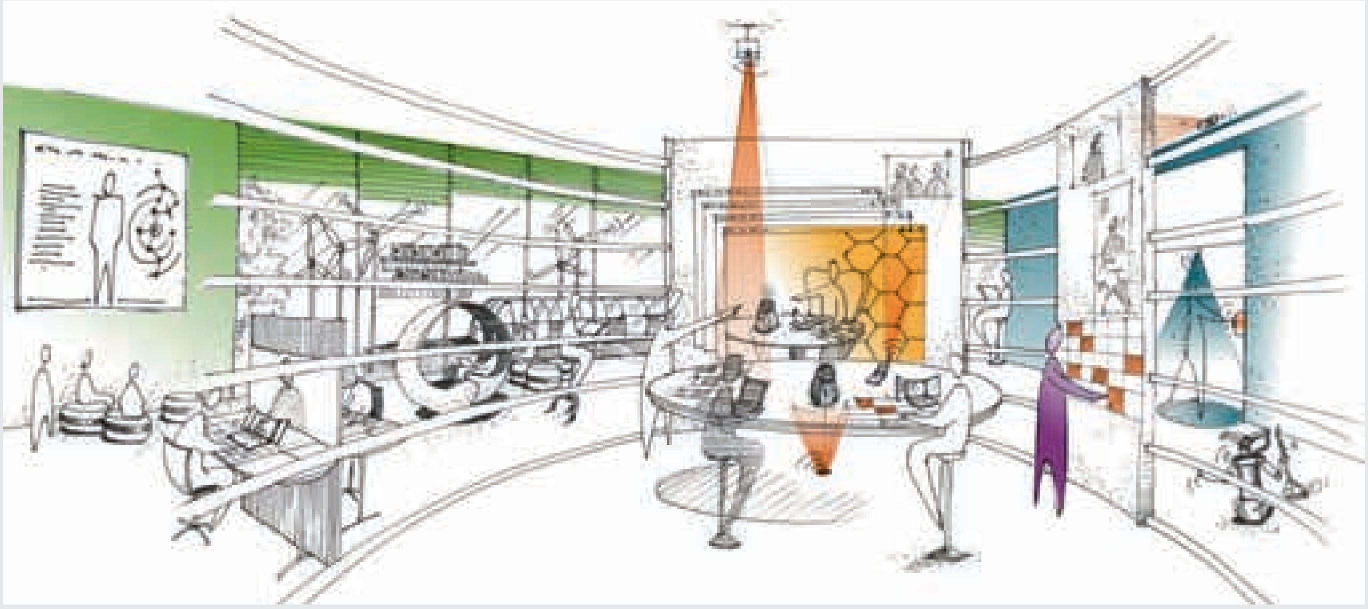
## New markets and the need to collaborate

There has been a marked shift in growth away from Western economies towards markets in Africa, Asia, Latin and South America. According to McKinsey Global Institute, 400 mid-sized emerging market cities will generate nearly 40 per cent of global growth over the next 15 years. It is also predicted that 20 "megacities" will generate almost US$6 trillion of GDP by 2025[ii]. Many international corporations need to develop infrastructure in these developing cities, form partnerships and develop new networks.

An ever-increasing demand for mobility, coupled with advances in mobile technologies, are changing the role of the traditional office and transforming it into a digital workplace. We are entering a brave new world where understanding how collaboration and collectivism can create business advantage will be critical.

Innovation and invention come in many guises, but it is usually the result of many experts from multiple disciplines, often from different organisations, working together to create a new product or service. The ability to collaborate globally will play a central role in fostering innovation, so in the future it is likely that many companies will occupy less floor space, but, significantly, a higher proportion of that space will be designed specifically to support collaboration.

In terms of layout and design, the workplace will need to be more adaptable to support mobility and collaboration. Our research suggests that many companies do not currently support collaborative working when compared to office workers' expectations. A Johnson Controls study, called Collaboration 2020, showed that in the coming years, office workers expect to spend more time working with collaborative technologies[iii]. Knowledge workers also expect to spend more of their time video conferencing and far less time spent at their desks, on the phone



or in traditional meeting rooms. In many instances this will require a redesign of the workspace to support collaboration.

## Networks are the key to entrepreneurship

People will also have to become more flexible as they work with colleagues from different cultures across many time zones. Organisations that succeed will have people with the ability to follow their markets and their customers in rapidly changing industries. A study by the Massachusetts Institute of Technology into creating high-performance teams found that the best performing and most creative teams seek fresh perspectives constantly from many groups both internally and outside the organisation[iv]. Collaboration allows once disparate groups to become more than the sum of their parts, so failure to embrace open-working practices or invest in collaborative workplace technologies, will hamper development. People with a propensity to collaborate will be more employable and will migrate to the workspaces where they can do that most effectively, which means that the workplace will play a key role in the war for talent.

Global companies must become places that allow pockets of entrepreneurship to flourish by introducing collaborative technologies in the workplace. The rise of entrepreneurship within organisational structures will be a major driver of change.

From a technological perspective, the workplace must have the necessary infrastructure to support collaboration. Organisations that do not implement a powerful technology platform will simply not survive. Tunnels of collaboration created between and among competitive businesses could also become a powerful source of innovation for organisations. The pharmaceutical industry is an early adopter of these practices to develop new drugs with partnering organisations. Similarly, the oil and gas industry has been testing tunnels of collaboration between on-shore and off-shore teams.

The ability to create a networked workforce will be even more essential in the future to ensure innovation and growth in competitive markets. It has been argued that the frontier of people's productive capacity is dependent on the power of extended collaboration[v]. These collaborative networks will ensure that organisations grow rapidly in new markets and maintain strong market positions in existing ones. A successful, albeit unconventional, approach to collaboration was used by Arizona-based car company Local Motors, which crowd-sourced designs from a 25,000-strong community of designers, engineers and enthusiasts. This enabled the company to design its first car, the Rally Fighter[vi], in just 18 months, far ahead of the industry average for developing a new car. Unsurprisingly, larger car manufacturers are also opening up to crowd sourcing to develop products. Such openness will require new ways of thinking.

This drive towards mass collaboration will change the way global corporations think about the real estate that they occupy. Failure to invest in the right office infrastructure and technology will mean a lost opportunity for productivity and innovation. The decline of the slow, monolithic corporation in favour of pockets of entrepreneurship will change the way many organisations operate.

Understanding the role of the workplace has never been so crucial to foster the collaboration needed to succeed in the 21st Century. Of course, there may be exceptions, such as companies in those sectors where protection of data and intellectual property are overriding considerations and so cannot accommodate flexible working and open networks. However, the majority of organisations need to prepare for a new chapter of mass collaboration, which means understanding the interplay between their people, buildings, technologies and working practices.

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[i] Johnson Controls Workplace Strategy team
[ii] McKinsey (2012) Urban World: Cities and the rise of the consuming class
[iii] Johnson Controls (2011) Collaboration 2020: Hype or competitive advantage?
[iv] Harvard Business Review (2012): Building great teams, by Alex Pentland
[v] Harvard Business Review (2012): Collaboration will drive the next wave of productivity gains, by Tammy Erickson
[vi] Rallyfighter.com

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# Where to next for the US economy?

## The US economy has delivered positive results this year, but questions over fiscal policy must be answered in order for growth to continue

**By** David Hale, chairman, David Hale Global Economics; editor of *What's Next?: Unconventional Wisdom on the Future of the World Economy*

The US economy has surprised many forecasters by its resilience during the first quarter of 2013. There have been robust gains in employment, retail sales, capital goods orders, home sales and purchasing agent surveys that suggest output growth could be 2.5 per cent or three per cent, compared with only 0.1 per cent during the fourth quarter of 2012. Most forecasters had expected the increase in the payroll taxes and rising gasoline prices to depress consumption.

There are several reasons why US output could produce a positive surprise this year.

First, the country's monetary policy is highly expansionary. The US Federal Reserve is still holding its core lending rate close to zero for the fifth year in a row while expanding its balance sheet by $85 billion per month. Its policy has bolstered housing by reducing mortgage rates, and encouraged a stock-market rally that has driven the Dow Jones Industrial Average to a record high.

Second, the profit share of gross domestic product (GDP) is near a 60-year high, while US firms have $1.7 trillion of surplus cash on their balance sheets. These two factors should have a positive effect on capital spending.

### Housing market recovery in sight

Third, after seven years of weakness, there are signs of recovery in the housing market. The inventory of new homes has fallen to a record low. Building permits have increased 34 per cent year on year. Home values have increased by seven per cent during the past 12 months. The construction sector has regained 349,000 jobs since its trough in early 2011 and could add another 400,000 this year. The rebound in house prices and the stock-market rally have caused household net worth to rebound to $66.07 trillion. Household assets are now just over 6.5 times disposable personal income, compared with a 2007 peak of eight and average of 5.25 during 1950-95. These wealth gains will have a positive impact on consumer spending, particularly by the top 20 per cent of the population by income, which accounts for about 38 per cent of consumer spending.

Fourth, there has been a recovery in the profits and balance sheets of US banks. In 2012, banks earned larger profits than in any year since 2006. The banks' equity-to-asset ratios have also risen above 11 per cent compared with 9.2 per cent four years ago. The improvement in bank profits and capital ratios will help to encourage more lending.

### The US oil and gas boom

Fifth, the US is in the midst of an oil and gas boom, which is sharply reducing oil imports while depressing the price of natural gas. US oil output has risen from 5.5 million barrels per day (mb/d) in 2005 to 7.1 mb/d in the first quarter of 2013, a level last seen in 1992 and close to 75 per cent of the peak reached in the 1970s. Net petroleum imports have fallen from 12.5 mb/d in 2005 to 7.4 mb/d last year. Industry experts believe that US oil output could rise to 10 mb/d by the year 2020. Unconventional oil and gas output in the US supported 1.7 million jobs last year, and this could increase to three million by 2020.

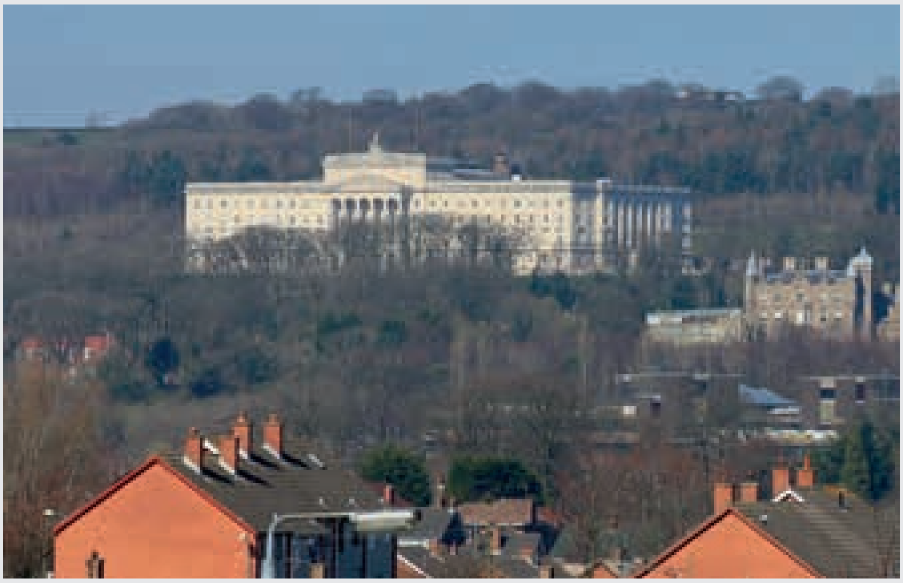
***Household assets are now just over 6.5 times disposable personal income, compared with a 2007 peak of eight and average of 5.25 during 1950-95***

The major constraint on the US economy is federal fiscal policy. Congress allowed the two per cent payroll tax cut enacted in 2010 to expire in December. This will bolster household taxes by around $120 billion in 2013. Congress approved a hike in the top marginal income tax rate on incomes above $400,000 to 40 per cent from 35 per cent. This tax hike will reduce the incomes of


AP/PA

The US construction sector has the potential to create up to 400,000 new jobs this year, rebounding from a low in 2011

# Economic growth and conflict transformation: a lesson from Northern Ireland



**Seamus McAleavey, Chief Executive of NICVA (the Northern Ireland Council for Voluntary Action) argues that economics should form a key pillar of conflict transformation.**

Violence and conflict have substantial economic as well as social impacts. Other countries emerging from conflict look to Northern Ireland as a model of where they would like to be, and while they are right to do so, it should be recognised that no peace process can stand still. Looking back over the 15 years since the end of the conflict, it could be argued that Northern Ireland's economy and the nature of our economic policies should have been given greater prominence in the overall peace settlement. However, as Northern Ireland's leaders now shift their attention towards economic growth, simultaneously tackling economic exclusion and inequality is essential if we are to remain an example of successful transformation to the world.

The World Bank's 2011 World Development Report, *Conflict, Security and Development,* showed that a country or a region which has experienced major violence over the last 30 years has a significantly higher poverty rate than those that saw no violence. The central message of the World Bank's report was that strengthening legitimate institutions and governance to provide citizen security, justice and jobs is crucial to breaking cycles of violence. Countries and regions with the weakest institutional legitimacy and governance are the least able to respond effectively to instability and external stresses.

Northern Ireland's peace process is quite rightly held up on the international stage to exemplify conflict transformation and political stability. However, even though Northern Ireland is a region in one of the richest countries in the world, it is not an exception to the World Bank's observations. Northern Ireland has persistently higher levels of unemployment, lower wages and more severe pockets of deprivation than many comparable regions in the rest of the UK and continental Europe.

Growth in inequality is one of the biggest external stresses Northern Ireland faces. Severe inequality can be very destabilising, especially for regions in conflict or emerging out of conflict. Political extremism and violence often arise when people feel economically and socially marginalised.

In Northern Ireland our peace settlement has focused on creating the conditions to end violence, the legitimacy of our political institutions, and tackling some social justice issues. Our voting system, power sharing, and the makeup of the Northern Ireland Executive have been successful at delivering much needed stability and validity. However, it is becoming increasingly clear that in order to sustain our success, good economic governance is vitally important.

Northern Ireland's economic strategy is focused on mainstream economic concepts such as growth, boosting exports and attracting foreign direct investment. As in many advanced economies, reducing inequality or integrating pockets of deprivation are not core issues driving economic policy. Yet, given what we know about the destabilising impacts of inequality, they should be.

This will require more flexible, localised and innovative governance and government. It will require civil society, social enterprises, business and the public sector to work together to provide sustainable assistance to disadvantaged communities. And above all it will take strong and strategic leadership from within Northern Ireland.

By becoming a social and economic success, Northern Ireland can be a renewed example to regions and countries emerging from violence across the world.

**NICVA is the lead organisation for the NGO sector in Northern Ireland.**

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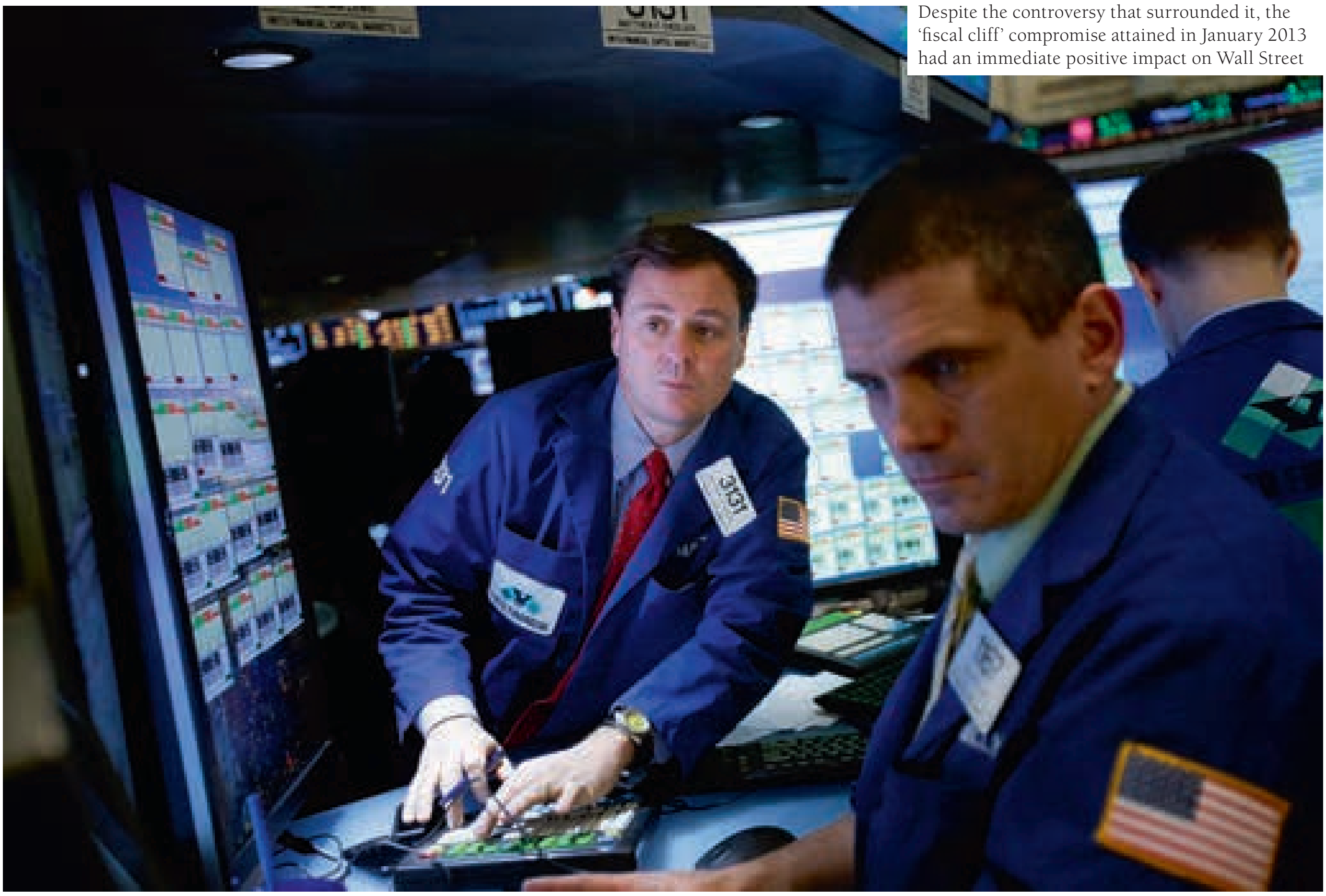

AP/PA

Despite the controversy that surrounded it, the 'fiscal cliff' compromise attained in January 2013 had an immediate positive impact on Wall Street

affluent Americans by about $40 billion per annum. The government also began a sequestration of discretionary spending on 1 March 2013, which will reduce outlays by $44 billion during the seven months through to September. The defence sector could lose 200,000 jobs, and the Pentagon may be forced to furlough 800,000 civilian workers by one day per week from April. There will also be cuts in a wide array of discretionary non-defence programmes affecting education, healthcare, research and development, and public goods. Barack Obama's budget projects that by 2018 discretionary spending as a share of GDP will fall back to the levels seen during the Eisenhower administration.

## Seeking a compromise

Everyone believes the sequestration is bad policy, but the two major political parties cannot agree on an alternative. The president wants to raise taxes again on high earners. As there was a tax hike as part of the compromise that avoided the fiscal cliff in January, the Republicans rule out any new tax hikes. They instead want to reduce spending on the major entitlement programmes such as Medicare and Medicaid. The Democrats are protective of these programmes, so achieving a compromise has proven to be difficult.

The tax increases and spending cuts will generate a fiscal drag close to 1.4 per cent of GDP during 2013. This will probably hold growth close to two per cent for the fifth year in a row. In the absence of such restraint, American output growth would probably increase to between three and 3.5 per cent. The Congressional Budget Office is projecting that the fiscal drag will reduce the federal deficit this year to $845 billion, or 5.3 per cent of GDP. The office is projecting that the rising tax share of GDP could reduce the deficit to 2.4 per cent of GDP in 2015. It then expects rising healthcare spending to push the deficit back to 3.8 per cent of GDP in 2022.

There are precedents for large cuts in US public spending. Bill Clinton reduced the federal spending share of GDP from 22.1 per cent in 1992 to 18.2 per cent in 2000. Nearly half the cuts came from the end of the Cold War and reduced military spending. The remainder came from civilian spending cuts excluding the big entitlement programmes after the Republicans took over the House of Representatives in 1994. There was genuine cooperation to achieve a balanced budget.

It is very clear that the major unresolved issue in the US policy outlook is healthcare spending. There has been a slowdown in spending on healthcare during the past three years, but most analysts believe that it will rebound as unemployment levels decline. Its growth threatens to crowd out other critical sectors of public spending or to significantly increase the tax share of GDP. If it continues on the current trend, healthcare spending could be the factor that finally forces the US to introduce a value-added tax. Both parties are opposed to such extreme outcomes, so they will have to find some way to curtail the growth of healthcare spending. The Republicans are prepared to privatise Medicare and means-test the benefits. The Democrats have so far ruled out such changes, but the downward pressure Medicare is putting on discretionary spending will ultimately force them to find alternatives. Their search for solutions will determine how US fiscal policy evolves in the decade ahead. ■

***The major constraint on the US economy is federal fiscal policy. Congress allowed the two per cent payroll tax cut enacted in 2010 to expire in December. This will bolster household taxes by around $120 billion in 2013***

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# Northern Ireland – leading business

**Alastair Hamilton, CEO of Northern Ireland's economic development body: Invest Northern Ireland**

Northern Ireland may be among the smallest regions of the United Kingdom and Europe, with a population of under 2 million, but it has a vibrant business scene and is experiencing increasing success in global markets. At the heart of this success is our workforce, which is among the youngest and best educated in Europe with a strong work ethic.

As well as being one of the constituent parts of the UK, Northern Ireland has its own locally elected government. This administration is committed to growing the economy through advancing entrepreneurship and innovation, as well as developing exports and promoting foreign direct investment.

Invest Northern Ireland is the economic development agency for the region. In addition to encouraging foreign direct investment, our remit includes encouraging and supporting indigenous start-ups, helping businesses develop export markets and ensuring they have the capability and capacity to compete on the world stage.

Assisting this commitment are the region's two universities. Both are recognised as research focused and industry linked and they sit within an overall education system that produces students with consistently higher grades than other parts of the UK.

But Northern Ireland's academia is not in an ivory tower. In Northern Ireland we focus on developing high levels of collaboration between industry, academia and government to ensure that investors have immediate access to the tools they need to establish and grow a successful business in the region. We have fostered innovative skills development, research and development (R&D) and entrepreneurship programmes, and our goal is to ensure that no matter how many geographic footprints a company has,

**In Northern Ireland we focus on developing high levels of collaboration between industry, academia and government**

their Northern Ireland centre is among the highest performing.

Far-sighted investment to create the world's most advanced science parks, research centres of excellence and technology incubators have encouraged the development of clusters in ICT, financial services, aerospace, life sciences, agri-food and renewable energy.

This approach has enabled us to differentiate the solution we offer on the basis of cost, service quality, productivity and overall ease of doing business. For this reason, despite being a relatively small location, we have a world-leading financial technology cluster that includes inward investors such as NYSE Technologies, Citi and CME, as well as indigenous firms including First Derivatives. We also have a rapidly expanding legal services cluster bolstered by recent investments from Allen & Overy, Herbert Smith Freehills and Axiom.

Northern Ireland's location within easy reach of the European marketplace combined with superb telecommunications makes Northern Ireland an ideal near-shore location for businesses. It is hardly surprising that Northern Ireland has attracted major projects from investors in ICT, software, financial and knowledge process outsourcing from the United States, Europe and Japan.

Northern Ireland is a welcoming region where investors will find a skilled, well-educated workforce, a strong infrastructure and third-level institutions where the commercial exploitation of R&D and innovation lie at the heart of the academic and skills agenda. These factors make Northern Ireland a compelling investment proposition.

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# Generating growth in Europe: the EBRD's role

**If the eurozone economy is to recover from the impact of the global financial crisis, it will need to work towards greater economic integration**

*By* Sir Suma Chakrabarti, president, European Bank for Reconstruction and Development

Five years after the global economy plunged into the deepest crisis for decades, growth and recovery remain elusive. Thus the pursuit of renewed economic growth has become the challenge of our time.

In Europe, integration is at the heart of the debate on how to reignite growth. Sceptics point to the contagion effect exposed by the euro crisis. Another example – reaching beyond Europe – is the rapid spread of the US mortgage crisis of 2007 through the highly integrated global financial system, turning it into an international credit crunch.

It would be easy to turn away from integration and retreat inwards – which was precisely the response that brought depression between the two world wars in the 20th century – but integration is not the problem. The real problem is that integration has not gone far enough and its quality has been insufficient, particularly in the financial sector.

***The real problem is that integration has not gone far enough and its quality has been insufficient, particularly in the financial sector***

From 1945 onwards, integration has delivered economic gains. In Europe, it was an engine for growth. The European single market, which came into being in 1992, serves as a prime example, both with its achievements and its shortcomings. After the Iron Curtain came down in 1989, integration in Europe intensified rapidly.

The world witnessed a rapid transition as the former communist-ruled countries of Eastern Europe moved to a free market system, with increasing trade and capital


67PHOTO/ALAMY

The US mortgage crisis of 2007 spread rapidly through the global financial system, and the impact of the resultant credit crunch is still being felt in the UK and continental Europe today

flows. The result was a closing of the gap with the West – which the European Bank for Reconstruction and Development (EBRD) has been proud to promote. That transition was not only to allow the free flow of goods, but also to establish an institutional framework that enabled convergence, with the European Union as anchor. Today, 12 of these former members of the USSR have become members of the European Union. On 1 July 2013, they will be joined by the Republic of Croatia.

Integration was the driver of change. But when did it run out of steam? When the 2007 credit crunch hit, Europe suffered just as much as anywhere else. The euro was meant to build on the success of the single market, another step down the road of integration. Yet it was incomplete, equipped with a common monetary policy but not a common fiscal policy. As a result, some European countries have been able to rack up huge debts and drag down the whole eurozone economy.

Emerging Europe felt the pain – even though many countries are not members of the eurozone – through the import of financial instability and rapid deleveraging. Western European banks active in the region cut back their lending, and some closed altogether. The credit crunch became a destroyer of economic growth. In these circumstances, it is hardly surprising that some governments prefer to seek their own national solutions.

However, it is now time to restate the case for integration. International trade not only benefits consumers; it also encourages innovation and helps firms to grow. Foreign direct investment in emerging Europe is integrating local firms into global supply chains. Greater market access lowers the costs of innovation and exporting. Crucially, trade integration highlights the importance of local economic institutions. Technology adoption is unlikely in environments with weak property rights and an unstable business climate.

The same case must also be made for finance. Prior to 2008, policy-makers often viewed cross-border and multinational banking as a natural element of economic integration and therefore as a driver of growth. Their view is supported by evidence that the presence of foreign banks increased access to finance and the efficiency of local financial systems in the EBRD region. It is therefore universally accepted that financial development and economic development go hand in hand with each other.

Given this background, policy-makers had little, if any, doubt about the benefits of integration. Just as in the Asian financial crisis that started in 1997, this belief has been challenged, but it nonetheless remains true. Emerging Europe needs cross-border finance. While the EBRD strongly promotes the development of local deposit bases, many countries in the region will need to have access to foreign savings for some time.

A Romanian immigrant begs for change by the bricked up ATM of a Spanish bank. Emerging Europe has felt the effects of the global crisis as reduced lending and financial instability have taken their toll

ALAMY

A thorny road lies ahead for Europe to close the gap between institutional and financial integration. But possible solutions such as the European Stability Mechanism are being developed, and positive steps towards deeper integration will support the long-term growth prospects of the whole continent.

The second dimension of integration concerns fostering trade within emerging Europe. The benefits of regional integration are many, but it is possible that the most important among them is the reduction of non-tariff trade barriers, brought about both through the elimination of border controls, and through improved cross-border infrastructure. Trade creation increases consumer choice and a larger market reduces the costs of innovation for producers. Regional integration helps build cross-border value chains and opens up larger and more efficient markets. It also presents an opportunity to build stronger economic institutions.

The EBRD continues to support these developments, firstly with continued investments, matching its money with policy dialogue aimed at economic restructuring, diversification and improved corporate governance. Its crisis response is very closely coordinated with a number of other international financial institutions. In November it announced a new joint action plan with the European Investment Bank Group and the World Bank Group that will see more than €30 billion channelled to emerging Europe in the next two years, at a time when the pains of eurozone bank deleveraging may be felt at an ever greater scale. In addition, it continues to facilitate regional integration and export-led growth. It targets its lending to small and medium-sized enterprises and refinances corporate clients with key roles in their markets. In 2012, it signed more than one project every day, for a total business volume of almost €9 billion.

Secondly, the EBRD believes in a further intensification of reforms against the backdrop of slow export growth and a credit squeeze. It will continue to push for reforms via its investments, policy advice and technical cooperation. It assists transition countries in boosting exports, developing a knowledge-based economy driven by innovation and skills, and creating an institutional environment that is attractive to businesses. It will continue to support growth through project financing, and expert guidance.

Thirdly, the EBRD will continue to cooperate with other international financial institutions and the private sector to enhance its local currency and local capital markets initiative. To maintain economic recovery, investment growth in the real economy will need to rely on growth in the financial sector. This crucially depends on a sound banking system and supportive local capital markets, which should strengthen domestic savings. ■

# Accelerating innovation in the UK... to create growth

**Iain Gray**
Chief executive of the UK's Technology Strategy Board

Countries across the world are struggling with sluggish or no growth, yet you do not have to look far to find innovative businesses enjoying phenomenal success.

Innovation – the successful exploitation of new ideas – is responsible for two-thirds of economic growth in the developed world, so fostering and encouraging innovation must be at the heart of any nation's economic policy.

In the UK, I see many examples of businesses experiencing dramatic growth in spite of the economic clouds that have hung over us for the last four or five years.

Take Swiftkey, a small business formed by two young friends, Jonathan Reynolds and Dr Ben Medlock, in 2008. They had an idea to take the knowledge of natural language processing gained at university and to turn it into an app that would transform the way people use a keyboard.

Today, the Swiftkey app is one of the most downloaded in the world, and the company employs 90 people at offices in London and San Francisco. The technology is being developed for other uses and devices and the outlook for continuing rapid growth at the company is extremely positive.

It might not have been so. At the very outset, Jonathan and Ben realised they needed support to develop their ideas into a commercially viable product.

They turned to the Technology Strategy Board, and through a 'Launchpad' competition we awarded them £15,000 in 2008 to test the feasibility of their idea and a further £50,000 in 2009 to help them to develop a prototype.  From that small seed, a fast-growing business has grown, a testament to the vision and entrepreneurial spirit of these two men. It is also, as the two are keen to acknowledge, testament to the faith we showed in them in those early days and the support we were able to give.

The UK is blessed with a fantastic entrepreneurial spirit, as well as world-class universities and researchers. It is home to many of the world's most successful companies.

Innovation is a risky business, however, and governments have recognised that it is not enough to leave the market to do its own thing. There is a role for government to support innovation that will bring economic growth and address the major challenges facing society today.

The Technology Strategy Board was set up by the UK government in 2007 for that reason. Our value was recognised by the new coalition government in 2010, and we have continued to grow and take on new responsibilities. Together with our partners and business, we have invested about £3 billion in innovation in our first six years. We have grown into our role as the UK's innovation agency.

It was clear to me from the outset that it would be essential for us to be business-focused and business-led. Before heading the Technology Strategy Board, I was managing director and general manager of Airbus UK. Working with me today is a team made up of dynamic and experienced people from all walks of industry.

The Technology Strategy Board is sponsored by the UK Department for Business, Innovation and Skills, but it operates at arm's length from government.


**The Infiniti EMERGE-E, one of three low-emission concept cars created under the REEVolution project**

Jonathan Reynolds and Dr Ben Medlock, whose bright idea has become a thriving business

This allows us to act as an honest broker, opening doors, bringing groups together and highlighting opportunities.

We take the challenges facing the world today and look for opportunities for UK businesses to meet those challenges with innovative products and services that will generate economic growth. In practice, this means supporting innovation in areas such as renewable energy supply, treatments for disease, more cost-effective and sustainable ways of producing food, low-impact building techniques, or low-carbon vehicles.

## We take the challenges facing the world today and look for opportunities for UK businesses

All the time, we look for key priority areas where the UK has particular strengths, where there is strong market potential, and where our investment can make an impact.

It is not just about the money. It is equally important for us to encourage the collaboration that will help key industries to adapt to a changing world and to thrive and prosper.

As an example, we are proud of our work in low-carbon vehicles. We know we have to develop new ways for people to get around if we are to meet our targets on carbon emissions, and the global opportunities for UK business in doing so are enormous.

In 2010–12 we instigated the largest real-world, multi-manufacturer trial of electric vehicles in Europe. More than 90 per cent of those who took part said they would recommend an electric car to a friend and we gained a huge amount of valuable data that will help businesses to plan for future markets.

In another unprecedented collaboration, we enabled the REEvolution project that brought together three major car manufacturers – Jaguar Land Rover, Nissan and Lotus – to work on the creation of three high-end, range-extended electric demonstration cars. The project joined the three big players with a number of small specialist vehicle technology suppliers.

It led to the creation of three demonstration cars capable of up to 70 per cent reduction in carbon emissions without compromising performance, and it accelerated development and growth among the technology suppliers.

More than half of our R&D funding goes to small and medium-sized business – the nimble, visionary companies with high-growth potential.

We have developed many tools for supporting business innovation. They include funding of feasibility studies and collaborative research and development projects, innovation vouchers, Smart grants for early-stage ideas, and SBRI – the Small Business Research Initiative – which awards government contracts to businesses developing solutions to specific challenges.

Major new players are the Catapult technology and innovation centres the UK government asked us to set up. All seven centres – in high value manufacturing, cell therapy, offshore renewable energy, satellite applications, transport systems, connected digital economy, and future cities – will be operational this year. They will see a £1 billion investment over the next few years.

The Catapults are a long-term investment and each one will bring together the very best UK businesses, scientists and engineers in their field to work together to transform ideas into new products and services that will generate economic growth.

We are not working in isolation. We have many partners, both in the public sector, such as the research councils, intellectual property services and standards offices, and in the private sector, such as business angels and venture capitalists. Part of our role is to make sure that businesses know and understand what services are available to them and that they can gain access when they need to.

So, are we making a difference? We believe so. Research suggests that for every £1 we contributed to collaborative research and development in our earlier years, there has been about a £7 return in gross added value. The potential in some areas and some more recent programmes is even greater. Many of the innovations we support are still young, and it is too early to say how great the eventual impact will be – but to take as an example our portfolio of low-carbon vehicle projects, where we and our partners and businesses have invested £350 million, it has been estimated that the economic benefit could be as high as £35 for every £1.

Of course we could do more. We see areas where funding support in innovation could make a difference, but where we do not have the resource to commit.

But as I have said, it is about much more than money. To adapt the old saying, many heads are better than one. In everything we do, we aim to get organisations and people together, to share experiences, to collaborate on new projects and to develop new products and services. As I see time and again, it is often through these partnerships and unexpected collaborations that the most dramatic advances can happen – potentially transforming the UK's ability to compete in global markets.

**For more information on the Technology Strategy Board and its work visit www.innovateuk.org**

Technology Strategy Board
Driving Innovation

# Protecting digital economies

## The internet is intertwined with the economic and social fabric of countries globally, but governments have work to do on countering online criminality

**By** John Lyons, chief executive, International Cyber Security Protection Alliance

As world leaders gather at the G8 summit in Northern Ireland this year, they will be considering and debating some of the most pressing global issues of our time. Those that specialise in the cyberspace arena hope that they will also have time to address the deeply worrying trends that threaten the economic and social benefits that the internet can deliver to humankind.

Many nations are only just beginning to understand the strategic importance that the internet can deliver to their future economic stability and growth. Advanced economies have just started to invest in protective measures, but all are playing catch-up.

The most significant threats against digital economies that the world faces collectively fall into two broad categories:

- Nation-states that carry out industrial espionage to steal intellectual property for economic advantage; and
- Organised criminal groups that wage war on businesses and consumers for financial gain.

This article concentrates on the second of these two online threats.

### International engagement

Online crime transcends national boundaries. Criminal groups and loners who organise and carry out this 21st-century criminality act in a way that allows them to take advantage of the international lethargy that typifies the response of governments to this phenomenon.

Governments have been struggling to find ways in which they can collaborate effectively to defeat online crime. Some of the early signs of international engagement have centred on the Council of Europe's Budapest Convention on Cyber Crime.

Unfortunately, progress on encouraging countries around the world to become signatories or accede to the convention has been slow, despite great efforts by Council of Europe staff to evangelise the benefits of joining this cybercrime-fighting initiative. The convention is opposed by some countries, which see it as a purely European measure that fails to meet their needs.

### Striking back against criminality

Governments need to find common ground in order to move this global stalemate and inaction to a point where they can start to strike back against online crime that harms all nations, all businesses and, most importantly, billions of citizens around the world.

These common points of interest revolve around two of the most prolific types of criminal internet activity:

- The sharing of images and videos of child abuse online among paedophile groups; and
- Fraud and criminal financing, which includes funding terrorist operations.

There are a great many superb initiatives that are being undertaken globally in order to address the first of these practices. There exists a common purpose that unites governments, businesses, law enforcement agencies, academia and citizens around the world. We all wish to see children protected and those who would exploit them brought swiftly to justice.

Furthermore, this area of agreement should be used to collaborate on addressing the other key issue that damages all economies around the world: online fraud and the illegal funding of criminal and terrorist activities and operations.

Many of the stakeholders that are successfully addressing the issue of online child abuse have colleagues who are engaged in trying to defeat financially motivated online crime. Billions of dollars are sitting in bank accounts around the world that are the proceeds of online crime. This is where the authorities are able to strike.

Governments around the world could take two measures that would have a significant and long-lasting effect on the ability of online criminals to secure their ill-gotten gains:

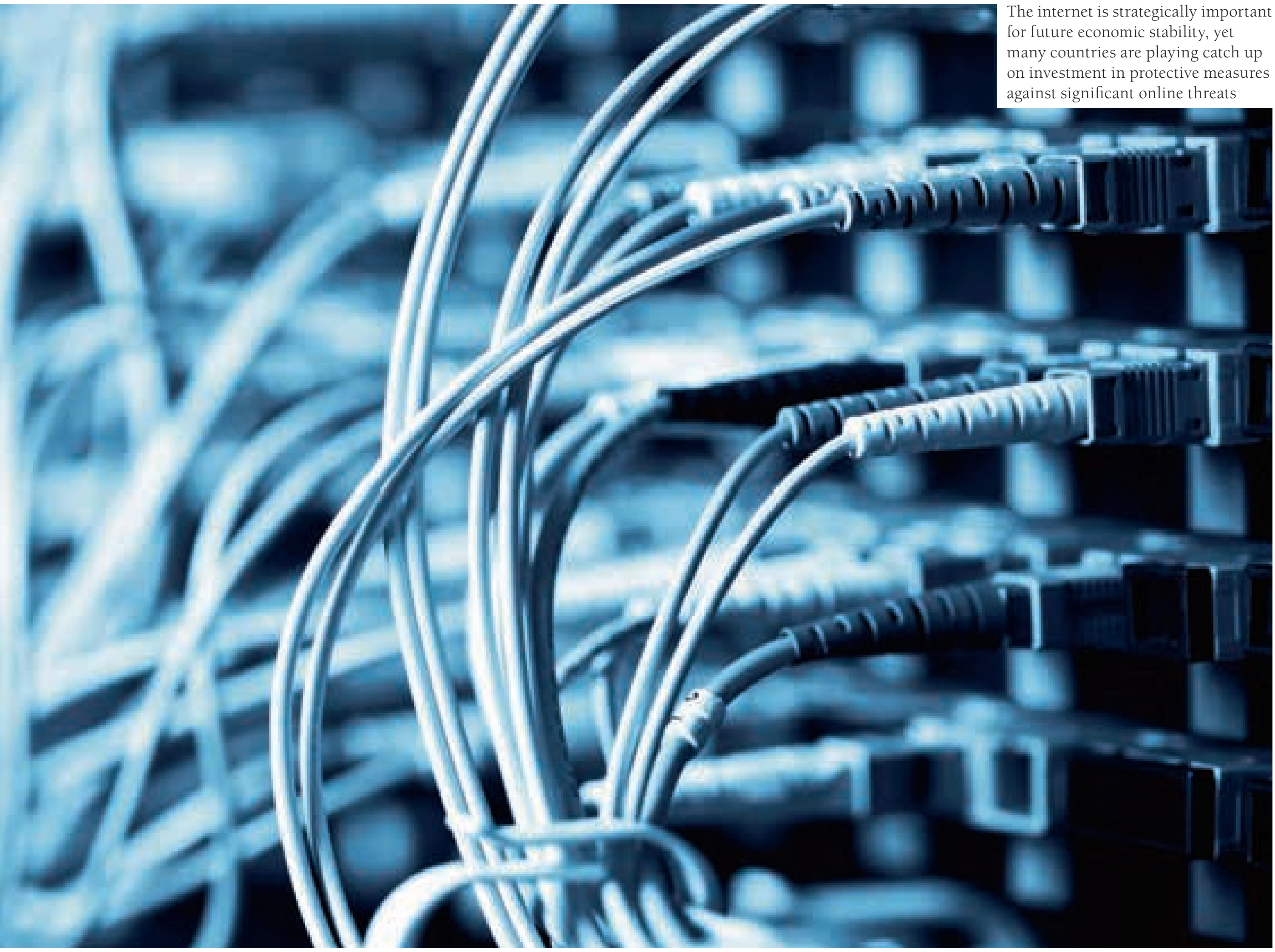
1. Outlaw alternative payment mechanisms for trading currencies online; and

2. Introduce legislation to confiscate the proceeds of online crime.

### The opportunity to act now

As highlighted by the latest initiative of the United States to arrest some of the suspects that were involved in Liberty Reserve (a group indicted for money laundering that ran a $6 billion worldwide operation out of Costa Rica), alternative payment mechanisms, such as Bitcoin and a host of others, can enable criminal and terrorist groups to launder money and fund their operations.

Governments of the world have the ability right now to ban these payment mechanisms. At the heart of this initiative is a simple



The internet is strategically important for future economic stability, yet many countries are playing catch up on investment in protective measures against significant online threats

STOCKBROKERXTRA/ALAMY

***Governments need to find common ground in order to move this global stalemate and inaction to a point where they can start to strike back against online crime that harms all nations***

premise: at one end of the transaction, a user must 'buy' the 'internet currency', and at the other end the criminals must turn the currency into real money.

If treasuries and financial institutions around the world were to block those transactions and permit only legitimate currencies to be used on the internet through regulated payment service providers and cards (such as Visa, MasterCard and American Express), then the flow of many billions of dollars to criminal groups would be stemmed.

Furthermore, if those same countries introduced, if necessary, additional legislation to confiscate the proceeds of such online crime, these funds could be either returned to those who had been defrauded or used to fund international projects that could bring about a more safe and secure internet environment for all citizens.

If the leaders of the European Union and United States could be convinced to take a lead on these initiatives, that would be a huge contribution to making the internet a safe place for financial transactions. At the same time, it would also strike a blow against those who would try to destroy the fabric of our the world's well-being.

The International Cyber Security Protection Alliance stands ready to work with governments interested in taking these hugely cost-effective and sensible measures. ■

# Internet dependence:

## The case for risk management and cybersecurity norms

The G8 and G20 members have a long history of problem-solving, crisis prevention and establishing principles for collaboration. As members convene in 2013, they should carefully consider the increasing significance of the internet to the world economy and international security. The internet continues to grow and change – through technology changes, through social changes in how citizens use the internet, and through governments' thinking and approach to security.

By the year 2020, the population of internet users is estimated to grow from just over two billion to nearly four billion. The figure below illustrates the projected global distribution of internet users in 2020 by the number of users per country, and by broadband penetration. China is projected to have about 760 million users, more than the number of users in the EU and US combined. Brazil, India and Nigeria, which had a combined internet population of nine million in the year 2000, will likely have about 570 million users.

By 2020, large parts of the world will be hyper-connected and will have moved from 'Internet adoption' to 'Internet dependence'. Increasingly, both the global economy and international security will be dependent on the availability, integrity and security of the internet and the functions it supports.

### The world is moving from Internet adoption to Internet dependence

But while cyberspace will drive economic growth, we will continue to see an increase in sophisticated cyber threats, which could pose significant risks to national economies. To address these risks, more than 40 countries are building or have built cybersecurity strategies for reducing national-level risk and bolstering critical infrastructure protection. To be effective, nation states should adopt cybersecurity strategies that help manage and mitigate key risks through policy and smart risk management.

### International harmonisation of cybersecurity efforts

While a focus on developing robust national cybersecurity capabilities is critical, these efforts alone will not counter the global threat. At the international level, nation states need to work toward global harmonisation of cybersecurity efforts. In doing so, all governments – not just those of like-minded nations – need to develop international approaches aimed at advancing security and reducing cyber-risk. The G8 and the G20 should therefore begin to seek global harmonisation of approaches to cybersecurity, critical infrastructure protection and other key international issues like incident response and supply chain security.

Risk management issues apply not only at the infrastructure protection and citizen level; they also apply at the nation-state level. The respective national security communities of governments, particularly departments of defence and foreign ministries, have a long history of addressing security norms in the context of nation states and military operations.


**Cyberspace in 2020**

Data visualization and design created by Column Five Media, data provided by Euromonitor Intl.; map concept derived from Geographies of the World's Knowledge, Graham, M., Hale, S.A. and Stephens, M. (Convoco! Edition, London, 2011).

## A PRINCIPLED APPROACH TO CYBERSECURITY AND RISK MANAGEMENT

The following principles should be used by policymakers facing the challenge of reducing cybersecurity risk. Approaches should be:

**Risk-based:** A risk-based approach to information security identifies risks and assesses them in terms of threat, vulnerability, likelihood and consequence, and then seeks to manage them through mitigation, controls and other measures. A risk-based approach does not suggest that risks can be eliminated, nor that risk management initiatives are static, but recognises that as technology and cyber threats evolve, so too must risk assessment and management.

**Outcome-focused:** Because managing cybersecurity involves many variables, cybersecurity policies should focus on achieving clear outcomes and be explicit about desired end states. Desired outcomes should be described in ways that enable stakeholders to assess the effectiveness of proposed mitigation, controls and similar measures. An approach that measures effectiveness will enable innovation in the marketplace and discourage entities from adopting merely the lowest common denominator required for compliance.

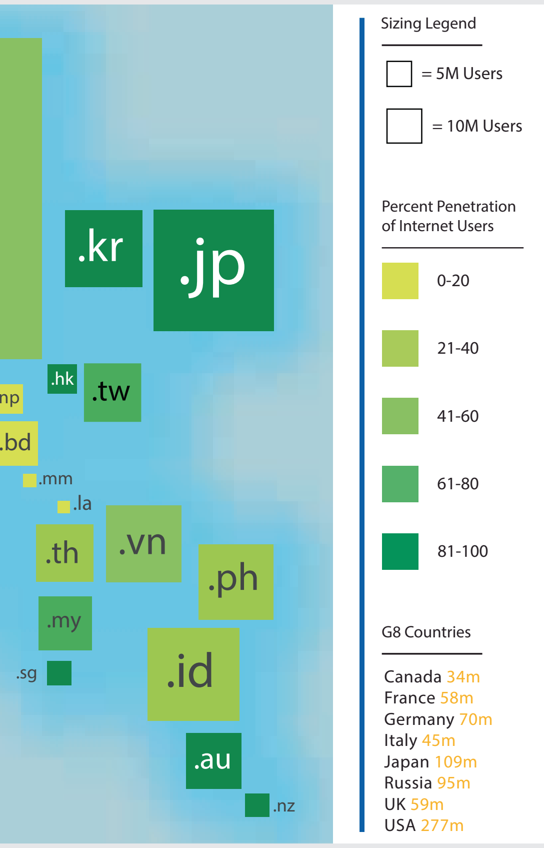
**Prioritised:** Guidelines for distinguishing critical from non-critical infrastructure should take into account that, even within critical infrastructure, there are varying degrees of criticality. A graduated or tiered system is optimal.

**Practicable:** Policies must be practicable in order to be accessible to the many small and medium-sized entities that operate within critical sectors, and who will likely lack the operational sophistication and financial resources to grapple with overly complex or burdensome requirements.

**Respectful of privacy and civil liberties:** Improving the national cybersecurity risk profile should not come at the cost of privacy, nor should it impact negatively upon civil liberties. Rather, improving cybersecurity should strengthen them.

**Globally relevant:** Whenever possible, governments should seek to incorporate existing international standards when they are developing their cybersecurity policy. By doing so, they will reduce the cost of compliance for organisations. Moreover, integration of international standards will encourage other countries to adopt a similar approach. In scenarios where international standards are not applicable, best practices established by industry are often an appropriate substitute.

As nation states around the world continue to adopt and declare military doctrines for cyberspace, it is imperative that governments also focus advocacy and cooperative efforts toward a comprehensive approach to cybersecurity that goes beyond the nation-state and military space. Currently, domestic policy developments on issues related to cybersecurity are not as focused as are efforts to combat terrorism or stem the proliferation of nuclear weapons, and the same holds true in international engagements. G8 and G20 members must now leverage their expertise to advocate for more consistent approaches to cybersecurity at the national level. At the international level, governments should focus their diplomatic expertise and resources on promulgating norms of acceptable state behavior in cyberspace. The resulting cybersecurity norms can increase confidence, stability and security in cyberspace. G8 and G20 members should also include the private sector in these discussions where it is possible and reasonable, because private companies create and operate many of the technologies that nation states rely on for their economic and national security.




### Conclusion

Nation states need to develop comprehensive, principled strategies for cybersecurity domestically in order to bolster national capabilities, and also work to harmonise international cybersecurity efforts through development of appropriate cybersecurity norms. While doing so will take substantial commitment, it is critical to the long-term stability, reliability and security of the internet and the critical infrastructures upon which we all rely. Protecting cyberspace is one of the seminal economic and security challenges of our time. The time for action is now and the G8 and G20 are the right places to start.

**Matt Thomlinson, General Manager: Trustworthy Computing Security**

Matt Thomlinson is General Manager of Product Security at Microsoft, and leads the Trustworthy Computing Security organization responsible for technical security measures as well as policy. Trustworthy Computing (TwC) initiative was founded by Bill Gates in 2002 to improve the security, privacy and reliability of Microsoft Products and Services. In his role, Matt oversees efforts ranging from secure software development and global incident response to working with governments, academia and private-sector stakeholders on strengthening cybersecurity. In his 19 years at Microsoft, Matt has been involved across the software industry as a technology leader. He is currently chairman of the Information Security & Privacy Advisory Board (ISPAB) of the US Department of Commerce which advises senior administration officials across the US government. Matt is named as inventor or co-inventor on 21 technology patents. He is a native of Seattle, WA and holds both Master's and Bachelor's degrees from the University of Washington.

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# Generating jobs and livelihoods – a priority for the G8 and G20

## The slow rate of economic recovery is starkly reflected in global unemployment. Job creation, particularly for young people, must be prioritised

*By* Guy Ryder, director general, International Labour Organization

History has often shown that crisis inspires collective efforts to overcome it. This was abundantly clear at the onset of the Great Recession in 2008, when G20 leaders came together to stave off a global financial meltdown, and when, with the collapse of aggregate demand, governments stepped in – often massively – as consumers of last resort. In so doing, they forestalled a downward spiral of economic collapse. But today, the global economy continues to be mired in a state of at best low economic growth. This, unfortunately, is most starkly evident when one looks at the one indicator that concerns most individuals – getting and keeping a good job. Far more than any other economic issue, this is today's political priority, and it should be the priority of G8 leaders when they meet at Lough Erne.

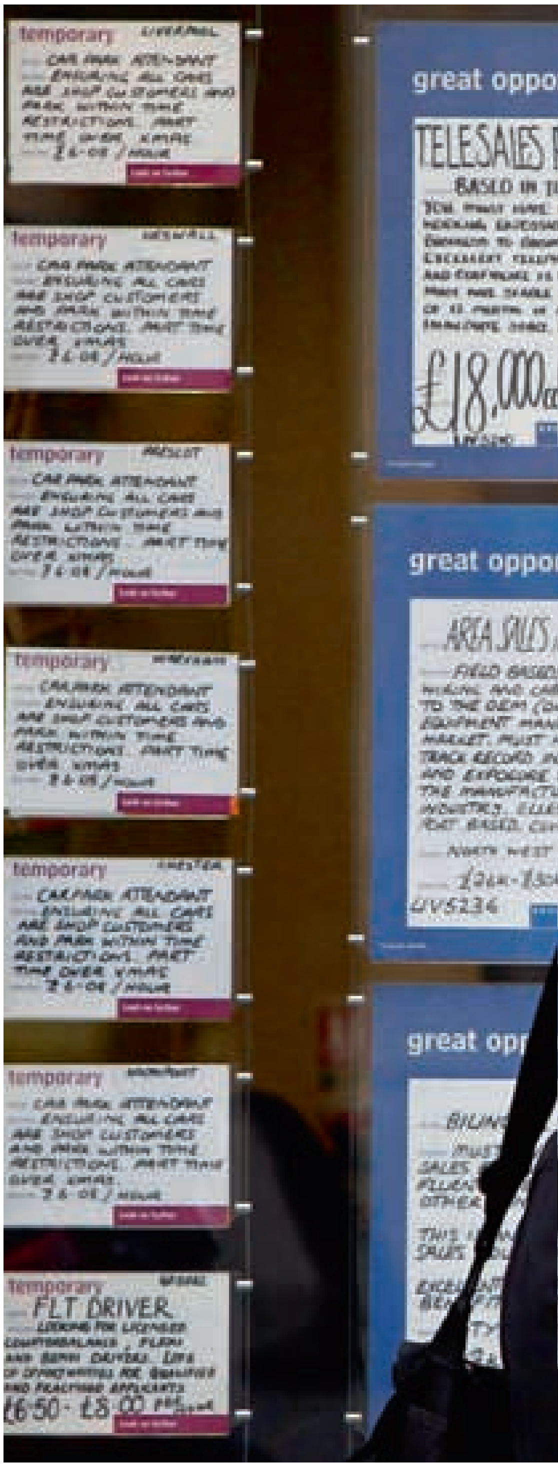
There are three clear indications of the gravity of the crisis, which demonstrate why the galvanisation of effort still matters, and there are four places to begin in taking job-rich growth as the principal priority.

The first indication of the gravity of the crisis is that global unemployment has not turned the corner. There are still 30 million more people unemployed around the world than there were before the crisis, while another 40 million individuals have dropped out of the labour force altogether. The unemployment rate among the world's youth is at 12 per cent – a figure that equates to some 75 million young people. The evidence presented to the International Labour Conference for its general discussion of youth unemployment in 2012 showed that prolonged episodes of unemployment have a 'scarring' effect that lasts for many years into the future: indeed, forgone income from unemployment is sometimes never recouped. It is not, in these circumstances, overly dramatic to speak of a lost generation.

The second indication is what is happening to global wages. They are growing, but more slowly than before 2008 and with pronounced regional variance. The most recent *Global Wage Report* published by the International Labour Organization (ILO) found that wages actually fell by 0.5 per cent in 2011 in the developed world. In fact, between 2000 and 2011, wages in the developed world have only grown by five per cent – compared with the 23 per cent global average – and the rate in Asia is higher still. One consequence of this trend is a decline of labour's share of national income in almost all developed countries. There are many reasons why this is bad, but a significant one is that consumption is the principal component of aggregate demand in most high-income countries. Major corporations have rarely been more flush with cash, but the incentive to invest that cash in the real economy is diminished in the absence of demand. Good jobs spell sustainable demand, and sustainable demand spells growth.

The final indication is rising intra-national inequality – quite dramatically so in some countries, such as the United States, where the top one per cent of the labour market now takes in 23 per cent of the national income. The fact is, however, that rising inequality now characterises many emerging economies in the world. Aside from the demonstrated link between inequality and social and political instability, as we have seen seen in various cases, ranging from the Arab Spring to the spread of the Occupy Wall Street movement and mass strikes in southern Europe, high inequality also means that a higher rate of economic growth is required to attain the still daunting objective of poverty reduction. The imbalance resulting from inequality cannot be sustained for long.

What, then, can be done to generate good jobs, to return the world to a path of job-rich growth? The ILO has four thoughts.




Six years after the financial crisis hit, global unemployment figures remain unacceptably high, with some 30 million fewer people employed than in 2007

PA ARCHIVE/PA

# It's time for governments to deliver

Brent Wilton, Secretary-General of the International Organisation of Employers

> "Governments must focus on ensuring an enabling environment for entrepreneurship and job creation that promotes a variety of forms of employment."

Since the onset of the global economic crisis, many of the countries hit hardest by high unemployment and low growth have responded to the worsening situation by implementing far-reaching structural reforms to address the root causes. Indeed, in many cases, today's employment crisis is due to long-term structural problems that go back well before 2008 and were concealed or disguised by "growth".

These reforms need to be completed, difficult though this may be. Experience shows that labour market reforms need time to bear fruit; the Netherlands' reforms of the 1980s and Germany's Hartz reforms of the last decade are classic examples. Governments need to be tenacious – success should not be jeopardised by stopping short now.

## Governments must deliver now to open up opportunities so that everyone achieves their full potential

Reforms are not only necessary to overcome the current crisis, but to address the long-term challenges many countries are facing. The Organisation for Economic Cooperation and Development's (OECD) *Going for Growth* report recently highlighted the need for reforms in countries that have actually been relatively successful in mitigating the effects of the crisis on unemployment. But countries that have suffered less, and ignore structural issues, could well be the losers of tomorrow.

Business sees the following priorities for governments:

i. **Employability:** Employability must be a key outcome of education. It is striking that 19% of OECD school leavers lack basic literacy skills. Governments must focus on universal access to compulsory, high-quality education systems that instil core competences, particularly with regard to literacy, numeracy and STEM-subjects. Key to achieving this would be a firm commitment from governments to enhance cooperation with business and employers' organisations in the design of educational and vocational curricula.

ii. **Enterprises and entrepreneurship:** Sustainable jobs are created by the private sector. Governments must focus on ensuring an enabling environment for entrepreneurship and job creation that promotes a variety of forms of employment and enables companies to create new jobs as rapidly as possible when market opportunities arise. It should promote start-ups and support the growth of SMEs through fewer administrative burdens, with regulation being subject to the assessment of its potential impact on business development and job creation. Particular emphasis should be placed on education in entrepreneurship itself, so that students can opt to start their own companies and create jobs.

iii. **Sustainable pension systems:** The ageing of society threatens many countries' growth potential, and has negative consequences for the supply of skilled workers and for the stability of social security systems. Governments must focus on adapting the retirement age to stabilize the old-age dependency rate; on increasing employment levels at older ages by reducing the incidence of early retirement; and on promoting the diversification of pension systems through sustainable, insurance-based private pension plans.

Societies as a whole expect to see these issues addressed. Business stands ready to play its part – governments must deliver now to open up opportunities so that everyone achieves their full potential, and companies have the confidence to invest, grow and employ.

**Brent H. Wilton**
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The scarring effect of youth unemployment extends to wider society. In recognition of this, the European Commission has launched a job creation and training initiative for young people

Putting young people first is a priority. The scarring effect on disenfranchised youth extends to society as a whole. The European Commission's initiative on youth employment includes a guarantee of work, education or training for a young person out of work for four months. This is no hand-out, but an investment in the next generation. It is not a blank cheque because it targets those who want work and cannot find it. Even in the short term, its funding needs can be offset by the consequent decline in unemployment benefit payments and in increased tax revenue, as income earners pay taxes.

**Infrastructure investment**

Secondly, investing in infrastructure is an immediate investment in job creation as well as an investment in future economic potential. While many governments are short of cash, history shows that a moderate fiscal deficit today in favour of employment for higher fiscal receipts tomorrow is neither an economically nor socially unsound policy.

Thirdly – and classically – making credit markets work for start-ups as well as for small and medium-sized enterprises is a policy prescription of long standing, and yet is often unrealised. It is surely self-evident that supporting the sustainability of enterprises converges with the objective of creating jobs. In addition to lifting the credit constraint, there are other obstacles that can be tackled, such as nurturing the growth, public or private, of business development services to help producers build links to markets.

> ***History shows that a moderate fiscal deficit today in favour of employment for higher fiscal receipts tomorrow is neither an economically nor socially unsound policy***

Finally, extending social protection makes good employment sense as well. The economic and the social logic of this was confirmed by the 2012 International Labour Conference, when the ILO adopted an instrument on global social protection floors. Social protection is a human right, although one enjoyed by only a minority of the world's people. In economic terms, social protection is the labour-market equivalent of hedging against risks. People protected from the dangers of adverse circumstances are able to concentrate on generating income, beneficial both for themselves and for the economies where they work. And it is more affordable than commonly surmised. India's nationwide Rural Employment Guarantee, providing at least 100 days of paid work per household in that country's vast rural areas, has enhanced the livelihoods of more than 50 million households, comprising some 200 million people who would otherwise have faced desperate poverty. The price tag amounts to 0.6 per cent of gross domestic product.

These are just four practical steps to include in a package for generating good jobs. They are as relevant to the G8 in Lough Erne in June as to the G20 summit in St Petersburg later in September, where the ILO will present further proposals for raising global growth and employment. And they share one striking common feature: they could happen today. ■

# University of Ulster


## A Personal Message **from the Vice-Chancellor**

At the University of Ulster we are delighted that the G8 is meeting in Northern Ireland's beautiful County of Fermanagh and we extend the warmest of Irish welcomes to all G8 delegates.

## A Distinctive University

Ireland's largest unitary university, the University of Ulster is a distinctive university. We have a clear and unequivocal mission which is to work in partnership to promote economic, social and cultural development. Our programmes of study have a distinct applied focus, we develop them in partnership with employers, most include a substantial period of work-based learning, and our emphasis is on courses which support workforce development. We are known throughout the UK and further afield for the extensive nature of our work-based learning activity.

We are at the forefront with our focus on applied and translational research. Research that is helping industry to become more competitive; research that is improving public sector effectiveness and the health and well-being of the population; and research that is helping politicians and public servants to solve complex economic and social problems.

Our research is supported by extensive knowledge and technology transfer activity. Through this activity we are helping firms – including those in the SME sector – to harness R&D as a force for competitive advantage.

## A University that Creates Opportunities

At the University of Ulster we are of the firm view that healthy economies and societies are ones in which all individuals with the ability and desire to succeed are provided with the opportunity to do so. We are at the forefront in the UK university sector in widening access to higher education. For us, development and creating opportunities for those with ability and the desire to work hard must go hand-in-hand.

## A Modern University

Established by Royal Charter in 1984 the University of Ulster is a young, dynamic institution. This youth is reflected in our modern approach to higher education: an approach which sees us lead through agility, innovation and partnership working. As we grow older in years we are determined to maintain our youthful approach.

## A Distributed University

Firmly rooted in the region, we serve the region through our four campus operation. Our campuses are in Belfast – the region's capital city; at Magee in Derry~Londonderry – the UK's first City of Culture; in Coleraine – on the beautiful north coast near to the World Heritage Site of the Giant's Causeway; and in Jordanstown – on the shores of Belfast Lough. In addition to our land-based campuses we offer a range of online courses through our virtual learning environment.

## A Comprehensive University

Our course provision and research extend across a wide spectrum of disciplines and policy areas, spanning architecture and the built environment; business; computer science; engineering and materials science; the creative arts and design; life and health sciences; nursing and the health professions; the natural environment; humanities; languages; media; law and the social sciences; peace and conflict studies; renewable energy; and sport. Our research in biomedical sciences; nursing; and Irish and Celtic Studies has been officially rated as being in the top 3 for the subject area across all of the UK's universities. And we are in the top 20 for architecture and the built environment; materials science; law; media and sport.

## An International University

Each year we welcome students from over 90 countries and we have extensive research partnerships throughout the world. We are home to Northern Ireland's Confucius Institute; a UNESCO Centre in Education for Mutual Understanding; and a United Nations University affiliated peace and conflict research centre. Our Business School is a member of the Harvard Business School Microeconomics of Competitiveness Network.

## A Glocal University

At the University of Ulster we are extending our partnerships internationally through which we provide opportunities for international students to complete part or all of their study in their home country. Our approach here is glocal – offering programmes which meet international standards but are designed to reflect local workforce and cultural needs. An example of this is our applied sports management programme which will be offered in Abu Dhabi from September this year and which has been designed in partnership with the Automobile and Touring Club of the United Arab Emirates.

(ATCUAE). The programme will facilitate local students to gain professional positions in the UAE's expanding sports industry. Similarly our nursing programme in Saudi Arabia is designed to facilitate local female students to gain professional positions in the Saudi health sector. Our glocal activities build on our partnership approach to working and our reputation for developing courses which support workforce development.

## A University Alive with Ambition

The University of Ulster is alive with ambition – alive with ambition for our students and alive with ambition for our regional and worldwide partners. We look forward to continuing to work with our partners in the G8 countries and elsewhere to promote economic, social and cultural development. That is the raison d'être for a modern university such as the University of Ulster.

We wish you well in your deliberations in Fermanagh and if you'd like to know more about us and our work please don't hesitate to contact me directly.

www.ulster.ac.uk

Professor Richard Barnett
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# The role of education in employment and economic sustainability

## Access to schooling delivers measurable returns for a country's economy, but providing quality education is a challenge for developing countries

***By*** Harry Anthony Patrinos and Kaavya Ashok Krishna, World Bank Group

Education is a critical driver of economic growth and poverty reduction because education systems help expand knowledge and promote skills that propel individual labour productivity. A measure of labour productivity at the individual level is the rate of return to schooling. The rate of return to investment in schooling is typically estimated as the proportional increase in a person's labour-market earnings from an additional year of schooling completed. The average rate of return to another year of schooling is 10 per cent a year.

Returns are highest at the tertiary level, at an average of 17 per cent, followed by primary at 10 per cent and secondary at seven per cent.

> ***Individual earnings are systematically related to cognitive skills and the distribution of skills in society is closely related to the distribution of income***

High returns to primary schooling signify the urgent need to reduce the scarcity of schooling supply, especially in low-income countries. More than half of the world's out-of-school children live in sub-Saharan Africa, where the rate at which children return to another year of schooling is 13 per cent.

It is imperative to bridge the gap in access to schooling. Education affects the life of individuals, their participation in economic activities and overall economic development in various ways. A person without basic literacy and numeracy skills finds it difficult to master the skills of everyday life. A lack of basic education has always been accepted as one of the major components of any multidimensional concept of poverty.

Also, the demand for higher levels of skills is global and increasing. This brings up the key challenge of making higher education more accessible and more affordable. Countries need to consider new combinations of public and private education to meet the challenge. But expanding private higher education to plug gaps in provision swiftly leads to other problems. Governments need to resolve the tensions between public and private funding while striking a balance between efficiency and equity.

Economic growth is strongly affected by the skills of workers. Individual earnings are systematically related to cognitive skills and the distribution of skills in society is closely related to the distribution of income. Education also encourages the development of well-functioning economic institutions such as established property rights, open labour and product markets, and participation in international markets. A more skilled population almost certainly includes both a broadly educated population and a cadre of top performers that results in stronger economic performance for countries.

### Enrolment in developing regions

In 1999 more than 105 million children were out of school. Today, countries have come a long way in improving access to education and this number has been driven down to 61 million. This has been achieved through efforts of governments, with encouragement and support from G8 countries.

Despite recent increases, enrolment rates remain low in several developing regions. Efficient and fair access to education is proving elusive for many. Often, low-income families, girls, indigenous peoples and other poor and marginalised groups have limited access to education. Several sub-Saharan African and South Asian countries have yet to achieve universal primary coverage.

The quality of education, as measured by standardised tests, is low and represents a major challenge. Most students from developing countries who participate in international assessments score poorly. For example, developing countries that participated in the 2009 Programme for International Student Assessment (PISA) created by the Organisation for Economic Co-operation and Development (OECD), which measures the mathematical, reading and science literacy of 15-year-old students, almost always ranked at the bottom. On average, in developing countries only about 50 per cent of students have the proficiency in reading that is at or above the baseline required in order to be effective and productive in life. By comparison, 81 per cent of students in the OECD countries performed at or above the baseline level in reading.

These numbers show that the average child from a developing country who took part in PISA 2009 is 40 to 50 points – half a standard deviation, or two full years, in terms of learning – behind the worst students in the economic superstars. Even the best performers from developing countries – the top five per cent in science – were almost 100 points behind the average child in Singapore, 83 points behind the average Korean and a staggering 250 points behind the highest-performing children internationally.

Parents recognise the need for better education. In several developing countries they are opting to send their children to low-cost private schools, despite public schools offering 'free' education. Over the past decade, this trend has escalated in several countries.

Countries can use private-sector education to promote public good. It is important to improve the quality of public education, while making schooling more affordable and holding providers accountable. One way of achieving this is to provide families with the funding they need to access schooling, either through cash transfers to schools based on enrolments or by providing cash directly to families. The objective of such programmes is to extend the financial support from the government to these other education providers, thus giving all parents, regardless

Almost half of the 20 million children across the Punjab region in Pakistan attend low-cost private schools, according to estimates

REX FEATURES

of income, the opportunity to choose the school that best suits their preferences. It is estimated that across the Punjab region in Pakistan, nine million (out of 20 million children) attend low-cost private schools. The Punjab Education Sector Project helps improve access to quality education for almost one million students in 1,700 low-cost private schools, as well as capacity support to 54,000 school councils. The Foundation-Assisted Schools programme of the Punjab Education Foundation has expanded from 18 districts to 29 in the province since 2008.

### The quality factor

It is important to focus on the quality of education, because ignoring differences in quality can distort the way we perceive the relationship between education and economic outcomes. Decision-makers must not presume that any increase in funding for schools is a productive investment that will see the returns estimated for attainment. It is necessary to ascertain how these investments translate into quality and how that quality relates to economic returns. Investments in what works in education are urgently needed, but programmes should be based on rigorous evidence before they are taken to scale.

G8 leaders have underlined the importance of access to quality education, promoting research and development, and facilitating international education mobility. At the 2012 Camp David Summit they concluded that more should be done to promote growth and job creation and that productivity and growth could be increased through 'structural reforms' and 'investments in education'.

However, there needs to be a greater emphasis on the quality of education and the importance of accountability in the education market. While maintaining that basic education services remain a public responsibility, governments have several options at their disposal for ensuring that education is of an acceptable quality without actually being the main provider of education.

Publicly financed but privately provided education is one way in which governments can do this, and private management of public institutions is another. In addition, there are several mechanisms for financing private involvement in the education system. In other words, a case can be made for the use of public finance in education, but the provision of schooling itself need not be public.

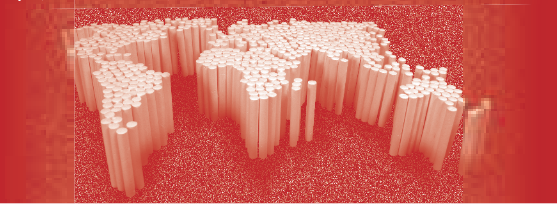
### Fostering skills acquisition

Access to education remains a high priority on the development agenda. While significant results have already been achieved in school enrolment, it ultimately is the degree to which schooling fosters cognitive skills and facilitates the acquisition of professional skills that matters for development. In order for schooling, whether public or private, to deliver on its promise as the driver of economic success, it is imperative that the quality of education is high – ensuring that those attending schools actually learn. ■

*The views expressed in this article are those of the authors and should not be attributed to the World Bank Group.*

# A letter from the teachers of the world

Education International
The voice of educators worldwide



**Education is the single best investment to regenerate economic growth, underpin sustainable global development and promote international security and stability.**

The evidence, informed by the first-hand experience, professional knowledge and social justice convictions of our members, lead us to call for an expanded vision of equitable access to education.

**Human rights in general, and the right to education in particular, are at the core of a credible development and education framework. The right to education can only be achieved where the impacts of inequalities do not undermine the full achievement of this right.**

**Equity in education requires equitable participation in quality education.** The number of children effectively denied access to meaningful learning is much greater than the official estimate. Millions of children are enrolled in schools where very little learning takes place, due to oversized classrooms with untrained teachers, and inadequate school facilities and materials. Those who remain excluded are disproportionately poor migrants. They are often but not always female, displaced, and are socially/ethnically/linguistically marginalised, disabled and/or living in remote, rural or informal settlements, or fragile States. These are people outside the formal economy without any employment prospects or social protection, and their numbers are growing.

**Quality education requires quality teachers.** A global development agenda must place teachers at the centre of efforts to achieve quality education. Urgent measures have to be taken to bridge the gap of trained teachers; currently there is a shortage of 6.8 million qualified teachers. Governments have to support the teaching force by investing in pre-service and in-service education as well as continuous professional development for teachers.

**Expanding access and participation remains an essential goal.** Primary schooling alone is no longer enough to provide access to modern sector labour markets, and there is a rapidly growing demand for post-primary schooling. Employment in high value-added and knowledge-based sectors of the economy depends on knowledge, skills and competencies associated with abstract reasoning, analysis, language and communication skills, and the application of science and technology, which are most efficiently acquired through high-quality secondary schooling and tertiary education and training.

**All efforts to improve education and the well-being of human beings and societies will come to naught unless sufficient funding is provided to implement the agreed international goals.** Education is a public good and the costs of public education should therefore not be disproportionately borne by poorer citizens. The evidence is overwhelming that access to free schooling increases enrolment rates rapidly, and fees and other costs levied on poor households compromise expenditure on health, nutrition and shelter, and create high-interest debt.

Free public systems tend to be the provider of first resort for the majority of households in high-performing rich countries. Low-price, private for-profit schools emerge and operate in areas where the state has failed to provide its citizens with quality education. It is through public financing that governments can ensure that all households have equitable access to quality education that is free at the point of delivery.

**Expanding educational access is a direct investment in equality and social stability.** Poverty is both a cause and an effect of poor educational opportunities. Children from poor households are less likely to enroll and complete their schooling, due to the costs – direct, indirect and opportunity – of education. An educated individual has a higher income-earning potential, and is more likely to actively contribute to society. For girls, each additional year of primary schooling translates into a 15% increase in potential income. Completed primary schooling and participation through secondary school have measurable benefits on maternal and infant mortality, health and nutrition, the incidence of HIV and AIDS, and morbidity more generally.

In our view, **governments and global institutions have paid too little attention to education as a human right, and equitable access to learning opportunities**. The commitment made at Dakar in 2000 to achieve universal basic education has yet to be honoured. Though officially numbers out of school have fallen from about 105 million to 60 million since 1999, most of the reduction occurred before 2004, since when progress has faltered. The numbers of children not enrolled in primary education in sub-Sahara Africa appear to have increased since 2008.

**Regardless of the sequel to the Millennium Development Goals is after 2015, it is inconceivable that the development envisioned will occur without a continued commitment to invest in education. Education International calls on the G8 to renew its commitment to the right to education through:**

- **reaffirming the role of education as an essential catalyst for the achievement of all other global development goals;**
- **investing in the provision of quality education by taking urgent measures to overcome the shortage of trained teachers; and**
- **setting a global benchmark of at least 6% of GDP and 10% of ODA to the achievement of quality education for all.**

Fred van Leeuwen
General Secretary

Susan Hopgood
President

Education International represents organisations of teachers and other education employees across the globe. It is the world's largest federation of unions, representing 30 million education employees in about 400 organisations in 170 countries and territories across the globe. Education International unites all teachers and education employees.

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# Enhancing entrepreneurship for growth and jobs

## By encouraging small businesses, governments can foster economic growth and job creation. Young entrepreneurs have a vital role in this process

*By* Victor Sedov, president, Center for Entrepreneurship, Russia, president, Russia Delegation, G20 Young Entrepreneurs' Alliance; and Helen Gale, director, strategy and performance, Youth Business International, co-president, United Kingdom Delegation, G20 Young Entrepreneurs' Alliance

Trade, tax and transparency – the three Ts at the top of the United Kingdom's G8 presidency agenda for global prosperity – are aimed at developing more open economies, more open governments and more open societies. A targeted focus on the next generation is vital if we are to achieve effective policy design, implementation and uptake.

Free enterprise sits at the centre of this agenda. Five years of global economic turbulence have shown that small and medium-sized enterprises (SMEs) are the best tool to promote net job creation in the economic policy arsenals of governments. In the United States, for example, during the downturn from 2008 to 2012, SMEs remained flat in terms of hiring on a net basis. In comparison, 740,000 net jobs were lost from large businesses over the same period. In the UK, since the economic downturn, 88 per cent of unemployed people who found work in the private sector either started their own business or were hired by an SME, with young unemployed and non-participant individuals significantly more likely to secure work in SMEs. Throughout countries belonging to the Organisation for Economic Co-operation and Development, SMEs account for approximately 99 per cent of all enterprises and two-thirds of employment. Across a sample of 99 developing countries, almost 90 per cent of jobs are generated by SMEs.

It is young entrepreneurs who are driving growth, innovation and job creation. Global research shows that 25- to 35-year-olds have the highest rates of entrepreneurial activity. Productivity among young people has disproportionately positive effects on economic growth and social stability, effects that are cumulative and intergenerational. Particularly in the current climate, demographic and labour market trends indicate that support aimed at young people will be a key determinant of future prosperity. The recent financial crisis increased youth unemployment by one per cent, double the effect on the adult rate. Of all determinants of unemployment in the wake of the crisis, age has been the most significant – more than geography, education level or gender.

Unprecedented youth un- and under-employment rates, bulging youth populations and widespread youth disenfranchisement combine to pose policy challenges, yet also offer potential future opportunities for governments to harness economic growth and social stability – if the right enabling environment is developed. Equipping the next generation of young entrepreneurs is key.

> ***Productivity among young people has disproportionately positive effects on economic growth and social stability, effects that are cumulative***

In the UK and the US – two of the most entrepreneurial of the G8 countries according to measures of early-stage activity – 35- to 44-year-olds have the highest level of participation in entrepreneurship of all age cohorts, older than the global average. While entrepreneurship cannot be 'made' through policy, governments increasingly recognise the economic and social imperative of allowing entrepreneurs to thrive.

To promote a strong start-up ecosystem for young people, governments should focus on developing the infrastructure, technology and education that are required to unleash the potential of the next generation, ensuring that economic opportunity is open to all, while making economies inclusive and allowing young businesses to compete in the global marketplace. A dual focus on start-up and business growth is required. A small share of innovative high-growth SMEs create a disproportionate number of jobs. In all G8 countries, there is a ratio of between three and five to one of entrepreneurs who expect to create fewer than five jobs in the next five years, compared with entrepreneurs who anticipate creating 20 new jobs or more.

### Inhibitors and solutions to growth

In preparation for their annual summit, which takes place in Moscow in June, the G20 Young Entrepreneurs' Alliance (G20YEA), a network of young entrepreneurs and the organisations that support them from across the G20 economies, surveyed young entrepreneurs to identify inhibitors and solutions to growth and job creation through enterprise. They concluded with four recommendations, all of which are relevant for G8 leaders.

First, develop the digital infrastructure that is a key prerequisite for young people to start and lead a growth business. Young entrepreneurs are uniquely placed to take advantage of the potential of the rapidly developing digital economy. As emerging insights reveal, concerted efforts are required to ensure that the information revolution leads to sustained economic growth.

Second, accelerate reductions in expensive and time-intensive business and labour legislation and compliance procedures that inhibit launching and growing a business. Consultative policy-making with entrepreneurs will help ensure incentives and other measures are well targeted. Fiscal incentives require particular attention.

Third, improve access to finance, especially start-up and early-stage funding, from private- and public-sector sources to compensate for falling bank lending. Enabling access to capital through cross-sector collaboration can be effective, for example through government loan-guarantee or by integrating civil society-led non-financial support services such as mentoring and


Small and medium-sized enterprises are drivers of employment, accounting for an estimated 90 per cent of jobs in many developing countries

MCX IMAGES/ALAMY

training for young, first-time entrepreneurs, who are perceived as a high credit risk.

Fourth, promote entrepreneurship curricula in schools and universities to promote entrepreneurial mindsets and behaviour, and develop the skills required to harness today's technologies and be successful in business. Entrepreneurship education is not cited as a leading practice for an enabling enterprise culture in any of the G8 countries. Teaching these essential enterprise skills can be particularly powerful if linked directly to access to start-up support services.

Fifth, publicise entrepreneurship success stories to increase awareness of enterprise as a career choice among young people. Countries that use positive role models in the education system and media have been shown to have a more robust enterprise culture. Emerging research shows the benefits of matching aspiring and inspiring entrepreneurs at both pre-start and early-stage growth levels, not merely showcasing entrepreneur icons.

## Evaluating success and failure

Sixth, integrated into such measures should be a focus on the evaluation of successes and failures. More rigorous evidence of the most effective practices in the context of systematic sharing will catalyse a more supportive public dialogue and infrastructure. In collaboration with knowledge partners Ernst & Young and Accenture, G20YEA will publish new research ahead of the G20 summit in St Petersburg in order to identify priorities for enabling youth entrepreneurship.

A UK-led G8 has a window of opportunity to lead fellow countries to coordinate and harmonise their policies in the arena of youth entrepreneurship and youth employment. Unleashing the remarkable potential of the world's young entrepreneurs is critical if we are to make progress along the path towards global prosperity and well-being.

As this year's G20 host and next year's G8 host, Russia is similarly well placed to ensure that further progress can be made across the world's leading and emerging economies. The risks of economic exclusion and social instability among young people in particular are stark and widely recognised; the opportunities of youth-led enterprise and innovation are significant. The G20YEA is able and willing to work with our governments to help ensure young entrepreneurs and their businesses can play their role in being the architects of the 21st century. ■

# Rebalancing economies through trade and investment

**The UK has a long history of international trade. Encouraging firms to expand abroad and attracting inward investment are key goals for the government**

*By* Lord Green, minister of state for trade and investment, United Kingdom

These past few years have been a time of great challenge. And countries have had to take action to rebalance their economies. As part of this rebalancing, there needs to be a greater emphasis on trade and a greater emphasis on investment.

Historically, trade has always been critical in defining and shaping the British economy. It is vital to its national prosperity, which is why the British government has put increasing exports at the heart of its growth strategy. No matter who you are, no matter where you are or what industry you are in, if you have a good product, there are real opportunities to grow your business overseas.

Despite all the advantages, however, not enough companies trade overseas. The UK still lags behind its European competitors in exporting. In the UK, only around 20 per cent of small businesses export. This is despite the popularity of brand UK and despite research showing that companies that export generate an average growth of 30 per cent after exporting for just two years.

But the challenge is complex – because of course, exporting is not risk free. In these uncertain times, firms are understandably wary and risk averse.

No business can afford to sit still, and it is better to be a player than a sitting target. There are risks, but there are rewards. The lesson here is that it is vital to get your research done.

Several of the world's fastest growing markets, which are set to shape the global economy of the future, represent a vast and growing consumer market and middle class.

Some see the rise of these emerging markets as evidence of the 'Old World's' decline. I can understand why Europe might feel a little more distant than before and some might think it less relevant to the future. The rise of emerging markets will bring challenges, but there will also be unprecedented opportunities.

The UK is underpinned by a strong trading history; it has long punched above its weight in terms of originality and ideas, offering a wealth of world-leading expertise across a raft of sectors.

The British brand is held in very high regard in terms of reputation for both quality and service. And the boost of the Olympics has put the UK at the centre of the world's attention, as surveys have shown.

### The trade and investment challenge

UK Trade and Investment (UKTI) has a target to double the number of companies it helps each year to 50,000 by 2015. That means raising the number of small and medium-sized enterprises (SMEs) that export from one in five to one in four. While Europe and the United States remain key destinations for Britain's exports, the UK also needs to diversify the countries it trades with. For existing exporters, this means encouraging them to move out of their comfort zones and into high-growth markets around the world.

The UK has set up a group to identify dozens of high-value opportunities – contracts worth more than a quarter of a billion pounds – and UKTI is helping UK firms to bid for these. It is encouraging UK firms to bid for railway and airport contracts in Malaysia, Oman and China; oil and gas projects in Kazakhstan; hospital projects in Saudi Arabia and South Africa; and to compete for global sports contracts around the Sochi and Rio Olympic and Paralympic Games, and the FIFA World Cups in Brazil, Russia and Qatar.

Illustrating the success of this approach, in Malaysia, for example, UK firms have won business designing train stations and providing engineering consultancy for the country's largest infrastructure project, worth £10.5 billion ($15.9 billion).


British industrial designer Sir James Dyson presents his latest innovation – the Airblade Tap – in Germany. The British brand is held in high regard in terms of quality in many countries

REX FEATURES

# Software patents – an obstruction to innovation and trade

**Dr Melvyn Hunt**
**Co-Founder & President, Novauris Technologies Ltd**

British inventor and entrepreneur Sir James Dyson recently called for it to be made easier for small companies to protect their inventions through the patent system. In his field, Sir James may well be right, but in the telecoms and software industries patents are increasingly acting as an obstruction to trade, especially for high-tech start-ups.

Patents enable pharmaceutical companies to recoup their investments in R&D and clinical trials. In other industries, the IP being protected may constitute the development of a clever idea that no one else would have thought of. Without patents, competitors could copy the products and make it unattractive for any company to invest in the development of novel products.

## Software patents are different

Software patents, which first appeared towards the end of the last century, are different. They do not cover pieces of software or clever algorithms, but rather business methods: applications and processes that would be implemented using software. They can be granted without proof of feasibility; they typically represent no development effort; despite the ostensible requirement not to be obvious, they are frequently entirely obvious; in fact, the claimed invention has often been published by someone else beforehand. They are the intellectual equivalent of land grabs, in which companies with adequate funds stake out vast areas of commercial possibilities for themselves alone. Many such patents are subsequently judged invalid in court. However, it can cost millions of dollars to defend oneself against a suit by the holder of an invalid patent, and the cost is not recoverable. A small company being threatened may feel obliged to pay royalties rather than incur litigation costs, or it may be forced out of an area of operation altogether. A particularly sinister development is the emergence of patent trolls – companies that produce no products and do little or no R&D but amass heaps of weak patents with which to extract money from productive companies.

## A threat to small companies

The rapid growth of software patents and subsequent battles about them is expensive and distracting for large companies. It can put small companies out of business. It risks stifling the vital source of innovation that small high-tech start-ups represent.

**We need to dissuade companies from threatening competitors with weak patents**

It is tempting to blame patent examiners for approving invalid applications, but US examiners, reportedly having only a couple of days to complete an examination, cannot possibly discover all prior work or assess obviousness. We can't blame large companies for using their patent power because they have to do their best for their shareholders, and many have been induced to build up a cache of weak patents themselves after being sued by another company with a weak patent.

The solution lies with governments. This year's Leahy-Smith America Invents Act only aggravates the problem. For innovation to continue apace we need to dissuade companies from threatening competitors with weak, probably invalid, patents. We particularly need to protect small companies from such attacks.

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novauris

In country after country, both developed and emerging, governments are launching massive programmes, from whole new cities, through transport systems, through sporting events such as the Rio Olympics and the World Cup, to energy and minerals exploration and development.

I was in Mexico earlier in the year with a business delegation to look at how the UK and Mexico can work more closely together. There are many areas where we can share expertise, including infrastructure, energy, education and retail. I would encourage British firms to look to Mexico for partnership opportunities.

### Fostering partnerships

I was also recently in India with Prime Minister David Cameron and a high-level delegation of British businesses and educational and cultural institutions. With every visit to India, it is remarkable to see the transformation that is taking place right across the country. With huge investment taking place across India's infrastructure, healthcare, energy, defence, high technology and manufacturing sectors, the visit highlighted opportunities for partnership.

For example, there are cities considered small in India that have a population greater than any European country. As businesses based in these cities look to export and invest internationally, they will need access to legal, accounting, insurance and banking support. If their domestic companies cannot yet provide this support, it will be an opportunity for UK firms to provide expertise. But the other side to the rebalancing is investment.

***The UK is lowering corporation tax to 20 per cent by 2015, making it one of the lowest in the G8, and the Patent Box is now fully in effect. Other measures include an 'entrepreneur visa' to help attract the world's leading companies***

Each year, thousands of overseas companies make Britain their preferred choice for both new and repeat investment – the strongest possible commercial endorsement of the UK's dynamic business environment.

The government actively encourages companies to locate in the UK, but for the investor, it is important to feel accepted once you are here.

Whether it is a French firm supplying electricity for the Olympics, a Malaysian firm running double-decker buses and black cabs in London, or Chinese investment into Thames Water – as a country, the UK welcomes such investment in a way not seen everywhere.

The UK's global location allows firms to do business with Asia in the morning and the Americas in the afternoon; it is home to the universal language of business and it has a multicultural, multilingual population that makes recruiting a workforce much easier.

The United Kingdom plans to make the most of the long-term economic legacy left by the London Olympic and Paralympic Games of 2012

DOMINIC LIPINSKI/PA WIRE

I am delighted that Ernst & Young has found that, once again, the UK remains the lead destination in Europe for foreign direct investment in its 2013 UK Attractiveness Survey. Yet complacency is not an option. There is always more to do to strengthen and enhance the UK offer to overseas enterprises.

### The regulatory environment

Continual improvement of the UK's regulatory and business environment is critical, as is an ongoing commitment to make all areas of the UK attractive investment destinations. That is why the UK is addressing areas where it might usefully focus its efforts. These include driving innovation, education and skills; providing more support for SMEs; and attracting foreign investors with policies, legislation and incentives.

Some of these changes are already taking place, through the positive steps the UK government is making to attract foreign investors, underlining its commitment to delivering greater certainty in the UK's tax regime and cutting the 50p top rate of income tax to 45p.

The UK is lowering corporation tax to 20 per cent by 2015, making it one of the lowest in the G8, and the Patent Box is now fully in effect. Other measures include an 'entrepreneur visa' to help attract the world's leading companies and the best, most dynamic entrepreneurs.

### Olympic legacy

While there is excellence across many of the UK's key sectors, there are particular areas of business opportunities for inward investors that merit attention. These include infrastructure, Tech City and the Olympics legacy.

The UK's major infrastructure projects will provide a highly attractive range of opportunities for institutional investors and, in particular, sovereign wealth funds. Tech City, one of the largest concentrations of small, fast-growing, digital technology firms in Europe, has opportunities for investment, collaboration and partnership.

And after last summer's spectacular sporting achievements during what was undoubtedly a memorable Olympic and Paralympic Games, the UK intends to make the most of this once-in-a-lifetime opportunity and maximise the long-term economic legacy that the Games will bring.

So as world economies gather to address the economic challenges of 2013, the UK will continue to put trade and investment right at the heart of its plans. ■

# Creating the Canada-EU economic community

## The pending agreement between Canada and the EU is the culmination of the most comprehensive transatlantic trade negotiation ever undertaken

***By*** Roy MacLaren, former minister of international trade for Canada

An early conclusion of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA) would benefit all the parties to it and the broader world. To date, the more than three years of highly sophisticated negotiations have clearly proclaimed the rejection by Canada and the EU of protectionism, even in the depths of an economic recession. But the pending CETA has gained a yet more important and far-reaching dimension. Recently, United States president Barack Obama and José Manuel Barroso, president of the European Commission, announced discussions beginning in June aimed at a possible trade and investment agreement between the United States and the EU. The pending Canada-EU agreement will help to facilitate how the third – and major – partner of the North American Free Trade Agreement (NAFTA) can join the other two in a broad transatlantic accord. The third NAFTA member, Mexico, has long had a free trade agreement with the EU.

German chancellor Angela Merkel, British prime minister David Cameron and Canadian prime minister Stephen Harper are among the G8 leaders who, in supporting the prompt conclusion of CETA negotiations, have welcomed the prospect of US-EU discussions. They recognise that many of the major advances made in the comprehensive Canada-EU agreement can facilitate discussions between the United States – another federal state – and the EU. The successful conclusion of CETA will add substantially to the gross domestic product and employment rates of both partners, and will point the way forward in Washington's negotiations of a deal with Brussels.

CETA has yet another, if less tangible, beneficial dimension for the G8. The traditional multilateral approach of the G8 towards the liberalisation of trade and investment agreements has necessarily been replaced by a recognition that the demise of the Doha round of negotiations at the World Trade Organization (WTO) means the further proliferation of bilateral and regional agreements, including many that involve G8 countries. Traditionally, liberalised trade and investment were shaped by G8 members in the General Agreement on Tariffs and Trade (GATT). Given the near paralysis of the WTO, rules must now be defined by a transatlantic accord that can form the template for additional rules-based liberalisation. It will be a template for future global terms of trade, and one that China, India, Brazil and other rapidly emerging markets will not ignore. It is not a question of deeper transatlantic cooperation being an alternative to broader multilateral cooperation. Rather, it is that a strong transatlantic architecture is central to the ability of Canada and the EU to manage and advance a larger global agenda.

> ***CETA reflects the fact that trade in services is a rapidly increasing proportion of the total economic pursuits of the industrialised world***

The pending Canada-EU agreement, the most comprehensive transatlantic trade negotiation ever undertaken, is a next-generation accord. It reflects the major changes that have occurred in the global economy over the past two decades. The transcending character of CETA views services, technologies, imported inputs, the movement of people, investment and digital trade as all part of 21st-century economic relations. Both Canada and Europe are defining anew the best each has to offer in the form of integrative trade and investment. For example, in today's industrial supply chains, components regularly cross borders several times before final assembly, an increasingly common practice that will be facilitated by CETA's rules of origin provisions. Agreements on intellectual property rights – often the major key to profitability – have been concluded only after the most searching review. It is agreed that reducing or eliminating the tariffs remaining since the last GATT round will be done on day one of CETA. The modification or removal of regulations at both the national and sub-national levels of government – a requirement when federations negotiate – has been successful as a result of Canada's 10 provinces and three territories participating actively in the negotiations about regulations and government procurement. The free movement of skilled workers from one country to another – an innovative component of CETA – has also been endorsed by the provinces with their responsibilities in the labour market.

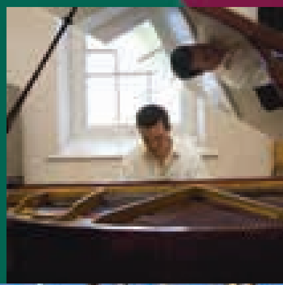
CETA also reflects the fact that trade in services is a rapidly increasing activity as a proportion of the total economic pursuits of the industrialised world. As part of the negotiations, the EU has agreed for the first time to a 'negative list' for trade in services, meaning that all services are covered by CETA unless specifically excluded. Here the US will take especial note. Technological and other advances in the services sector in the future will be automatically included.

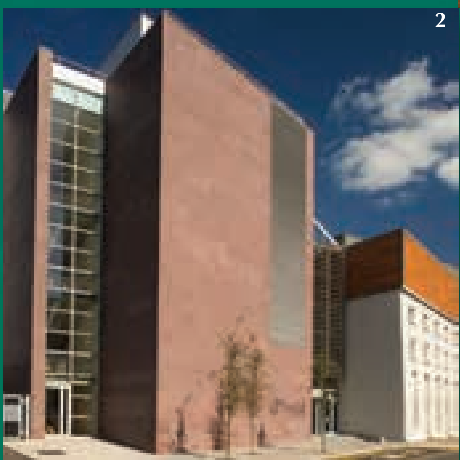
Investment, already a leading factor in transatlantic economic relations, will be further facilitated by CETA. With Canadian investors in Europe having local sales four times greater than the total value of direct exports from Canada, CETA strengthens the rules to protect transatlantic investors.

In short, CETA points the way forward for the G8. In time it should spur a NAFTA-EU agreement and, beyond that, rules-based trade and investment liberalisation with fast-growing economies. Even more optimistically, a comprehensive NAFTA-EU agreement and Trans-Pacific Partnership, designed to be capable of eventually merging into one, should help place the world back on the multilateral plane that, in the end, is best for all. ■

French president François Hollande (right) and Canadian prime minister Stephen Harper meeting in Paris. A trade agreement between Canada and the EU is currently under negotiation

REUTERS





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# Forging an EU-US economic partnership: a European perspective

## A transatlantic trade and investment agreement would bring benefits to both parties, but lengthy negotiation will be needed to overcome barriers

*By* Stormy-Annika Mildner, Stiftung Wissenschaft und Politik, and Claudia Schmucker, Deutsche Gesellschaft für Auswärtige Politik


For the first time in decades, negotiations on a comprehensive transatlantic trade and investment partnership (TTIP) are in reach. On 11 February 2013, the European Union-United States High Level Working Group on Jobs and Growth, led jointly by EU trade commissioner Karel de Gucht and US trade representative Ron Kirk, recommended a comprehensive agreement that addresses a wide range of bilateral trade and investment issues. Only hours later, US president Barack Obama, together with European Council president Herman Van Rompuy and European Commission president José Manuel Barroso announced in a joint statement that both sides would immediately start the necessary domestic procedures. In mid-March, the European Commission asked the European Council for a comprehensive negotiating mandate. If all goes according to plan, negotiations will commence in June 2013.

### The welfare effects of TTIP

A TTIP would stimulate growth in both regions. Although average import tariffs are already very low – 3.5 per cent for the US and five per cent for the EU – removing the remaining ones would have a significant effect on economic growth, owing to the sheer volume of EU–US trade. Removing behind-the-border protection such as domestic regulations would provide another major boost to economic growth. Such non-tariff barriers are particularly prevalent in the cosmetics, chemicals, biotechnology, medical equipment and measuring instruments sectors, as well as in the aviation industry. According to a recent study by the Center for Economic Policy Research (CEPR), the EU's gross domestic product would increase by as much as 0.48 per cent per annum if 98 per cent of all tariffs, 25 per cent of non-tariff barriers within trade in goods and services, and 50 per cent of non-trade barriers in public procurement were eliminated.

Both the EU and the US are not only large exporters; they are also major importers. Stimulating growth would therefore lead to increased imports, which benefit other countries too. According to a recent study by Germany's Ifo Institute for Economic Research, comprehensive liberalisation would raise average global welfare by about 3.3 per cent. However, countries that already have free trade agreements (FTAs) with the EU or the US (such as Canada and Mexico) are expected to lose from such an agreement.

A TTIP fits well with the EU's growth agenda. While the most important pillar of the EU's trade strategy remains multilateral trade liberalisation through the World Trade Organization (WTO), the EU has been pursuing an agenda of 'competitiveness-driven' FTAs for several years. This approach is part of the EU's larger trade strategy, entitled 'Global Europe: Competing in the World', introduced by the European Commission in 2006. These new-generation FTAs include all sectors as well as many so-called 'trade-plus' issues. This holds true for the TTIP. A focus on goods and services is not enough from the EU's point of view. Rather, the commission wants to focus on so-called trade plus issues such as investment, public procurement (especially the Buy America provisions), competition and regulatory issues (standards and norms). Improved access to government procurement markets at all levels of government on the basis of national treatment has the potential to greatly enhance business opportunities on both sides of the Atlantic.

A far-reaching trade agreement between the EU and the US has never looked more attainable than at the present time

TETRA IMAGES/ALAMY

EU trade commissioner Karel De Gucht (left) and EC president José Manuel Barroso (centre) hold a press conference on major transatlantic trade initiatives with the US

DEMOTIX

***For successful negotiations, both the EU and US should start with clear objectives that will help create a positive effect***

Circumstances have never been better for a far-reaching agreement. Unlike in 2007, when the EU and the US last contemplated a far-reaching trade deal, industry associations on both sides of the Atlantic are enthusiastic. The EU and the US need growth to reduce unemployment, and the TTIP could provide it.

Nonetheless, the negotiations that lie ahead will not be easy. The European Parliament has declared its support for a transatlantic agreement, but it has put in place a few red lines that should not be crossed. Crucial EU concerns include environmental and health standards, food safety, cultural diversity, and labour and consumer rights.

The largest stumbling block in the negotiations is agriculture. Average agricultural tariffs in the EU are almost 14 per cent, but they can be as high as 190 per cent. Another major problem are EU sanitary and phyto-sanitary standards, such as the import ban on genetically modified organisms and chlorinated chicken. They often involve different risk perceptions in the EU and the US. The EU argues that it has consumers' health at heart when banning certain products; the US suspects protection of domestic farmers. In the negotiations, it would be wise to give both sides more time to deal with these sensitive European sanitary standards. If Europe starts moving in small steps over time, it opens the possibility of a solution in the long run. The US would be well advised not to push the EU too hard on this issue and to look for creative solutions.

From a European perspective, regulatory issues must be a key feature of the agreement. European exporters have to consider many regulatory requirements when seeking to export to the US. There are double certification and testing requirements in many sectors, such as automobiles, pharmaceuticals and chemicals. This issue also needs to be dealt with gradually. Regulators must meet to exchange their views and concerns. If they conclude that they are pursuing the same objectives, both sides should be able to reach mutual recognition agreements. Most importantly, the EU and the US should try to agree on common technical standards.

### The EU's concerns

Public procurement is another major concern of the EU. Both the EU and the US are members of the WTO Agreement on Government Procurement. But the EU has been complaining for many years about procurement discrimination, particularly at the state and local levels in the United States. While European Commission figures show that the EU opened public tenders worth $457 billion to foreign bidders, the US, in comparison, offered only €178 billion worth of tenders to overseas companies. During the financial crisis, the US repeatedly included so-called Buy American provisions in its laws and programmes. The EU therefore aims at establishing 'national treatment' for all levels of the US government procurement market.

It will not be easy for the European Commission to rein in all its member states. While Germany, the United Kingdom and Ireland have wholeheartedly offered their support of the proposed TTIP, France – as usual – is less enthusiastic about the negotiations. At the end of March 2013, French president François Hollande said he was "in favour of opening a negotiation" with the US to "promote growth" in Europe. But he also argued that "there must be safeguards in certain areas", referring to health and safety standards in food production and cultural services, including audiovisual services.

For successful negotiations, both the EU and US should start with clear objectives that will help create a positive snowball effect. They must simultaneously be careful that the deal will be compatible with the WTO and not undermine its Doha Round of negotiations. The United Kingdom's G8 presidency has placed the TTIP at the top of its summit agenda. This is an important step, as the G8 includes most of the major players: the US, the UK, Germany, France and Italy.

While negotiators must confront the technical problems, the G8 is the perfect forum to deal with the political obstacles: an informal meeting of leaders is the best opportunity to reiterate the goal of reaching an agreement in a limited time and finding compromises on sensitive issues. Launching the TTIP negotiations around the G8 summit is also a clear signal from the highest level that the participating countries share the goal of a successful outcome. ■

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## MINUTES

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# Forging an EU-US economic partnership: a US perspective

## Leaders of the US and EU are committed to negotiating a trade agreement that will further strengthen their commercial relationship

*By* Jeffrey J Schott and Cathleen Cimino, Peterson Institute for International Economics

In February 2013, United States and European Union leaders committed to launching negotiations on the Transatlantic Trade and Investment Partnership (TTIP). Both sides aim to deepen what is already the world's largest commercial relationship, "promoting greater growth and supporting more jobs". Leaders also hope to use the bilateral deal to reinvigorate stalled talks at the World Trade Organization (WTO) and "to contribute to the development of global rules that can strengthen the multilateral trading system".

The TTIP promises to be a deal on a grand scale, covering all major components of the US-EU relationship. However, doubts persist in two areas: whether negotiators can craft a deal that resolves long-standing bilateral frictions on agriculture and regulatory policies, and the extent to which the two sides are willing to undertake commitments, particularly with regard to services and subsidies, that can in turn be used to revive dormant multilateral trade talks.

### Framing a comprehensive deal

The TTIP negotiations will draw on the intensive preliminary work that has been undertaken over the course of the past year by the US-EU High Level Working Group on Jobs and Growth.

The working group recommended "a comprehensive agreement that addresses a broad range of bilateral trade and investment issues, including regulatory issues" and called for ambitious market access reform "that goes beyond what the United States and the EU have achieved in previous trade agreements". As such, the TTIP would cover broad commitments in a large number of areas, including market access (such as reducing or eliminating tariffs); regulatory issues and non-tariff barriers (such as sanitary and phyto-sanitary measures); and new or 'WTO-plus' rule-making in areas that include intellectual property rights, environmental and labour-related issues, and competition policy.

Essentially, US and European leaders are seeking a transatlantic counterpart to the Trans-Pacific Partnership (TPP). By endorsing the ambitious agenda outlined by the working group, both sides have implicitly committed to bridging basic differences in key programmes and regulatory philosophies in several difficult areas, from agriculture to crossborder rules on services, investment, and health and product safety regulations. Without such commitments, new trade talks would be difficult and unproductive.

***Both sides should aim to deepen the market access commitments beyond the benchmarks set by the Korea pacts, covering traditional border and behind-the-border barriers to trade***

To be sure, there are numerous disagreements over these and other issues, which have confounded transatlantic officials for decades. Past attempts to facilitate trade and investment through narrowly focused deals such as 'mutual recognition' agreements failed because they have encountered strong resistance from independent regulatory agencies, which have pressed agendas driven by narrow political constituencies. In order to succeed, the TTIP negotiators will need to 'think big' and follow the advice of Max Baucus, chair of the US Senate Finance Committee, who maintains that the TTIP agreement "must be comprehensive and address the full range of barriers to US goods and services if it is to receive broad, bipartisan congressional support".

To avoid past mistakes and facilitate the construction of a viable pact, US and EU negotiators agreed to draw on the most comprehensive free trade agreements (FTAs) currently in force: in most respects, this means their respective pacts with Korea. Consolidating core provisions of those FTAs could produce a broad framework for the TTIP in short order since many of the substantive provisions could be taken 'off the shelf'. In the few areas where there are notable differences between the Korea pacts – such as approaches to sanitary and phyto-sanitary measures and intellectual property protection for pharmaceutical products and for geographical indications – officials should be able to develop a hybrid approach.

Both sides also should aim to deepen the market access commitments beyond the benchmarks set by the Korea pacts, covering both traditional border and behind-the-border barriers to trade in agriculture, goods and services. Nothing should be excluded from the talks ab initio, even though the challenges of resolving decades-long disputes over farm and aircraft subsidies, and audiovisual and maritime services seem daunting.

In addition, the TTIP should supplement the consolidated FTA provisions with negotiations in new areas akin to those under development in the TPP, such as disciplines on state-owned enterprises. Some liberalisation could be implemented quickly, such as the elimination of tariffs, while other reforms could be designated for expedited attention in ongoing talks once the TTIP enters into force.

Not every problem needs to be resolved before the TTIP talks can close, but the TTIP should provide for a 'built-in' agenda of continuing to work on even the most politically sensitive issues.

### The multilateral trading system

In order to counter past concerns that a preferential deal between the transatlantic partners would undercut prospects for multilateral negotiations, US and EU leaders committed to using the TTIP to strengthen the WTO. With proper construction, the TTIP could advance US and EU reforms, as well as


AP/PA

President Obama welcomes Italian president Giorgio Napolitano, who has said that a transatlantic trade and investment partnership could create "a new wave of development"

setting rule-making precedents in areas such as climate change, competition and exchange-rate policies, which could encourage other WTO members to reinvigorate their own negotiations on a 'Doha-plus' agenda.

**Dialogue on services and subsidies**

In particular, TTIP negotiations could prove instructive with regard to the ongoing multilateral dialogue on services and subsidies. In services, transatlantic progress towards opening new market access opportunities and harmonising regulatory policies across different sectors such as finance can offer a template for ongoing negotiations on the International Services Agreement (ISA). In that regard, US and EU efforts already have contributed to the development of a hybrid approach to scheduling services commitments in the ISA.

With regard to farm subsidies, the conventional wisdom still echoed by US and EU trade officials is that disciplines on domestic support can be achieved only through multilateral pacts. However, in the transatlantic context involving two of the biggest farm subsidisers in the world, bilateral commitments could set important benchmarks for a broader multilateral deal. Setting temporary ceilings for domestic subsidies would be useful for budgetary purposes and should provide a big impetus to parallel WTO negotiations in which commitments to new farm subsidy disciplines are needed to unblock long-stalled efforts to liberalise manufactures and services trade.

Among the new rulemaking innovations, one of the most useful areas that the US and EU officials could develop in the TTIP is disciplines on exchange rate policies to counter the trade-distorting effects of currency undervaluation. While FTA rules cannot substitute for effective administration of the articles of the International Monetary Fund, the TTIP could make existing WTO obligations more operational and establish reporting requirements that could promote closer IMF-WTO cooperation in this area. ■

# Introducing Japan's new economic model

## Following the disastrous earthquake and tsunami of March 2011, Japan is reorienting its industrial sector and re-examining its economy

*By* Naoki Tanaka, president, Centre for International Public Policy Studies

'Abenomics' consists of both easy monetary policies and stimulative fiscal policies. It has changed the image of Japan's economy. However, for a full-scale recovery, Japan needs to change its industrial paradigm as well. As a result of the disastrous earthquake and tsunami that hit Japan and the Fukushima Daiichi nuclear power plant on 11 March 2011, the country faces a new reality of electricity shortages, high electricity tariffs, higher carbon emissions because of increased fossil fuel consumption, international trade imbalances of $30 billion due to greater expenditures on fossil fuels and the possible loss of jobs from offshore production.

In order to address this new reality, Japan must demonstrate to both its domestic and international audiences that it is reorienting its industrial structure. Its number-one priority has become a complete liberalisation of its economy. Japan has now started negotiating two trade agreements: an economic partnership agreement with the European Union (EU) and the Trans-Pacific Partnership (TPP) with 11 countries. Such a new orientation has required a change in political regime, which has been brought about by Prime Minister Shinzo Abe. The industrial leaders of Japan are now making their business decisions within a new industrial paradigm.

Japan's energy industry now focuses on overall optimisation and environmental issues. Before March 2011, energy supply was divided between electricity and gas. In terms of efficiency, both electricity and heat should be supplied by the same companies. However, such a combined supply is exceptional and small scale. Since the end of the Second World War, only nine electricity companies have operated in Japan. When economic growth was high, oligopolistic industries emerged, as in the country's 21 big banks and four big investment banks. However, Japanese financial institutions have changed completely since the bubble burst. Globalisation will bring even more transformation to this sector.

In energy and elsewhere, industrial development has traditionally been a catch-up type of developmental capitalism that assumed an over-supply of electricity. But since March 2011, only two of Japan's 54 nuclear power plants are functioning. In the near future, dynamic pricing, smart grid systems and decentralised electricity supply systems equipped with storage batteries will play a very important role, championing the goal of overall optimisation. Such optimisation is also necessary to cope with the challenges that climate change presents.

Japan's central government has been the head and regional governments have been appendages. The events of 2011 revealed a crucial lack of governance. The tsunami destroyed all government functions in the Tohoku coastal areas: the appendages were cut off from the head. The central government could not get accurate information needed to provide the urgently required supplies. However, information was communicated quickly through social networks and distributed to disaster-struck areas by corporations such as Yamato Transport. The private sector almost completely replaced the public sector at a time of emergency.

Fiscal discipline is one of the challenges posed by Japan's ageing society. Usually, fiscal discipline means raising taxes in order to reduce fiscal deficits, but there is an alternative. Once again, weak governance has provided an opportunity for Japan. Customised social services are very important in an ageing society, and could be designed and managed smartly if each citizen is issued an identification number. Individually tailored treatment will be achieved by large-scale data management and smart management of social insurance systems and municipal governments. Such a system will improve the quality of life in Japan's ageing society.

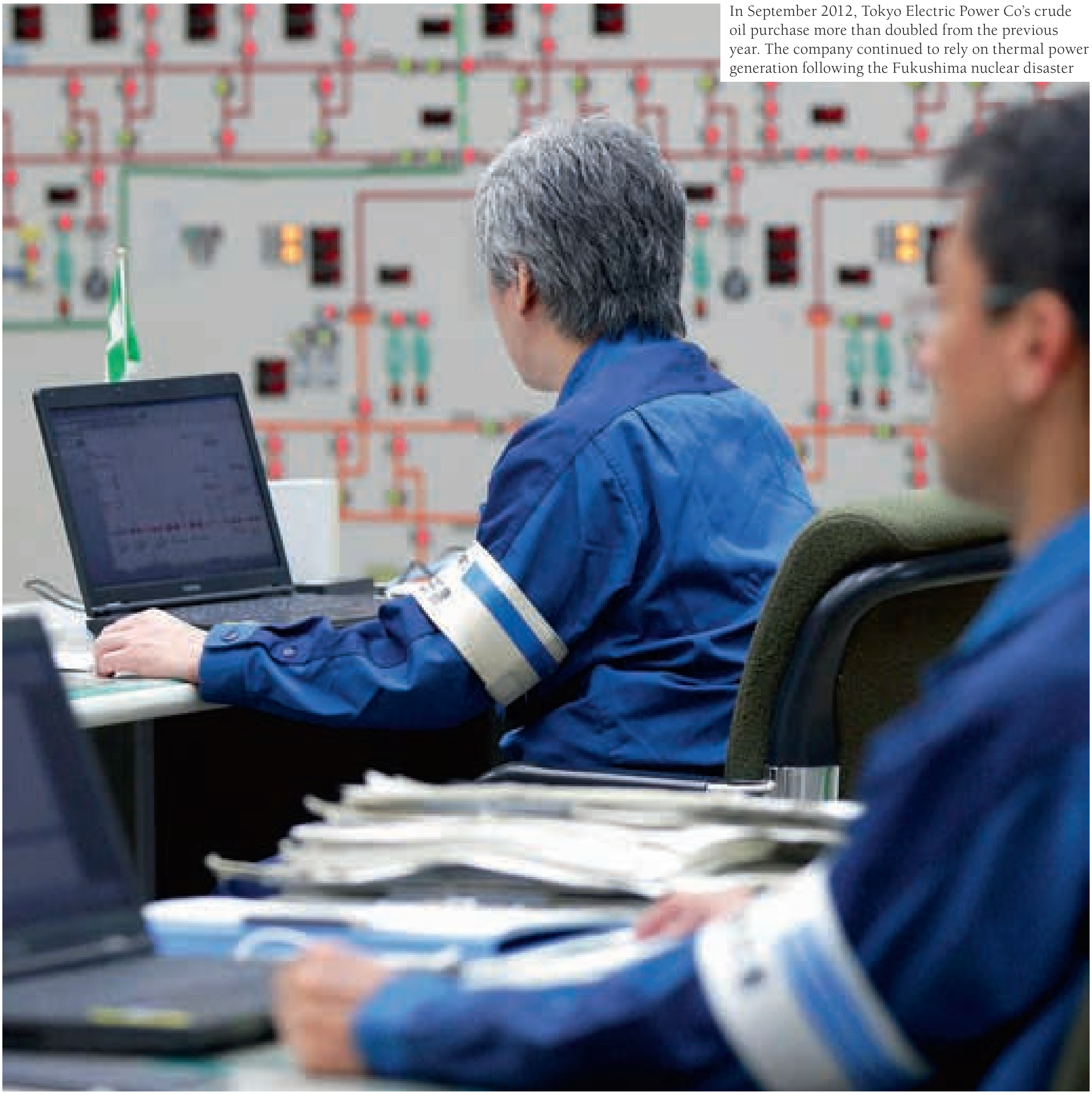
***Fiscal discipline is one of the challenges posed by Japan's ageing society. Usually, fiscal discipline means raising taxes in order to reduce fiscal deficits, but there is an alternative***

Smart management in research and development is also needed, as are smart housing, smart city planning, e-moving, fuel cell vehicles, reproducible energy supply systems and so on. Cloud computing has changed the industrial system. Tokyo Electricity Producing Company supplies electricity to 27 million consumers. An effective smart grid system requires the analysis of huge amounts of data to assess the effects of high consumer demand and supply. The impact of Japan's two lost decades combined with the events of March 2011 will produce innovation in smart management.

Government must also be reformed. Since the Meiji restoration in the 19th century,

The agricultural sector is very important in a liberalised domestic market. Collectivism has traditionally characterised Japan's agricultural system. Here too systems should be tailored, in regard to both subsidies and public expenditures. Consumers demand more affluent foods today compared with 30 years ago, but the agricultural system has not kept up. However, with access to the TPP, new economic methods and entrepreneurial talents will be applied to this sector.

After the Second World War, the main goal of industrial modernisation affected Japan's education and human resources – a trend that has now shifted to neighbouring countries, especially China. However, if Japan's



In September 2012, Tokyo Electric Power Co's crude oil purchase more than doubled from the previous year. The company continued to rely on thermal power generation following the Fukushima nuclear disaster

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companies stick to producing commodities, there will be no smart profits, as was made clear by the collapse of Lehman Brothers in the United States. The new challenges of post-modernisation mean differentiated products and services, as well as differentiated approaches to clients and consumers.

**New approaches to development**

Differentiation is consequently also required for education and human development programmes. New approaches have already been initiated and are starting to produce results, but they are particularly needed in the financial services sector. Today's savings should be allocated with future uncertainty in mind. After the war, there were blueprints and industrial models, and it was the function of banks to convert savings to loans. However, such a function is no longer required. No blueprint or second-hand model is appropriate for today's brand-new situation.

Instead, financial institutions should focus on producing intelligence, even though they paid little attention to knowledge industries in the past. But initial public offerings bring together intelligence and the future allocation of resources. As such, data mining and trial and error will become sources of both intelligence and best practices. Nonetheless, such intelligence is difficult to acquire through industrial modernisation. China, still in the process of industrial modernisation, wants access to such intelligence but relies on cyber espionage to secure it.

Plurilateralisation will become the new type of global institution, as common intentions and orientations will come together to clear new paths. The TPP and Japan-EU economic partnership agreement will become typical and a plurilateral approach will be applied to cyber security. Japan used to be considered an isolated or mercantilist state. But that is in the past. Its recovery from the disasters of March 2011 has produced a new industrial paradigm, and that new paradigm requires the complete liberalisation of Japan. ■

# Small businesses: the key to inclusive, export-led economic growth

## The G8 can help foster the growth of small and medium-sized enterprises, which make a valuable contribution to developing countries' economies

*By* Patricia Francis, executive director, International Trade Centre

The generation of sustainable and inclusive economic growth through exports is a central goal of economic policy in many developing countries. There can, however, be no inclusive growth without successful small businesses, which can turn overall macroeconomic growth into prosperity for the population at large. Yet, today, the concerns of large firms still dominate trade policy considerations in many countries. The integration of small and medium-sized enterprises (SMEs) into global supply chains, which increasingly dominate world trade, needs to become a central policy consideration in the pursuit of wider development goals.

**Obstacles to supply-chain integration**

Developing-country SMEs that have achieved high productivity gains since the start of the financial crisis in 2008 have done so by producing goods and delivering services more quickly, streamlining their workflows or optimising the use of their human resources. Many SMEs now have the capability to participate in global trade. There remain, however, three major obstacles to their integration into supply chains.

The first is low levels of foreign direct investment (FDI). At a time of increased geographical fragmentation and segmentation of supply chains, the emergence of international production networks, and growing trade in intermediate goods, much trade is taking place within the supply chains of transnational corporations (TNCs). SMEs are less likely to be able to export directly, but are often able to supply domestic subsidiaries or subcontractors of major TNCs. Thus the establishment of domestic subsidiaries via FDI increases the chances for SMEs participating in global supply chains. Furthermore, an increasing number of TNCs have policies directed at buying from women and minority-owned businesses. This is important because it fosters equitable access by SMEs to global supply chains. Policy-makers in developing countries need to provide a stable economic environment that is friendly to FDI, while G8 governments need to refrain from adopting policies that discourage the private sector from investing in developing countries.

The second obstacle is lack of trade finance. Entering new markets requires reliable trade finance mechanisms, a particular stumbling block for start-ups and new entrants to global trade. Banks seek collateral, which is often difficult and expensive for SMEs to obtain. The economic and financial crises of recent years have further exacerbated these difficulties. Within the Aid for Trade framework, G8 governments could provide support through creating and strengthening regional development banks and national export-financing banks, as well as through providing lines of credit that would allow them to offer viable financial solutions to SMEs where banks do not.

The third obstacle is barriers to exports. Research suggests that enhancing the capacity of export-oriented SMEs through trade facilitation would increase world trade of manufacturing goods by some $377 billion per year – a growth of about 9.7 per cent. One basic way policy-makers can help SMEs to achieve this goal is by clearing the obstacles that small businesses face as they seek to trade across borders. This is a wider interpretation of trade facilitation: an agenda that goes well beyond traditional concerns with transport costs and border issues to look systematically at the many ways in which policy can save businesses time and money as they move goods across international borders.

Trade facilitation is about much more than what happens at the customs house. It encompasses concerns about non-tariff barriers as well as timely and relevant information on global demand. To integrate into global trade flows, developing countries and transition economies need to concentrate on building business competitiveness supported by a coherent trade policy framework. This includes modernising and streamlining regulatory requirements, harmonising standards and customs regimes, and reforming ports and borders. Setting forth an ambitious private-sector development strategy is another key approach to benefiting from closer trade integration.

Local conditions vary widely across emerging and transition economies, and so do the applicable trade facilitation measures. In Africa, states often face severe capacity constraints in seeking to formulate and monitor a coherent policy framework. But as the middle class expands in emerging markets, demand for higher value-added products and services also expands, creating new opportunities for exporters in developing countries to deepen their technological capabilities to move up the value chain.

***Research suggests that enhancing the capacity of export-oriented SMEs through trade facilitation would increase world trade of manufacturing goods by some $377 billion per year – a growth of about 9.7 per cent***

**The International Trade Centre**

The International Trade Centre, a joint agency of the World Trade Organization (WTO) and the United Nations, has substantial practical expertise in helping countries to design and implement the broad suite of policies needed to make the most of participation in the multilateral trade system, including WTO accession, trade policy formulation, regulatory framework harmonisation, and export strategies and SME development programmes.

In recent years, ITC has supported developing countries including Ethiopia, Lao People's Democratic Republic, Samoa,

REUTERS

A woman in the Philippines sells sandals at a fair organised to support small and medium-sized enterprises, which are essential to the development goals of emerging economies

Vanuatu and Yemen with their WTO accession negotiations. It set out to make the business community aware of the legal, structural and business implications of WTO accession and to help governments embark on a domestic reform agenda to improve the competitiveness of key sectors before acceding to the WTO.

ITC's programme for building Pan-African Capacity for Trade (PACT II) addressed the need to improve regional and intra-regional trade. PACT II has successfully built trade analytical expertise and information systems to promote sector strategies, while creating and enhancing national and regional trade support institutions and identifying new, non-traditional markets for key export sectors.

ITC's Women and Trade Programme has developed the Global Platform for Action on Sourcing from Women Vendors. It is a partnership with TNCs interested in buying from women-owned enterprises. Over the last two years the programme has facilitated sales of more than $20 million from women vendors in developing countries.

Key to all of ITC's trade policy interventions is the public-private dialogue process and the mainstreaming of private-sector participation in the formulation of trade policy. This results in an increased level of mutual trust between the two sectors, and stronger commitment from stakeholders, which in turn leads to longer-term gains.

ITC business advocacy is helping to achieve better coherence between national and regional trade-related policies such as the harmonisation of rules of origin. It has also crafted several stakeholder-led sector development strategies to prioritise projects to improve the performance of micro, small and medium enterprises in the leather, textiles and garments, and agro-processing subsectors to add value and move up the value chain.

Helping SMEs participate in global trade flows will remain a key element in allowing countries to reap the development potential of WTO accession. ITC's trade facilitation agenda takes a comprehensive approach to the problem, targeting each aspect of it with specific programmes that will help national policy-makers to create an enabling environment for SME formation and growth.

G8 leaders should push for all the reforms and policy goals summarised above: trade facilitation and FDI-friendly policies in developing countries, coupled with incentivising the private sector in their own countries to invest in the developing world, particularly in areas outside of the extractive industries. Many of the measures proposed, from trade finance to trade facilitation, will cost money to implement, but these are areas where there is a proven impact on development. Developed countries should not waver in their commitment to Aid for Trade, even in the current economic environment.

Governments in developed and developing countries, TNCs and business associations including those targeting women, bilateral and multilateral agencies all need to work together to achieve higher SME participation in global supply chains, leading to sustainable and inclusive export growth. ■

# Fostering international investment

## Balancing the needs of international investors and their host economies is vital if foreign direct investment is to result in strong, sustainable growth

*By* Supachai Panitchpakdi, secretary-general, United Nations Conference on Trade and Development

Despite an estimated 18 per cent drop in global foreign direct investment (FDI) in 2012, it remains the largest international capital flow, far outstripping remittances and official development assistance. Moreover, in 2012, for the first time, developing countries accounted for more than 50 per cent of total inflows. FDI is therefore a hugely important source of development capital in these countries.

FDI tends to be more stable than portfolio flows, as investors typically seek a lasting and often a controlling interest in their acquisitions. In the case of greenfield investments, which account for most global FDI, traditional direct investors such as transnational corporations (TNCs) generally make long-term commitments to the country in which they are investing through establishing new firms and operations there.

In addition to traditional investors, new global players – including state-owned enterprises and fund investors such as private equity funds and sovereign wealth funds – have been seeking to internationalise their activities. While these new players generally favour mergers and acquisitions over greenfield investments, their investment horizons are nevertheless long term and akin to those of traditional investors.

FDI, however, is more than just capital flows funding the development of key economic sectors and creating jobs; it also offers several valuable spillovers and possible linkages with the domestic economy. The arrival of a global company, via the takeover of a local firm or a greenfield investment, opens local companies up to possible access to international markets through the TNC's global value chains. Additionally, direct investment by a TNC can boost competitiveness in the local marketplace, as well as bring new technology and capital equipment, skills and knowledge with the possibility for training and upgrading. FDI thus creates the potential for economic spillovers in the host economy, which may lead to new productive capacities, and thereby to the long-term growth and development of the host economy. These benefits are not automatic, however, and the environmental and social sustainability of FDI inflows depends on the domestic and international policy environment and the TNCs' conduct.

### Reaping the rewards of FDI

Currently, countries face the challenge of re-establishing the rate of FDI seen before the global economic crisis. The international community must coordinate its policy efforts, both domestically and internationally, to unlock the enormous cash reserves that TNCs are sitting on – estimated to be in the region of $5 trillion. The FDI potential of sovereign wealth funds and state-owned enterprises is large. Recent policy developments confirm

***The international community must coordinate its policy efforts, both domestically and internationally, to unlock the enormous cash reserves that transnational corporations are sitting on***

the great importance that countries give to attracting FDI. Investment liberalisation and promotion remain dominant features of FDI policies, but at the same time there has been a move towards more regulatory or restrictive investment policies. This is reflected in adjustments to FDI entry policies and greater state influence in strategic industries. The trend is part of a wider recognition that liberalisation policies must be accompanied by proper regulatory and institutional frameworks to ensure more sustainable outcomes. Policymakers therefore face a tension between having to attract FDI and offer incentives and protections to investors on the one hand, while on the other applying regulations and policies to address the needs of the host economy, taking into account social, environmental and other factors. Balancing these two objectives can sometimes be far from easy. Nevertheless, there has been an increase in more sustainable and inclusive investment policymaking, supported by the international community and often by investors themselves.

Settling on policies, such as environmental and labour protection and establishing appropriate levels of taxation are delicate affairs not only at the national level but also when negotiating international investment agreements. At the international level, governments in both host and home economies face additional challenges in balancing the protections and incentives afforded to investors with the prerogatives of host governments, and in addressing the thorny issue of international investment dispute settlement, which is sometimes seen as unfairly weighted in favour of TNCs.

Discontent is growing with international investment agreements and their associated system of investor-state dispute settlement, and there are already some signs of disintegration. For example, Bolivia, Ecuador and Venezuela have renounced their membership in the International Centre for Settlement of Investment Disputes. Australia no longer includes investor-state dispute settlement provisions in its international investment agreements. South Africa and Ecuador have decided to review their bilateral investment treaties with a view to renegotiating them or terminating them.

Countries that have already accumulated a significant stock of foreign investment face the challenge of diversifying and moving into higher-value activities, and of ensuring that investors adopt a more inclusive and sustainable approach. Sometimes TNCs themselves can be at the vanguard of these efforts, bringing with them corporate governance practices and strong internal social and environmental policies – another example of spillover. However, this is not true of all companies, nor is it expected by all governments. The international community is likely to face challenges in changing investor practices in some industries.

The international community, including the G8, has been working hard to address these challenges. The United Nations


REUTERS

India formally opened its supermarkets to foreign direct investment in 2012, a reform aimed at promoting growth and preventing a credit rating downgrade

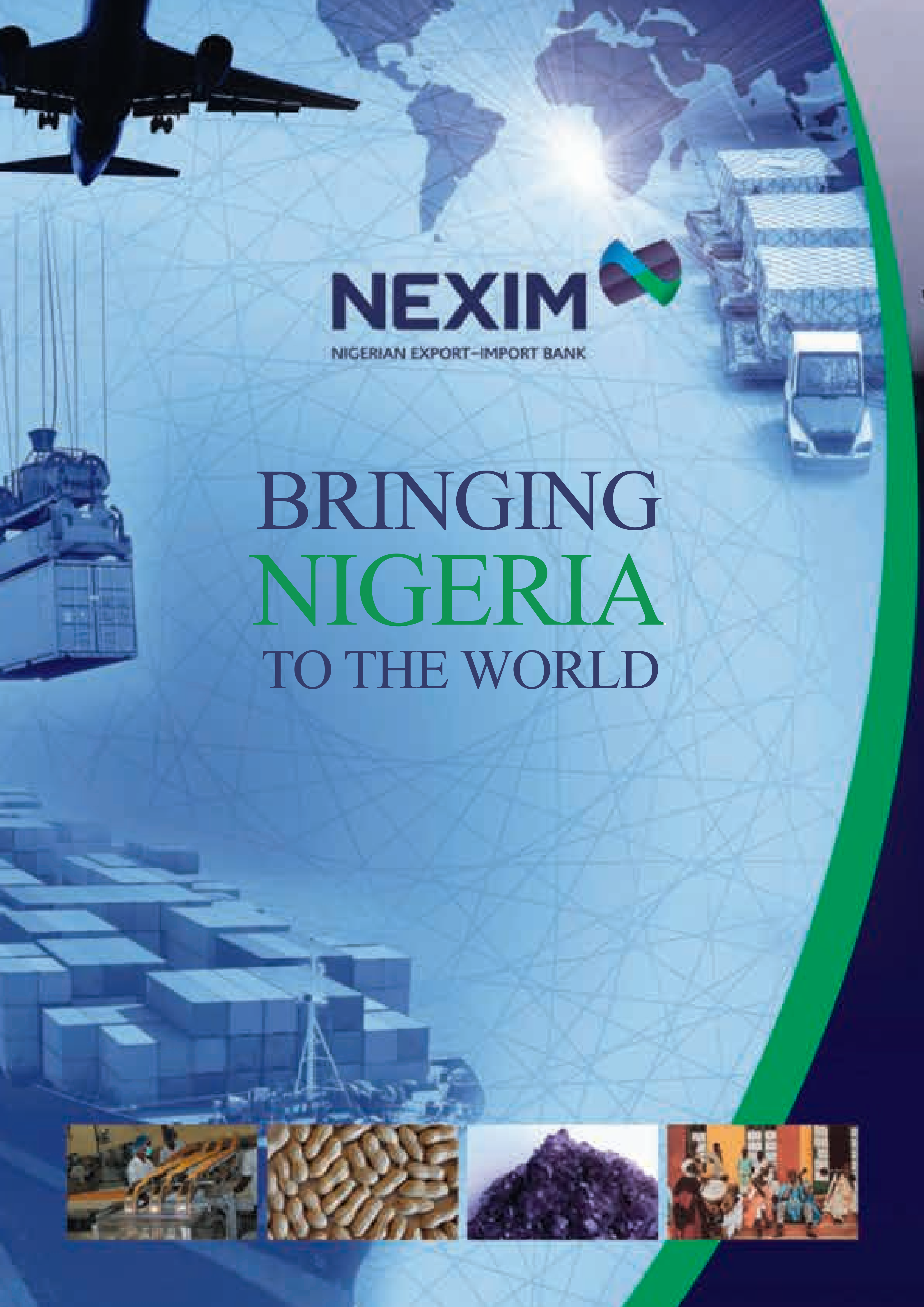
Conference on Trade and Development (UNCTAD) is the focal point within the UN system for investment-related issues. It has been at the forefront of efforts both to facilitate international investment and to promote FDI policies aimed at encouraging long-term, sustainable and inclusive growth.

UNCTAD works in the area of investment promotion with governments and the private sector to create a business-friendly investment climate in developing countries. Examples include implementing regulatory changes and streamlining procedures for establishing a business, supporting investment promotion agencies and publishing investment guides, as well as encouraging enterprise development and building linkages between local small and medium-sized enterprises and TNCs.

UNCTAD provides national reviews of the investment policy regime in developing countries, in addition to support at the international level for building the countries' capacity to negotiate investment treaties. It has also been instrumental in promoting the sustainable and inclusive investment agenda by developing the Investment Policy Framework for Sustainable Development. This is designed to provide policymakers with a comprehensive reference point when formulating national and international investment policies to foster inclusive growth and sustainable development. In addition, UNCTAD is working with the private sector in the areas of corporate social responsibility and sustainable stock exchanges.

An active member of the international community seeking to resolve global investment challenges, UNCTAD also supports processes such as the G8 and G20. The work carried out by UNCTAD together with the Food and Agriculture Organization, the International Fund for Agricultural Development and the World Bank on the Principles for Responsible Agricultural Investment is helping to shape future investment policy, as is its partnership with other agencies on measuring FDI's impact on employment and added value. In addition, the efforts to monitor investment protectionism that were undertaken by UNCTAD with the Organisation for Economic Co-operation and Development have given governments and the international community a clearer picture of the international investment landscape.

The G8 is well placed to promote both increased investment flows and a sustainable and inclusive investment agenda, working with the wider international community. In particular, the G8 could lend its support to ongoing efforts at the multilateral level, such as the Investment Policy Framework for Sustainable Development, as well as UNCTAD's World Investment Forum, which is the largest global forum on international investment for sustainable development. The G8 countries may also wish to consider standards and best practices to build consensus on sustainable and balanced investment policies. This could include seeking greater balance between protection of investors and protection of host countries. Finally, the G8 could send an important message to support the investment climate. Global FDI needs a boost after last year's decline. The actions outlined here are just a few ways in which the G8 could support efforts to promote FDI and make it work for strong, sustainable and balanced growth. ■


NEXIM
NIGERIAN EXPORT-IMPORT BANK
BRINGING
NIGERIA
TO THE WORLD

## NIGERIAN EXPORT-IMPORT BANK

### MANDATE

The Nigerian Export–Import Bank was established by Act 38 of 1991 as an Export Credit Agency with the broad mandate to promoting the diversification of the Nigerian economy and deepening the external sector, through the provision of the following services in support of non-oil exports:

- Credit Facilities in both local and foreign currencies
- Risk-bearing Facilities – (Export Credit Guarantee & Export Credit Insurance)
- Business Development and Financial Advisory Services
- Attracting Foreign Investment Capital through
  - availment of concessional lines of credit/co-financing arrangements
  - Facilitation of buyers'/suppliers' credit towards the adoption and acquisition of new and clean technologies, access to patents/intellectual properties, etc.
- Trade & Market Information Services

The Bank is jointly owned in equal proportions by the Central Bank of Nigeria and the Federal Ministry of Finance Incorporated.

### STRATEGIC OBJECTIVES/PRODUCTS

In pursuit of its general mandate to promote export diversification and deepening the value-added non-oil exports, the Bank's current strategic initiatives are targeted towards sectors with high employment and export generation potentials, such as the Manufacturing, Agro-processing, Solid Minerals and Services (Tourism, Transportation and Entertainment).

These are achieved through the provision of the following key financial products such as:

**Rediscounting and Refinancing Facility** - An interbank discount window designed to assist commercial banks provide short-term finance in local currency at preferential rates in support of exports.

**Foreign Input Facility** - Designed to grant short, medium and long-term fixed rate loans in foreign currency, to participating banks on behalf of their export clients.

**Direct Lending Facility** - Designed to grant short, medium and long-term fixed rate loans, to exporters directly and/or under co-financing/syndication arrangement with eligible banks to assist exporters complete their export sales.

**Stocking Facility** - Designed specifically to assist manufacturing exporters to have adequate working capital to stock local raw materials that are mainly seasonal in nature to achieve optimum level of production all year round.

**Export Credit Guarantee Facility** - This provides cover to financial institutions/suppliers against risk of payment default on facilities availed by exporters.

**Export Credit Insurance Facility** - Designed to protect exporters against commercial and political risk associated with export business.

**Ecowas Trade Support Facility** - This Facility is designed to formalise trade, deepen the payment system, improve the flow of trade from Nigeria to the sub-region and enhance price competitiveness. It is made available in local and foreign currency to provide short-term financial accommodation to traders in support of exports to the West African region.

### CONTRIBUTION TO GOVERNMENT'S TRANSFORMATION AGENDA

The Bank also undertakes other developmental initiatives in support of Government's Trade policy such as:

### THE REGIONAL SEALINK PROJECT:

To increase the non-oil trade flows and deepen the regional integration process, the Nigerian Export-Import Bank in collaboration with the Federation of West African Chamber of Commerce and Industry (FEWACCI) has produced a Technical/Feasibility report on the need to establish an efficient maritime transportation system for the movement of persons, goods and services within the West and Central African sub-region (WCA) in order to reduce the prevailing high transport, freighting and logistics costs.

The Sealink initiative is being implemented as a Public-Private Partnership project which would culminate in the establishment of a regional maritime company to be owned and operated by the private sector.

### FUNDING INTERVENTIONS TO THE CREATIVE ARTS & ENTERTAINMENT INDUSTRY LOAN SCHEME (NECEILS):

In line with the Federal Government policy initiative to provide financial intervention to the Creative and Entertainment Industry, the Bank developed The Operating Guideline in collaboration with key industry stakeholders to facilitate access to funding towards the sustainable development of the Creative Arts and Entertainment Sector.

The Bank's role in enhancing this initiative is essentially to provide funding intervention to eligible beneficiary projects that meet its eligibility criteria and support for capacity building.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# Time to start negotiations on a multilateral investment agreement

**A multilateral investment agreement within the World Trade Organization is looking not only more important than ever, but also more likely to succeed**

*By* Anders Åslund and Gary Clyde Hufbauer, senior fellows, Peterson Institute for International Economics

The need for a multilateral investment agreement (MIA) is becoming greater by the day. Fortunately, the possibilities of concluding such an agreement are rising at a similar speed. It should be a priority of both the G8 and the G20 this year, and negotiated as a plurilateral agreement within the World Trade Organization (WTO).

After the near demise of the Doha Round of the WTO, alternative major trade negotiations are gaining momentum. They tend to be regional or plurilateral, since the universal multilateral road has been blocked. At present, Washington is involved in four major trade negotiations, which is quite an achievement after a presidential term during which the US administration only managed to get three bilateral free trade agreements ratified. These four trade negotiations are the Transatlantic Trade and Investment Partnership, the Transpacific Partnership, the International Services Agreement and the Information Technology Agreement. The two first are regional, while the two latter are plurilateral within the WTO. The current setting makes it obvious that the right place for an MIA would be the WTO.

### Why an MIA is necessary

There are four major reasons to opt for an MIA today. First, foreign direct investment (FDI) needs to be significant and it is, having risen steadily over the past two decades. According to the United Nations Conference on Trade and Development (UNCTAD), total global FDI was as low as $27 billion in 1982. It took off in the second half of the 1980s and quadrupled in the 1990s, the decade when FDI really became significant. It peaked at $2.2 trillion in 2007 and is now rising again. FDI has grown so substantial that it is a self-evident candidate for an international agreement. FDI is the most important international activity that is not subject to international regulation or protection.

Second, the old problem was that FDI was not a two-way stream like it is now. It is no longer a question of transnational corporations (TNCs) from developed economies demanding rights in emerging market economies. At present, substantial FDI is flowing in both directions, from developed to developing countries and vice versa. In 2010, FDI to developed and developing economies was actually balanced. Transition countries have also entered the picture, and they are contributing to equivalence as well. For example, accumulated FDI between Russia and the United States is almost equally large. Therefore, developed and emerging market economies now have similar interests. Moreover, today TNCs come from all parts of the world, and many in emerging market economies have become world leaders.

Third, the huge number of bilateral and regional investment treaties proves the need for an international standardised set of rules relating to FDI. At the end of 2011, 181 countries had concluded 3,164 international investment agreements. Of these, 2,833 were bilateral investment treaties and 331 were other international investment agreements, most of which were free trade agreements containing FDI regulation. This means that the average country has more than 35 international investment agreements. The bilateral treaties vary somewhat in the extent of their coverage and means of conflict resolution, but the variations are limited.

Fourth, the number of investment treaties is currently declining. The reason for this decrease is not that there are fewer relations being covered by investment treaties, but that there is an agglomeration. Countries are quickly moving from bilateral to regional treaties. Moreover, free trade agreements increasingly include investment protection.

### The future of free trade agreements

Therefore, in recent years, UNCTAD has recorded a slower growth in the number of bilateral investment treaties. The reason for this is not that the need has been exhausted but that more free trade agreements now contain investment protection and many agreements include several countries.

A big change is that after the European Union Treaty of Lisbon came into force in December 2009, the European Commission is responsible not only for trade negotiations but also for investment negotiations, which until then had been handled bilaterally by the European Union's 27 members. This means that common EU treaties will replace many bilateral investment treaties between individual EU countries. Thus, the coverage of investment protection is likely to spread, whereas the number of agreements is likely to decline. In the light of this development towards broader regionalisation, the argument for a broad multilateral order appears even more persuasive. Given the current negotiations of the International Services Agreement, and the Information Technology Agreement within the WTO, it would be natural to add an MIA to them.

Another development has also amplified the need for an MIA, namely the expansion of state capitalism and sovereign wealth funds. A new form of state capitalism has

***At present, Washington is involved in four major trade negotiations, which is quite an achievement after a presidential term during which the US administration only managed to get three bilateral free trade agreements ratified***

International free trade agreements will result in larger amounts of US grain being exported to Korea, Colombia and Panama

ZUMA PRESS INC/ALAMY

arisen, especially in China and Russia, with state companies and sovereign wealth funds wanting to invest abroad but being looked upon with suspicion. A large number of countries have set up such funds. Countries that are recipients of these state funds are interested in more foreign investment, but they also encounter questions from their people about the transparency and objectives of these funds. These problems are actually an important reason why an MIA is needed to mediate the interests of state investors and national security worries in the recipient countries. The purpose is truly mutual. Both the investing and the receiving countries wish to have clear rules in place.

Fortuitously, Russia is currently the chair of the G20. Few topics appear closer to its heart than to regulate and protect FDI both by private and public bodies. Moreover, this is one topic on which the West has wide common interests with Russia and China. Therefore, the G8 should put the topic of an MIA high on its agenda, along with the G20 this year. More international investment and more security for that investment is needed by all. The obvious solution is the formation of a plurilateral MIA within the WTO. In order for that to come about, both the G8 and the G20 need to spur it forward. ■

# Facilitating increased global travel and trade, efficiently and securely

## The International Civil Aviation Organization's role in continuing to allow sustainable, safe and secure air transport is more important than ever

*By* Raymond Benjamin, secretary general, International Civil Aviation Organization

One of the most fundamental drivers of economic and social prosperity, the global air transport network, has doubled in size approximately once every 15 years since the mid-1970s, and it is forecast to do so once again by the year 2030.

This means that the 30 million flights that now operate globally each year – the equivalent of over 80,000 a day – will grow to 60 million. Moreover, these aircraft will carry one billion passengers by the end of this next growth cycle, equivalent to about 85 per cent of the world's current population.

These expanding contributions to global mobility and trade underscore the importance of setting in place sustainable economic, safety and security frameworks in order to optimise the movement of people and goods in a manner that will deliver benefits to all states and regions in the world. They also highlight why the role of the International Civil Aviation Organization (ICAO) is more important now than it has ever been.

### Understanding air transport's critical contributions

The benefits of air transport are considerable and are generally fairly well understood. But they also bear repeating in light of their significance to global prosperity.

To begin with, aviation is the fastest mode of transportation at people's disposal. It therefore fills an essential role in a global trade environment increasingly characterised by same-day or next-day expectations on behalf of consumers and businesses alike.

Economic and social development is an additional benefit of air transport. Last year, more than one billion tourists crossed international borders, more than half of them by air, bringing with them essential economic activity that forms the lifeblood of many regions, states and municipalities. Aviation currently generates some 50 million jobs directly and indirectly worldwide, supporting more than $2 trillion in economic activity while providing essential access to critical markets for both emerging and established economies. And in terms of annual freight contributions, the total value of goods transported by air today represents 35 per cent of all international trade.

This tremendous power of air transport as an enabler of economic activity presupposes several conditions. First and foremost, air transport must be safe and secure in order to be considered viable. Second, air carriers must be granted access to routes that are established between states on a reciprocal basis through bilateral air services agreements, which often require complex negotiation and implementation.

***Air transport cannot be overburdened with taxes, especially when used to pad revenues or fund programmes not related to aviation***

Third, air transport cannot be overburdened with taxes and charges, especially when those are used to pad general revenues or fund programmes not related to aviation. Doing so prevents air transport from being able to provide the more substantial and enduring employment and tax-base contributions that states pursuing low-tax, low-charge approaches now benefit from.

Given that profit margins for most airlines are at notoriously low levels and airport profitability depends almost exclusively on non-aeronautical revenues, any unnecessary impact on operators' bottom lines can be devastating not only to their own viability, but also to the prosperity of the businesses and communities they service.

With the airline industry repeatedly calling for greater commercial freedom to respond to a changing market environment and, in some cases, considering replacing the prevailing bilateral system, ICAO has initiated an in-depth rethinking of the entire international air transport regulatory framework.

### Addressing the regulatory framework

ICAO's retooling in the economic domain began in earnest with the economic development of air transport being identified as a new and separate strategic objective for the organisation for the 2014-16 triennium. This initiative culminated in the recently concluded Sixth Worldwide Air Transport Conference, which was held at ICAO's headquarters in March 2013.

The recommendations that were agreed at this event address some of the key impediments to the sustainable development of air transport. The conference asked ICAO to develop international agreements to liberalise market access and cargo services, directed it to better inform member states about the negative impact of excessive taxes and charges on such development, and suggested that all of its members should take more extensive measures aimed at improving their air transport connectivity.

ICAO is already working towards these goals, in part by strengthening its collaborative ties with fellow agencies of the United Nations. It was with these goals in mind that ICAO formalised an agreement with the World Tourism Organization (UNWTO) in early 2013, a move that will help both organisations do a more effective job on the development of internationally recognised principles intended to protect both passengers and tourists. Further UNWTO cooperation will assist with implementing connectivity-enhancing measures in the areas of visas and other travel documents, as well as with optimising passenger flow management at airports and a number of other initiatives.

A similar agreement designed to enhance collaboration and improve coordination was formalised between ICAO and the World Customs Organization (WCO) in mid-2011. This arrangement focuses on the issue of air


More than 30 million flights are operated globally each year, and this figure is set to double by the year 2030

EYEBYTE/ALAMY

cargo security. It is allowing the organisations to minimise or eliminate duplication in related procedures and requirements. These measures help to reduce the financial burden associated with providing aviation security and to streamline processes that might otherwise inhibit the flow of goods.

These common ICAO/WCO air cargo objectives highlight why security and facilitation have also been formalised among ICAO's key strategic goals for the next triennium. At the 2012 ICAO High-Level Conference on Aviation Security, ministers and other officials representing many members urged greater attention to the relationship between aviation security and passenger satisfaction. They also stressed that cost-benefit aspects be of paramount importance where any new security and facilitation solutions are concerned.

These recommendations must be respected if ICAO's future aviation security responses are to be suitably accessible and sustainable. Fortunately, many of the tools and procedures needed to realise these targets are already at hand. ICAO is now recommending that security and customs services work more closely with law enforcement stakeholders to develop data-sharing and risk-based approaches that better prioritise who gets screened, and why. This allows these agencies to make the best possible use of their resources while facilitating the flow of people and goods to the maximum degree possible.

These and many other objectives are now being pursued in conjunction with ICAO's ongoing efforts to address the modern security environment, which is characterised by constantly evolving threats, a clear need for greater and more comprehensive international cooperation and assistance, and an ever-greater reliance on technology and the analysis of data as core aspects of our contemporary aviation security solutions.

## The role of G8 member countries

The G8 states are all members of ICAO and of its governing executive body, the ICAO Council. During the upcoming assembly in September/October 2013, the 191 states comprising ICAO's full membership will be asked to support the activities and objectives summarised above. By supporting the move towards a safer, more secure, environmentally friendly and economically sustainable air transport sector, G8 members can play a critical role in ensuring the continued and orderly modernisation of air transport – a sine qua non for improved social and economic prosperity around the world. ■

# Tax, trade and transparency

## The challenge for the G8 in considering the tax regime for international trade

The G8 has a clear role to play in addressing concerns over how tax regimes interact internationally. The summit provides a great opportunity for considering a different environment, one that provides clarity to businesses over the taxes they should expect to pay yet still fosters an environment conducive to international trade.

While much of the discussion around tax, trade and transparency revolves around whether companies are paying their "fair share" of tax in the countries in which they operate, the conversation at the supranational level is focused on how countries' tax laws can best catch up to how companies currently do business. Modernizing tax regimes that stakeholders consider fair is a real challenge for governments and will require a much higher degree of international cooperation in the future. Clear and effective legislation will be needed, as will the involvement of business in helping to ensure that such legislation is practical. Given the international dimension inherent in this question, the G8 is a natural forum in which to host this debate. The broader G20 initiative on Tax Information Exchange Agreements has shown what can be achieved when governments work together to deliver change.

### Confidence in the tax system

Determining taxes is a key responsibility of governments, including making sure that the burden is spread fairly between different taxpayers. Public confidence in the fairness of a tax system is critical if countries are to receive the vast majority of their revenues without active intervention from the tax authorities. It is, therefore, right that the merits of an existing tax system are regularly reviewed and, if appropriate, the system is adjusted to adapt to the new environment.

**Modernizing tax regimes that stakeholders consider fair is a real challenge for governments and will require a much higher degree of international cooperation**

Looking at the tax treatment of business used to be simple, with comparisons made wholly within one country. However, businesses have expanded rapidly over the past 20 years to grasp the opportunities of cross-border trade. This move to global trade has meant that the traditional approach adopted for taxing domestic companies has become increasingly difficult when applied to international business models. It is important that tax rules apply appropriately to all business models.

### Tax regimes in an interconnected world

Countries that are keen to attract investment need to make sure that the tax environment avoids the use of unwarranted deterrents and provides the right kind of incentives for sustainable activities. Multinational businesses have the opportunity to invest in many countries and will naturally compare the returns that they can receive across their portfolio of opportunities. Tax regimes influence decisions about investment and trade.

One deterrent is the peril of double taxation (i.e., where the same activities of a taxpayer operating cross border are taxed in each of the two countries where it operates). Faced with this threat to international trade, countries continue to cooperate to reduce the risk of double taxation. This cooperation includes the ongoing development of double tax treaties and, more recently, further shifts toward territorial taxation, whereby profits are taxed only in the country where they arise.

On the incentive side, tax competition between governments is fierce. We have seen countries creating a complex series of grants and incentives to make locations competitive and attract the maximum amount of investment. Tax incentives can be numerous and varied, ranging from tax holidays to enhanced tax deductions.

So a natural feature and therefore a real challenge of the connected world is

an environment of different tax systems, each with its own incentives, designed by policymakers with different objectives yet limited recognition that some of their policies could have unintended consequences, both for governments and taxpayers.

## Tackling abuses – the new challenge of demonstrating fairness

The world's new interconnected nature has not removed the need for governments to demonstrate that their tax regime is fair — indeed, it could be argued that it has increased that need. However, it has also made it far harder to demonstrate the case.

For governments, fairness will require demonstrating that their tax regime is robust against abuse and ensuring that the tax authorities have the tools they need to tackle aggressive behavior. Care needs to be taken in deploying those tools to make sure that the outcomes are commensurate and focused on the unwanted behavior instead of affecting other taxpayers. For example, businesses should not be castigated for claiming legitimate incentives offered to them or for investing in locations that choose to impose low tax burdens.

But governments are not alone in facing this issue. In this new environment, companies are expected to operate transparently and show that they are complying fully with the tax laws in each country where they operate. This need goes beyond engaging with the tax authorities, which is a core part of their responsibilities; it now also encompasses engaging with a wider stakeholder group.

## The role of the G8 and business

Tax competition is a natural outcome of an interconnected world. It should be accepted, with sufficient protections to avoid abuse. As set out above, the G8 has a clear role to play in addressing the concern over how tax regimes interact internationally.

A government will need to cooperate, enact clear laws and involve business in developing the new environment if it is to promote cross-border activity. The work of the Organisation for Economic Cooperation and Development (OECD) in this area, in considering changes to how cross-border activity is taxed, should be supported. The OECD needs sufficient time to deliver realistic proposals that will stand the test of time.

Finally, to reinforce confidence in the tax system, companies need to do a better job articulating the many different kinds of taxes they pay to emphasize their economic and revenue contributions in all countries in which they operate. With the move to an interconnected world, the need to maintain confidence in the tax system is a responsibility shared by both government and business. Businesses must be able to tell their own story, demonstrating the value of international trade and the contributions they make to the countries in which they operate.

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# Generating sustainable global growth: an OECD perspective on the G8

## Clear policy action is needed in order to counter the slow recovery rate of the world economy and foster the conditions for an upside growth scenario

*By* Angel Gurría, secretary general, Organisation for Economic Co-operation and Development

The world economy is at a difficult and uncertain juncture, the recovery extremely fragile. If so-called 'tail risks' have receded, notably in the United States and the euro area, the speed of recovery is much slower than in past episodes of crisis.

New risks are currently emerging in the financial sphere: global financial markets are showing worrying signs of renewed exuberance that is increasingly out of line with fundamentals. High, persistent and – in some countries of the euro area – even rising unemployment, including high youth joblessness, is bringing about a dangerous mix of high structural long-term unemployment (about 50 per cent of total unemployment in the euro area), social tension and reform fatigue. This explosive social 'cocktail' is compounded by ever-rising inequalities. Furthermore, multilateral trade negotiations are at a stalemate and global trade is recovering only slowly.

In this context, clear policy action is needed to ensure the conditions for an upside growth scenario. The United Kingdom presidency of the G8 has presented its priorities. These feature open economies, open governments and open societies to be achieved through the so-called 'three-T' priorities, trade expansion and liberalisation, greater tax compliance and strengthened government transparency. At the Organisation for Economic Co-operation and Development (OECD), we are confident that this agenda can bring about significant steps forward to re-ignite global growth, complementing the work currently undertaken by the G20. This is the reason why we have actively given it our support.

First, with respect to global trade, the OECD is pursuing its work on trade facilitation and estimating the impact of addressing specific hurdles in the trade and border procedures of a given country. Eliminating unnecessary border bottlenecks (such as inefficient customs procedures) can yield very high benefits at relatively low costs, particularly for developing countries. New analysis by the OECD suggests that trade facilitation measures under negotiation at the World Trade Organization (WTO) have the potential to reduce trade costs by as much as 15 per cent for developing countries and 10 per cent for advanced economies. Policy areas such as the availability of trade-related information, the simplification and harmonisation of documents, the streamlining of procedures

***Eliminating unnecessary border bottlenecks can yield very high benefits at relatively low costs, particularly for developing countries***

and the use of automated processes seem to have the greatest impact on trade volumes and trade costs, not only for imports but also export performance. The G8 could build on this work to add to governments' motivation to reach a trade facilitation agreement at the ninth WTO Ministerial Conference in Bali next December.

**Protecting tax revenues**

Second, it is extremely important to promote tax transparency and to fight against tax evasion. This is not only a moral imperative and a matter of tax fairness at times of social hardship. It is also critical to protect much-

A cityscape of Cairo, Egpyt. The G8 is assisting in the transition towards democratic and stable societies in the Middle East and North Africa region through the Deauville Partnership

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# Fighting tax evasion – the Foreign Account Tax Compliance Act

**Mariano Giralt, Managing Director, Head of EMEA Tax Services**

**Lorraine White, Managing Director, Head of EMEA Securities Tax & US Tax Services**

Following a number of major tax evasion scandals, governments worldwide are taking actions to step up the fight to combat tax evasion.

In March 2010, the United States (US) enacted into law the Hiring Incentives to Restore Employment Act (HIRE), a component of which is the Foreign Account Tax Compliance Act (FATCA).

FATCA includes measures to reduce perceived tax evasion by US individuals who hold financial accounts outside the US.

Effective from 1 January 2013, with its provisions phased in over the next few years, FATCA requires foreign institutions – ie non-US financial institutions (FFIs) and non-financial foreign entities (NFFEs) – to identify and report to the US Tax Authorities 'IRS' financial accounts held by US persons.

FFIs or NFFEs that failed to comply would suffer a 30% penalty withholding tax on all their investments in the US, including US-sourced income and gross proceeds.

With the US the destination for much of the world's investments, these measures sent shockwaves throughout the financial sector. An unprecedented number of comments were submitted to the US authorities, appealing for a balanced approach to implementation and, importantly, sensitivity to the data privacy laws of other countries.

The US, realising solutions were needed, collaborated with other countries to develop a mutually acceptable approach. Initially, the governments of the United Kingdom, France, Germany, Spain and Italy worked with the US to develop a so-called model Intergovernmental Agreement (IGA). Key to the IGA is the exchange of taxpayer information between the US and the FATCA treaty partner.

Many governments have recognised the need to support the financial sector in respect of compliance with FATCA and recognise the potential benefits to them as they receive additional information on the offshore assets held by their citizens. It is therefore expected that many more governments will sign an IGA with the US.

## Cross-border information gathering and exchange of information is the reality of the global financial markets

International legislation to combat tax evasion is not new; since 2005, financial institutions in European Union (EU) member states have been following the EU Savings Directive (EUSD). The EUSD requires the reporting or withholding on interest payments earned by EU residents holding accounts with an EU financial institution. With the recent publication of the EU Commission plans to fight tax evasion, it is clear that laws to tackle tax evasion will continue to evolve.

This year, the UK takes on the G8 presidency. In his letter to the G8 leaders, UK Prime Minister David Cameron outlines the need to strengthen international tax standards and the exchange of tax information – an acknowledgement that in a globalised world, no country can effectively tackle tax evasion and aggressive avoidance alone. The question remains, however, how governments can effectively tackle cross-border tax evasion in a more financially integrated world.

Opportunities do exist. For example, since 2006 the Organisation for Economic Cooperation and Development (OECD) has facilitated discussions between major financial institutions and governments on a project to improve cross-border tax relief procedures, known as the Treaty Relief and Compliance Enhancement (TRACE) project. A central feature of TRACE includes the reporting and subsequent exchange of information between financial intermediaries and governments.

Governments signing IGAs are contemplating the use of the reporting solutions outlined in TRACE.

BNY Mellon, consistent with our peers, supports the core tax compliance objectives of FATCA. Cross-border information gathering and exchange of information is the reality of the global financial markets, where we play a vital role as tax intermediaries. As a leading provider of financial services with operations located in multiple jurisdictions worldwide, we remain concerned that without the development of a common framework for reporting and due diligence, financial institutions will be faced with the complex task of interpreting different legislation and local country guidance.

Helpfully this sentiment has been echoed by the OECD's own Pascal Saint-Amans, director of its centre for Tax Policy and Administration, and is also reflected in the IGA.

The G8 provides an important springboard for action. Coordination is vital and we welcome the opportunity to cooperate with governments to help develop and implement a truly global tax compliance regime.

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A textile worker in Dhaka, Bangladesh. The OECD is confident that the Lough Erne agenda can bring about steps towards global growth

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needed tax revenues in a context of stringent fiscal consolidation. Recent developments are encouraging in this respect. We are observing an increase in the number of enhanced automatic exchange agreements concluded worldwide, and a growing consensus among countries to make automatic exchange of tax information the new global standard. This is an opportunity for the G8 to lead by example and implement automatic exchange of information among its members. In this respect, the OECD is currently working on a report for the G8 on a common reporting standard, the legal basis for the exchange of information, and the platform to actually exchange it.

### Restoring confidence

Because of the crisis, citizens have also lost confidence in institutions, both public and private. It is critical to restore it and to allow citizens to work for prosperity. Hence, the UK presidency's emphasis on openness and accountability is all the more relevant. Open government policies have proved to be an extremely efficient tool in that respect. They aim at making governments transparent and exposed to public scrutiny, accessible to anyone, anytime, anywhere. The Open Government Partnership is a major initiative in this field.

Transparency is a pivotal issue in advanced economies faced with the economic, social and political consequences of the crisis, but it is also a critical requirement in developing countries. Prime Minister David Cameron rightly pointed to a "golden thread" of essential conditions to achieve growth and prosperity in countries across the world. One is to ensure that funds are actually used for their intended objectives, and corruption and money diversion must be prevented.

Targeting illicit financial flows requires serious efforts. These flows are especially harmful to developing countries, since they deprive them of essential resources which could finance their development. Thus, government agencies' capacity to work together to deter, detect and prosecute financial crimes should be improved.

A sector where transparency is a source of specific concern is the extractive industry. The granting of licences can be an occasion for rent-seeking by commercial and political interests, and is thus prone to corruption. The OECD has considerable expertise in foreign bribery, due diligence in the private sector and transparency in tax and budget, from which the G8 action could benefit.

The road to transparency and good governance is of particular importance to ensure the success of the reform process and the transition towards democratic and stable societies in the Middle East and North Africa (MENA) region, where the G8 is involved through the Deauville Partnership.

The partnership, which was announced at the G8 meeting under the French presidency in May 2011, supports the transition process in the region. It involves G8 countries and Tunisia, Egypt, Jordan, Morocco, Libya, Kuwait, Qatar, Saudi Arabia, Turkey, the United Arab Emirates, Yemen and international financial institutions.

The OECD is actively involved in the transition countries of the MENA region through a host of initiatives. It is working with Tunisia to strengthen budget transparency and improve its tax regime. Moreover, it is coordinating assistance to transition countries on facilitation of small and medium-sized enterprises. As regards governance, the OECD is helping regional partners to develop accountable, responsive and inclusive governance frameworks. Furthermore, it assists transition countries in fulfilling the eligibility requirements for the Open Government Partnership. By fostering accountability and transparency, as well as by fighting corruption and preventing misconduct, these countries can enhance the rule of law and rebuild citizens' trust in governments.

### International involvement

This work goes hand in hand with the promotion of investment in the transition countries of the MENA region. The main objective is to build a predictable and overall transparent business environment. The strengthening of the rule of law, as well as of corporate governance and business integrity, transparency and accountability, can do much to support the ongoing reform process.

International involvement in the transition countries should also concern the challenge of women entrepreneurship. This is naturally a dimension of the gender equality agenda in the region. But this is also an economic imperative; only 27 per cent of women participate in the labour force – the lowest rate worldwide. Countries need instead to tap all sources of growth and jobs. Action should concentrate on eliminating business climate barriers. Women are often prevented from accessing financing, notably due to the lack of property to use as collateral or limited financial literacy. They are excluded from business networks and have limited access to mainstream business development services, proper training and education. The G8 can strengthen and expand the Deauville Partnership action in order to efficiently tackle these issues.

In conclusion, the OECD welcomes the fact that the G8 is back at the forefront of the international scene with an ambitious and broad agenda designed by the UK presidency. Certainly, challenges abound in each of the three priority areas of trade, tax compliance and transparency. Nevertheless, G8 leaders can take concerted steps and enhance policy coordination to contribute to a strong, sustainable and balanced recovery, in addition to the work done by the G20. Transparency and accountability are the key instruments to achieving good governance and to restoring trust in developing countries – starting with transition countries – and advanced economies alike. The OECD will contribute to the G8 summit with its evidence-based analyses and forward thinking. ■

# Predict and prevent fraud

## – by Ian Pretty and Vishal Marria

As governments struggle to reduce their budget deficits, preventing tax fraud and evasion has the potential to put billions back into the public purse.

When the UK last held the G8 presidency in 2005, the focus of the summit was on ending world poverty and supporting development in sub-Saharan Africa. Billions of dollars were earmarked and an agreement made to cancel the debts of the poorest 18 countries. Now, eight years later, it is the pressure on budgets that has set the agenda for the 2013 G8 summit.

UK Prime Minister David Cameron has set three goals for the 2013 summit: advancing trade, ensuring better tax compliance and promoting greater transparency. On tax compliance he wrote in the euObserver: "People rightly get angry when they work hard and pay their taxes, but then see others not paying their fair share."

### Public anger

Across the world we have seen a wave of anti-capitalism sentiment as a reaction to the economic recession and those perceived responsible for it. In 2009, the Organisation for Economic Cooperation and Development (OECD) published a list of tax havens as part of efforts agreed at a G20 summit to clamp down on such havens. At a more citizen-led level, a groundswell of opinion against tax evasion and avoidance has captured both headlines and the public imagination. For example, the activist group Occupy first came to prominence in 2011 with a protest in Wall Street, New York, USA. Its high-profile camps have since spread to other cities across the world, from London and Brussels to Hong Kong and Sydney, as they demand, among other things, an end to corporate tax evasion.

**The pressure on budgets has set the agenda for the 2013 G8 summit**

Revelations of tax avoidance, sometimes referred to as 'profit shifting', on a massive scale by some of our biggest consumer brands, prompted members of the public to organise flash protests in shops and switch their brand allegiances. The pressure group UK Uncut has been highly active on social media, linking spending cuts to tax injustice.

It is not just the taxpayers who get angry. Governments see the agencies tasked with enforcing tax compliance as having a key role to play in the drive to reduce budget deficits. There is only so much that spending cuts can deliver. Tax is a vital revenue stream and tax agencies need to ensure individuals and businesses pay the tax they owe. When they don't, the sums can be huge: it is estimated that tax avoidance and error costs 145 countries, representing over 98% of world GDP, more than US$3.1 trillion annually[1].

### The tax gap

Just how important the role of tax agencies is in reducing the budget deficit can be seen in some figures from the UK. HM Revenue & Customs (HMRC) estimates that its tax gap – the gap between monies owed and monies paid – had grown to a massive £32 billion in the year 2010-2011.

Making that dent in the shadow economy is precisely what tax agencies around the world are striving to achieve. For example, in the UK HMRC is now naming and shaming tax evaders through its online and social media channels. And in the US, the IRS views its Foreign Account Tax Compliance Act (FATCA) as an important development in its efforts to improve tax compliance involving foreign financial assets and offshore accounts.

Capgemini's work supporting the transformation programmes of many such agencies has revealed the value of taking an analytical approach to preventing tax evasion. This is in line with the view of the UK National Fraud Authority and Cabinet Office, who recommend a 'more intelligence-led' stance on fraud and who will lead on the development of an

Intelligence Sharing Roadmap (ISR) to facilitate the sharing of information on known fraud across the public sector[2]. It is an approach more commonly used in the private sector where the focus is on 'prevention' (as opposed to reacting after the event) through identifying high-risk activities and refusing the provision of a service or product, or flagging high-risk cases for investigation before a transaction is completed.

A number of agencies have already begun this intelligence-led journey. They are using predictive analytics to spot mismatches between a taxpayer's economic activity and their reported taxable income. So a taxpayer paying tax on an income of just $40,000, yet with lifestyle indicators suggesting they possess properties abroad and a high-spec car, will be flagged before they cheat the system. Social network analysis can also help tax investigators identify potential groups of criminals systematically evading tax schemes.

A combination of these predictive analytics with the more traditional public sector response of detect, investigate and prosecute criminal behaviour is perhaps the most effective way to tackle the issue.

### Making connections at HMRC, the United Kingdom

HMRC offers us one of the most successful examples of an analytics-based approach. The agency believes its investment in technology to exploit information and intelligence will help deliver £7 billion more tax yield by 2014/15. How? Its strategic risking tool, Connect, will contribute to this. It cross matches 1 billion internal and third-party data items to uncover hidden relationships across organisations, customers and their associated data links. These include bank interest, lifestyle indicators and stated tax liability.

Connect captures information from 30 different data sources, and transforms it into a standard format for Connect analytical and 'spider diagram' visualisation tools. HMRC analysts produce target profiles and risk and intelligence investigators generate campaigns and cases for investigation. Automated feeds into HMRC's case-management system allocate work to the correct caseworkers, and their feedback further refines intelligence in Connect.

This is clever stuff. And it's getting results. So far Connect has enabled an increasing number of successful investigations and more than £1.4 billion in additional yield has been recovered. HMRC has plans to increase the number of data sets, introduce new risking tools and mine unstructured data in its continuing drive to reduce the tax gap.

### Process change

Of course, investment in the tools enabling an intelligence-led approach to evasion is just the start. Making it easy for taxpayers to understand their obligations and comply with the rules is another area that demands the right approach. And for those who still wish to aggressively avoid their obligations, processes must be in place to enforce compliance. Systems must also be flexible enough to allow prevention strategies, detection strategies and business rules to change regularly. This will prevent agencies from being out-manoeuvred by the constantly evolving tactics of tax evaders.

In the end it comes down to an agency's ability to outsmart the fraudsters, criminal gangs, identity thieves and tax evaders with a combination of process change and technology-enabled insight. Our experience shows that there is real value in using analytics to stay one step ahead of the criminals. With tax agencies around the world looking at how to tackle the multi-billion global tax gap, it is no wonder that this year's G8 summit has put tax compliance on its agenda.

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[1] Tax Justice Network: www.tackletaxhavens.com/Cost_of_Tax_Abuse_TJN%20Research_23rd_Nov_2011.pdf

[2] www.gov.uk/government/publications/tackling-fraud-and-error-in-government-a-report-of-the-fraud-error-and-debt-taskforce

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# Lough Erne and tax justice: the point of no return

## The recent address on taxation by the UK's prime minister, David Cameron, offered an important perspective on issues of global relevance

*By* Dries Lesage, Ghent Institute for International Studies, Ghent University

When governments all over the world struggle to balance their budgets, and the poor and vulnerable suffer from austerity, a pressing question is whether the most wealthy pay their fair share in taxes. Tax evasion and aggressive tax planning by wealthy citizens and multinational companies – often through secrecy jurisdictions or tax havens – are now on top of the international agenda. At least at the level of discourse, this is a revolutionary shift compared with where the world stood five years ago. The decision of the United Kingdom's prime minister, David Cameron, to put forward taxation as a priority for the 2013 G8 summit is the latest installment of this historic initiative. In his presentation of the G8 agenda at the World Economic Forum in early 2013, Cameron made several important points.

### Back to economic reality

It is easy to agree with Cameron's observation that there is nothing wrong with legal forms of tax planning, but "some forms of avoidance have become so aggressive that ... it is right to say that these raise ethical questions". The G20 and the Organisation for Economic Co-operation and Development (OECD), on their part, have already made a commitment to take action against undue tax-base erosion and profit shifting by multinational firms. At Lough Erne, G8 leaders will have an opportunity to speak out for a comprehensive overhaul of the international business tax regime. The basic norm should be that taxation corresponds with economic reality, and due taxes are paid where wealth creation actually occurs. Therefore, bold measures are needed to stop artificial profit shifting.

Cameron also seemed to reiterate a principle that was adopted last year by the G20, namely that a multilateral system of automatic information exchange on individual taxpayers' accounts between authorities is superior to the current OECD agreement on information exchange upon request.

### The tax and development agenda

David Cameron rightly makes the connection between the fair tax agenda and the needs of developing countries. The United Nations has already designated domestic resource mobilisation as a crucial pillar of development finance, alongside aid and other sources. Lough Erne is also the time to leap forward in this regard. Advanced countries such as the UK now pay more attention to taxation and technical assistance in their bilateral cooperation. But poor countries also deserve a much bigger voice in drafting global tax rules to enable them to deal with pressing tax issues related to globalisation. Therefore, the G8 could make a case for upgrading the UN taxation work, as recently requested by India and others. Since the Global Economic South has no formal seat at the OECD decision-making table, the UN is the only appropriate forum to discuss this matter. There must be pragmatic and cost-effective ways for the UN to strengthen universal tax cooperation in close partnership with the OECD and other relevant bodies.

> ***Poor countries deserve a much bigger voice in drafting global tax rules to enable them to deal with pressing tax issues related to globalisation***

By proactively sharing power with others, the G8 can enhance its own legitimacy as a contributor to global governance.

### The case for transparency

Cameron also made highly relevant remarks at the level of political ideology. This tax agenda is not anti-capitalism or anti-business, he says. His government still believes in low taxes. But "if you want to keep tax rates low you've got to keep taxes coming in – put simply: no tax base, no low tax case". This point is worth expanding.

Ultimately, it is up to national democracies to decide the appropriate tax burden for companies and citizens. Opinions on this strongly diverge across the political spectrum, but most people agree that a sound market economy needs a level playing field and respect for the rule of law. In other words, there is no place for massive tax evasion and the abuse of loopholes, with the effect of either raising the tax burden for law-abiding citizens and businesses or scaling back the public services that make life more comfortable and society more civilised. In a globalised economy, this implies that jurisdictions should refrain from using aggressive methods to undermine the actual tax autonomy of others. This is the rationale for intensified crossborder cooperation on tax law enforcement.

Here an interesting bridge can be built between taxation and one other UK priority for this year's G8 summit, namely transparency. After all that has occurred and been revealed with regard to opaque corporate structures and aggressive tax planning strategies, society has a right to have more information about what the most powerful economic players are actually doing. A plethora of civil society organisations along with the European Parliament have already come out in favour of a new norm for annual financial reporting by multinational corporations. In this proposal, such organisations should provide data on assets, sales, payroll, profits and payments made to governments on a country-by-country basis. Current financial reporting rules do not yet require these data to be broken out at the country level. Such transparency would provide more insight into corporate strategies. This is important for various kinds of stakeholders, from financial investors,

AP/PA

When David Cameron addressed the World Economic Forum in early 2013, he made several key points about his upcoming G8 agenda

through nongovernmental organisations to national tax authorities in rich and poor countries. It would also operate as a disincentive for all-too-artificial tax planning.

Country-by-country reporting along these lines goes beyond existing 'publish what you pay' provisions for the extractive industries, as it requires more data than just payments to government (and offers more insight into economic realities) and applies economy-wide. Positive comments by UK cabinet members raise hope for a G8 initiative in this regard.

For the first time, the public at large has become aware of the tax-related drawbacks of today's under-regulated globalisation. Put simply, people become angry and take an interest in the issue. In April 2013, headlines announced 'offshore leaks' of international tax fraud in various G8 countries, among others. The G8's timely interest in the matter is to be welcomed. But the public also expects short-term action. Nothing less than the credibility of the G8, G20 and OECD is at stake. They will either deliver and make history or keep to a new round of window dressing, with dramatic consequences for their own legitimacy and relevance.

But the stakes for individual G8 member countries are equally high. What about the British Virgin Islands and other tax havens under UK control? What about creative accounting from places such as Delaware and Nevada? What about the continuation of distorting tax schemes in the EU? One thing is certain: we have reached the point of no return for the global tax justice agenda. ■

# Transparency and trust in taxation

## Adapted from a speech by Simon Henry, chief financial officer of Royal Dutch Shell plc, at the FTA Conference, Moscow, 16 May 2013

In 2013, the public clamour for tax reform has reached fever pitch, and the wide-reaching issue of tax and multinational companies has shot up the political agenda.

It will feature prominently at the upcoming G8 meeting. The European Union has launched a drive against tax fraud and evasion, and politicians in the UK and US have held hearings to cross-examine multinationals on their tax affairs.

It is important to acknowledge that several areas of public concern are well founded, and there is an arguable case for addressing anomalies in the international tax system. But I'd like to sound a warning: the public mood is now so volatile that there is a risk we will see rushed and misconceived tax laws that cause real economic harm.

### The social contract

The global economic crisis has been gruelling. Enormous public deficits will weigh on the recovery for many years, and electorates are understandably angry with parts of the business sector.

To put it mildly, politicians have little incentive to defend companies that generate revenues in a jurisdiction, while apparently paying little tax on them. But the time has come to pause and remember what's at stake. An efficient tax system that enjoys broad public trust and confidence is a cornerstone of a healthy society and of democracy itself. Retaining some degree of consensus is essential to the social contract that binds the government, the corporate sector and civil society. Free trade and a profitable corporate sector are vital engines of tax revenues for the government, and of growth and employment throughout society as a whole.

You would expect periods of public disquiet over corporate tax, but what remains of a broad consensus now hangs by a thread. The public debate has reached an unprecedented level of hostility. This sense of injustice could trigger measures that damage the economic recovery, without improving the fairness or effectiveness of the tax system. To calm public anger, governments are toying with sweeping proposals to increase tax revenues from the corporate sector.

The European Commission's proposed Financial Transactions Tax is a case in point. Although driven by good intentions, its potential impact could be highly damaging. As proposed, the law would levy a tax on a large proportion of stock and bond trades.

The potential implications are striking. Companies would pay significantly more to raise money in the capital markets, and to manage major risks such as their exposure to foreign currencies. These costs would inevitably be transferred to consumers in the form of higher prices for goods and services. And that is not all: governments would also face higher borrowing costs, and pension funds would be liable for the tax on their transactions.

Such a move would deter business investment in Europe, and drain capital that could be used to drive economic growth and employment. That would harm the EU's competitiveness. After all, capital and investment are now more mobile than ever.

As such, there is an urgent need to restore some balance and sobriety to the debate on corporate tax. That must begin with a better understanding of the tax affairs of major international companies.

A follower of the recent debate may think that such businesses are preoccupied with making money through tax avoidance. I should just say that, at Shell, that is not a world we recognise.

In 2012, Shell paid around $21 billion in direct taxes, at an effective rate of some 47 per cent. We also collected about $85 billion in indirect taxes.

We always comply with the tax laws wherever we operate – that's our obligation as businesses.

It is the responsibility of governments and policymakers to determine what a fair share of tax is and to write the tax laws accordingly. It cannot realistically be left to businesses to form views on what the laws, or a fair share, should be.

The reality is that Shell aims to make an acceptable return on our investments after we have paid tax. What's more, tax is only one factor that we take into account when examining the viability of an investment – and corporate tax is just one part of the overall tax regime. Other considerations include the cost of labour or the level of technical difficulty involved in unlocking oil and gas resources.

### Tax regimes: what we look for

It is relatively straightforward: we expect to pay tax on our activities in the country where they take place. And we prefer to pay it once, avoiding double taxation on the same activity by different jurisdictions.

Shell also supports simple, efficient, predictable and stable tax regimes that incentivise long-term investment. And we expect the laws to be applied consistently, creating a level playing field for all.

To see why, consider the nature of our projects: they often require billions of dollars of investment over several decades. From the initial discovery of an

oil or gas field, it can easily take 12 years for production to begin, which can then last for 30 or 40 years. We must plan for these investments against a backdrop of volatile oil prices and fluctuating revenues.

Like companies in all sectors, Shell does make use of tax incentives offered by different governments. But this has been widely misrepresented amid the heated rhetoric of recent months. And one essential point has been written out of the script: it is governments that determine tax regimes in accordance with the revenues they want to generate, and they do so against strong international competition for capital and investment.

So companies are perfectly entitled to use these tax incentives.

These are some of the critical points to bear in mind as the discussion about tax intensifies. It is vital if policymakers are to introduce laws that reflect the reality of tax in the corporate sector, and avoid painful unintended consequences.

There may be little the business sector can do to alter the prevailing mood, but we can continue to be as transparent as possible. I believe this will help to preserve a minimum level of trust between parties.

At Shell, we are working successfully with the tax authorities in the UK, the Netherlands, in Singapore, and, as a pilot, in Austria. We are delighted to be exploring potential partnerships with other authorities.

We provide the authorities with timely and comprehensive information on potential tax issues in return for treatment that is open, impartial, proportionate, responsive and grounded in an understanding of our commercial environment.

We have found this enables us to settle tax issues up front, giving us the certainty we need to plan for our investments.

We have also found this level of transparency is strongly in our interest: it helps us to comply with the law, and to manage our tax-related risks.

Tax is just one set of risks that we face in our day-to-day activities. As CFO of Shell, I am accountable for the risk-management framework across the entire company. That includes the safety risks of projects in locations like the Russian sub-Arctic or the deep waters of the Gulf of Mexico.

Transparency also brings important benefits to the tax authorities. One is flexibility: it allows them to monitor business activities on a ‘real-time’ – or continuous – basis. If the authorities see companies behaving in a way they dislike, they can move quickly to change the law.

Cooperative compliance also frees up the authorities’ time and resources by removing the need for lengthy and expensive audits. That allows them to focus on the genuine wrongdoers – those engaged in tax evasion.

Cooperative compliance has certainly helped to improve trust, which of course is not unconditional. There must be what is called ‘justified trust’, underpinned by rigorous controls and audit procedures that guarantee companies report tax-related risks to the authorities.

At Shell, we welcome recommendations on sharing best practice on tax control frameworks. I believe the success of cooperative compliance highlights the advantages of transparent tax regimes that are governed by sound principles, rather than a blizzard of rules and regulations.

## BEPs report: proper coordination

The OECD’s forthcoming report on combating base erosion and profit shifting can help to address public concern that international efforts to eliminate double taxation have created loopholes.

There are clearly some issues that need to be addressed, such as the treatment of e-commerce. Technological developments are challenging the traditional basis of tax jurisdictions and laws. Companies no longer require a physical presence in a country to generate revenues there.

Much will depend on how governments implement the report’s recommendations. Here we must remember that cooperative compliance has helped to improve mutual understanding between the tax authorities and corporate taxpayers. That has brought greater transparency.

At Shell, we believe this offers the best way ahead: a system guided by sound principles and strong relationships.

The tax authorities know better than anyone that excessively detailed rules don’t always guarantee fairness.

My plea is for governments to introduce the report’s recommendations in a considered fashion, respecting the OECD’s core principles on taxation. That means taking the time to carry out professional due diligence on any legislation, assessing, for example, its potential impact on costs and competitiveness. When tax laws are rushed through to meet short-term political objectives they rarely achieve a positive outcome for anyone.

The failure of governments to properly coordinate a response to the report could result in a wave of fragmented tax legislation across many countries. History suggests this is not the way to fan the flames of economic recovery.

The mutual understanding between politicians, civil society and the corporate sector hangs in the balance. Even in the best of times, this consensus can be an uneasy one. During the worst of times, it can seem almost impossible to maintain.

The debate on tax shows that we must preserve it as a necessary foundation of the economic recovery. Tax regimes can be a welcome source of stability and predictability. Or they can act as a brake on business investment and employment.

That point must not be forgotten in the difficult months ahead.

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# Taxing financial systems

## With public sentiment and the weight of lessons learnt from the financial crises of recent years bearing down on governments, it is time for the G8 members to lead by example on tax avoidance

*By* Lida Preyma, director, Capital Markets Research, Global Finance, G8 and G20 Research Groups

When a company operating in one country signs contracts with clients through its subsidiary in a second country where the tax rate is lower, then pays a royalty payment from that subsidiary to another subsidiary in a third country, which then pays it back to a different holding company located in the second country but controlled in a fourth country, one that has no corporate tax – it shows the extent to which the current international tax system is complicated, is misaligned and encourages tax avoidance.

British Prime Minister David Cameron has thus appropriately placed ensuring tax compliance as his key priority for the G8 Lough Erne Summit, alongside advancing trade and promoting greater transparency to support the development of open economies, open governments and open societies to unleash the power of the private sector.

Ensuring tax compliance is a lofty goal. It is long overdue if other regulatory reforms being undertaken in the financial sector are to have their desired effect of increasing transparency, trust and confidence to restore financial stability and spur economic growth. Ordinary citizens have been outraged since the beginning of the financial crisis by what they consider a greedy financial sector that takes needless risks with their money and subsequently has to be bailed out with their tax dollars. The global climate is explosive as citizens continue to protest over the austerity measures imposed upon them by governments. They see multinational corporations, and the financial services sector in particular, as villains that do not pay their fair share in taxes while the average hard-working citizens are forced to pay up. They find tax avoidance and evasion morally wrong and are increasingly willing to boycott products and services to penalise those found to be guilty of such practices. They want accounts to be more transparent and publicly available, especially in business dealings in developing countries. The danger of outraged citizenry is that they can form fringe political parties that can easily destabilise entire economies when voted into power, as seen in the first round of elections in Greece in 2012.

Against this disquieting backdrop, the G8 members must come together with the goal of reforming the international tax system through unified cooperation, and thus restore the confidence that has been eroded through the misdeeds of large multinationals while avoiding the regulatory arbitrage that currently allows for the practices noted above. The G8 must do this by establishing new international and national legislation to close loopholes, improve transparency and crack down on wrongdoers, by genuinely empowering the proper national collection agencies so that enforcement is considerable and provides effective deterrence.

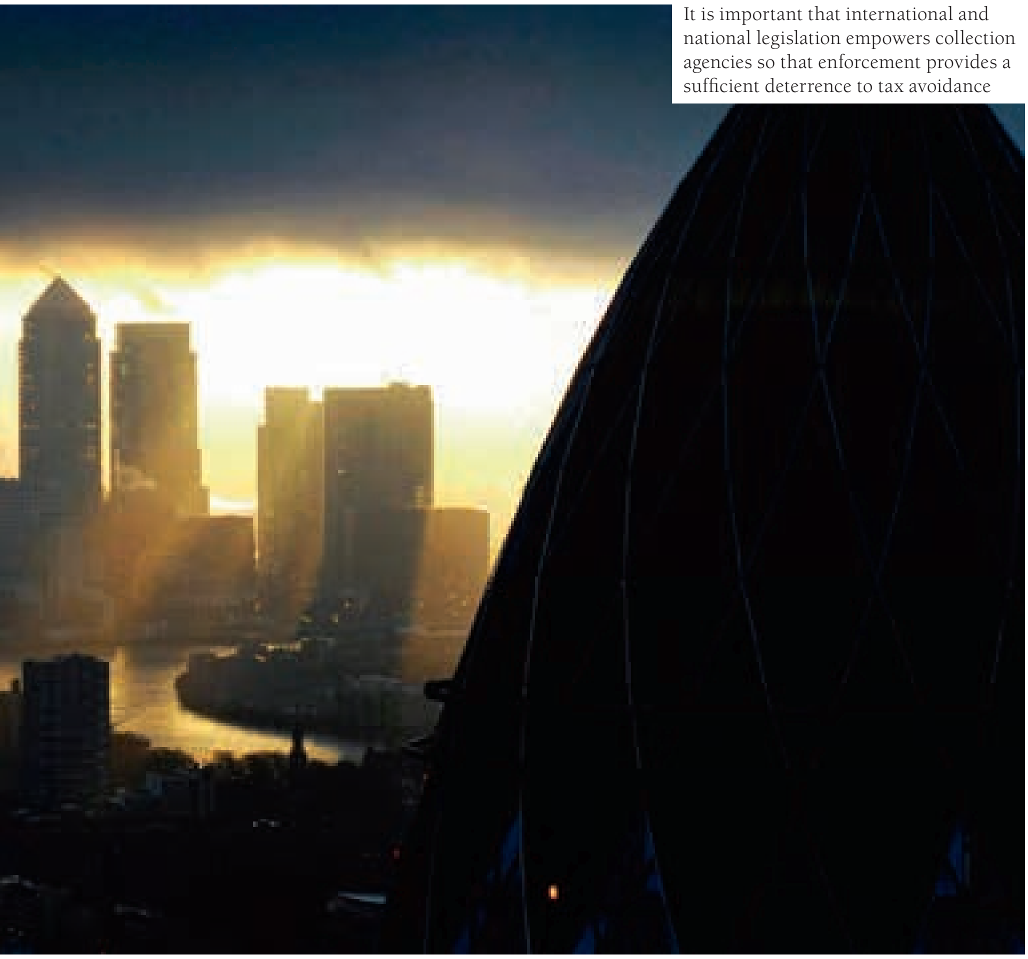
Technological advances have created the opportunity for meaningful information sharing with little expense and delay. Just as the financial industry has adopted a legal entity identifier system to streamline international counterparty identification and quickly detect emerging concentration and potential risk, so can countries also share information about transactions in different jurisdictions and about capital ending up in countries where tax avoidance is prominent. New legislation must be created to close the very loopholes that make certain countries more attractive for this kind of 'tax planning'.

To be sure, tax avoidance is not tax evasion. The first is legal, the second is not. With a complicated system, one should not on legal grounds get angry at players taking advantage of the benefits left for them to exploit. Making the system inherently simple and fair is the one way to close those loopholes. At present, financial multinationals can move money through transfer pricing.

They can create hybrid instruments that are treated as borrowings in one country and shares in another, and they can decide where to store capital based on differing tax systems. This ability can prove to be a real comparative advantage that the large multinational corporations have over smaller, domestic ones. New legislation and administrative cooperation can address this situation.

### Restoring trust in financial systems

The need to restore confidence and trust in the financial system has never been greater. The continuing sovereign debt crisis in Europe has created an ever-deepening distrust that seems to know no bounds. Just when bank bailouts seemed to be the pinnacle of the crisis, the Libor scandal hit. From that investigation it was revealed that Barclays' structured capital markets arm had generated £9.5 billion ($14.3 billion) in revenue in the 11 years ending in 2011, as reported in the



It is important that international and national legislation empowers collection agencies so that enforcement provides a sufficient deterrence to tax avoidance

PA WIRE/PA

*Salz Review: An Independent Review of Barclays' Business Practices*. Although the division was shut down in order to clean up the bank's image, the practice may now be ingrained in its culture. In response to the Libor scandal, Bob Diamond, then Barclays's chief executive, claimed that the bank had to manipulate rates because all of its competitors did so.

The same response would probably hold true for the structured capital markets division that sent money offshore. Not only have these scandals provided further fuel to public outrage and mistrust, but they have also shown that unintended collusion is thought to be acceptable. Closing the loopholes would prevent further scandals and would address the trust and confidence issues that are prevalent today. The financial services sector cannot withstand many more disgraces before confidence and therefore stability and economic growth are completely lost. The G8 must establish new agreements and encourage new national legislation to ensure transparency. The European Union has taken the lead here, as it did in 2010 with respect to controlling bankers' bonuses.

The EU proposes to force businesses to publicly detail their tax contribution in each country in which they do business. This increased transparency will allow the public to vote with their spending dollars. There will be an element of shame with which the G8 leaders are all too familiar, as they themselves must face each other annually and answer for undelivered commitments. This element should not be seen as inconsequential. The risk to reputation is an integral part of the strategic business planning of any corporation. Australia, a member of the G20, has proposed similar legislation for disclosure of tax arrangements for any company with yearly revenue over A$100 million ($96.7 million). If such legislation was enacted globally, there would be a measurable drop in tax avoidance.

New legislation will have little value if governing agencies are not properly empowered to enforce it with effective sanctions. Regulation is only as good as the enforcement behind it. The collection of taxes needs to be taken more seriously in many countries, as was shown by Greece. Likewise, proper funding of the revenue agencies is needed; otherwise their capacity for enforcement will be mitigated. Individual countries should make a concerted commitment to this measure; if not, international cooperation will never be realised. Technology and best practice sharing can help achieve this goal. Often solutions can easily be found in the private sector instead of bureaucratic provisioning that is costly and usually ineffective. Whistleblower protection is also necessary for enforcement. Although financial rewards can create distortions and false accusations, whistleblowers need to feel secure that they will be compensated for potential job and career loss when they do the right thing. It is unreasonable to think that whistleblowing will occur without protection and compensation.

***Regulation is only as good as the enforcement behind it. The collection of taxes needs to be taken more seriously in many countries, as was shown by Greece***

G8 leaders at Lough Erne have the opportunity to set the stage for the G20 St Petersburg Summit in September where more than a dozen other countries, including emerging and developing ones, will be present. G8 leaders must lead by example to ensure that this global problem has a global solution. If it is handled piecemeal, then a flight to other jurisdictions with weaker standards is certain. At Lough Erne they must commit to new agreements and legislation to close the current tax loopholes, make transparency the norm and ensure that enforcement can act as a real deterrent. Financial stability and economic growth depend on recovering revenue lost from arbitraging differing tax systems and on restoring the confidence of the citizenry that the tax system is fair for all. ■

# Tax and transparency: perspectives from the Isle of Man

**Allan Bell MHK, Chief Minister of the Isle of Man Government**

As leaders of the world's most powerful nations and institutions, you are gathered to address the challenges of generating growth, jobs and prosperity for the long term. These challenges could not be more pressing.

Five years since the global crisis, developed nations chart their return to sustainable prosperity against an uncertain backdrop. In his speech to the World Economic Forum, the British Prime Minister David Cameron framed this challenge in terms of 'how do we compete and succeed in the global economic race'.

I share with Mr Cameron the view that succeeding in this race is not simply about domestic economic reforms and what happens within our national borders. The challenge is broader and more complex. How we compete in the global race is about the 'rules of the system' and 'the fairness and openness that characterise it'.

It is on this topic - the rules of the system - that I would like to share some thoughts. By rules, I mean how the norms and the agreements that govern cooperation between countries in tax matters should be changed.

Following the global financial crisis it is evident that the public mood on tax and transparency has moved both decisively and irreversibly.

As citizens struggle to acclimatise to conditions of austerity and governments painfully rebalance their public finances, it is understandable that highly artificial and abusive tax avoidance schemes challenge basic notions of fairness. Public expectations about what is acceptable in tax planning have exceeded the ability of countries and institutions to act. So too have the sophisticated accounting practices of global companies whose assets are ever-more mobile. It is these changes that explain the growing public voice urging leaders to do something about the perceived lack of fairness to the ordinary taxpayer.

**Public mood on tax and transparency has moved decisively and irreversibly**

As Chief Minister of a leading international business centre, I have long realised that both large and small economies need to recognise this changing sentiment. So how should the global community change and respond?

## Automatic exchange emerging as global standard

Firstly, jurisdictions must recognise that the basis of international tax cooperation is changing very rapidly. Back in December 2012, when agreeing with the UK to automatically share information on our respective tax payers, I was clear that automatic exchange is the emerging global standard. I was pleased to see Jersey and Guernsey follow the Isle of Man's lead and enter similar agreements. It is important that this approach is taken up by other nations.

The US Foreign Account Tax Compliance Act (FATCA) was the game changer for tax transparency, and a group of countries led by the UK, France, Germany, Italy and Spain have taken this approach forward significantly with an agreement to pilot automatic multilateral tax information exchange based on FATCA principles.

However, we should not overlook the European Union (EU) Savings Directive. When I committed the Isle of Man in 2009

### A HISTORY OF LEADERSHIP, INNOVATION AND INTERNATIONAL COMPLIANCE

- The Island's parliament, Tynwald, founded more than 1,000 years ago, is the oldest continuous legislature in the world.
- The Isle of Man was among the first countries to give the vote to women in 1881 and to 16 and 17 year olds in 2006.
- It was instrumental in developing the model Tax Information Exchange Agreement with the Organisation for Economic Cooperation and Development (OECD) a decade ago.
- The Isle of Man was one of the first non-EU countries to automatically share bank account information with European Union member states.
- The Island is currently negotiating an intergovernmental agreement with the USA to implement its Foreign Account Tax Compliance Act (FATCA) legislation for automatically sharing tax information.
- In December 2012, The Isle of Man was the first Crown Dependency to announce its intention to also meet a similar standard of information exchange with the United Kingdom.
- The OECD reported to the 2012 G20 meeting that the Isle of Man was one of only a few jurisdictions to have all elements of effective information exchange in place.
- In a report to the G20 in 2011, the Financial Stability Board placed the Isle of Man in the highest category of cooperative jurisdictions strongly adhering to international standards of cooperation and information exchange.
- The OECD Global Forum on Transparency and Exchange of Information concluded that the Isle of Man's "regulatory environment is comprehensive and, particularly for anti money-laundering purposes, all major financial sector industries are subject to active oversight".
- A wide-reaching regulatory framework governs the Island's financial services industry: deposit-takers and those in the investment business, including corporate service providers, are licensed and supervised by the Financial Supervision Commission; the insurance sector is regulated by the Insurance and Pension Authority.

to automatic exchange of information under the directive, I did so because I believed it was wrong for investors to hide behind a withholding tax. Eight years after that directive came into force it is surely right that all member states fully comply with it.

## Transparency not a threat to competitiveness

There are some who say automatic exchange along the FATCA model is a step too far. They claim that removing confidentiality may impair commercial attractiveness. Legitimate concerns about the confidentiality of taxpayer information should not be dismissed, yet this policy must also be applied as equally as possible to create a level playing field.

These important considerations aside, we should not see the growth of information sharing between tax authorities as an inherent threat to economic competiveness – indeed, quite the opposite. Part of the marketing offering for international business centres looking to attract global business is their reputation for probity. We need international investors to feel confident that they are doing business in environments that comply with global standards of best practice. This may not have been a concern a decade ago, but it is now a key element of any country's commercial reputation.

It is tempting to measure the progress on transparency with each new agreement and accord signed, yet this overlooks the crucial implementation phase. The global community must recognise that to fully deliver the enhanced transparency the public demands, the ability of smaller jurisdictions to collect, process, exchange and, crucially, act on this information needs to be supported. Important initiatives such as Tax Inspectors Without Borders will share best practice and support less developed tax collection agencies.

An initiative that the Isle of Man Government closely supports is the Small Countries Financial Management Programme. This capacity-building course was developed in conjunction with the World Bank, the Commonwealth Secretariat and the Small States Network for Economic Development to benefit small developing countries around the world, including nations from Africa and the Caribbean, and Pacific and Indian Ocean Regions.

The programme is delivered in the Isle of Man and Oxford, giving participants access to professors from leading universities, as well as to experts – many from the Island – in the fields of tax policy, risk management, combating financial crime, and advanced negotiation strategies.

## Being part of the solution

Your deliberations during this important Summit will cover a wider range of critical international issues and may set the nature of international cooperation for years to come. Agreeing a way forward on tax avoidance and transparency will require international acceptance of equitable and fairly enforced standards.

As we have done for many years, the Isle of Man remains willing to be part of the solution with its international partners.

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# International financial reporting standards for fairness and growth

## An international approach to standards is required in order to tackle aggressive tax avoidance, which undermines the principle of fair competition

*By* Alan Carter, senior tax economist, International Tax Dialogue

Financial markets, which play a crucial role in the allocation of capital across and within countries, function better when the information that informs buying and selling decisions, and ultimately asset prices, is comparable and accurate.

The 2008-09 global crisis resulted in international and national policymakers, regulators and standard-setting bodies re-examining many measurement issues and reporting standards. An agreed set of high-quality international accounting standards that provides reliable information on the actual and potential impacts of the financial complexities, decisions and assumptions that underlie modern business operations is needed by investors if they are to allocate investment capital to best effect.

Efforts to improve on the status quo are proceeding under the auspices of the International Accounting Standards Board in cooperation with the US Financial Accounting Standards Board. The tax planning structures adopted by some companies can create the risk of disputes with tax authorities. Whether investors and others should be made more aware of such risks in financial statements is one of many items for which future financial reporting requirements will need further international discussion and consensus.

### Clearer accounting information

Revenue authorities can benefit from clearer impartial accounting information, both in terms of better understanding what businesses are doing and in potentially reducing the need for costly tax audits and the frequency of disputes with corporate taxpayers. Closer alignment of financial reporting standards with tax accounting definitions brings benefits to both companies and revenue authorities in terms of lower costs; however, there are legitimate reasons why the first two cannot be completely aligned. Decisions about defining the tax base are ultimately for governments, not accounting standards boards.

The G20 has asked the Organisation for Economic Co-operation and Development (OECD) to take forward work to address tax-base erosion and profit shifting (BEPS) and advise on how the international tax system can evolve to address these challenges. A comprehensive action plan to identify actions needed to address BEPS, set deadlines to implement these actions, and identify the resources needed and the methodology to implement these actions will be presented to the G20 finance ministers in July 2013.

***Improved standards can make for better informed investment choices, and assist tax authorities in ensuring that the tax rules apply fairly***

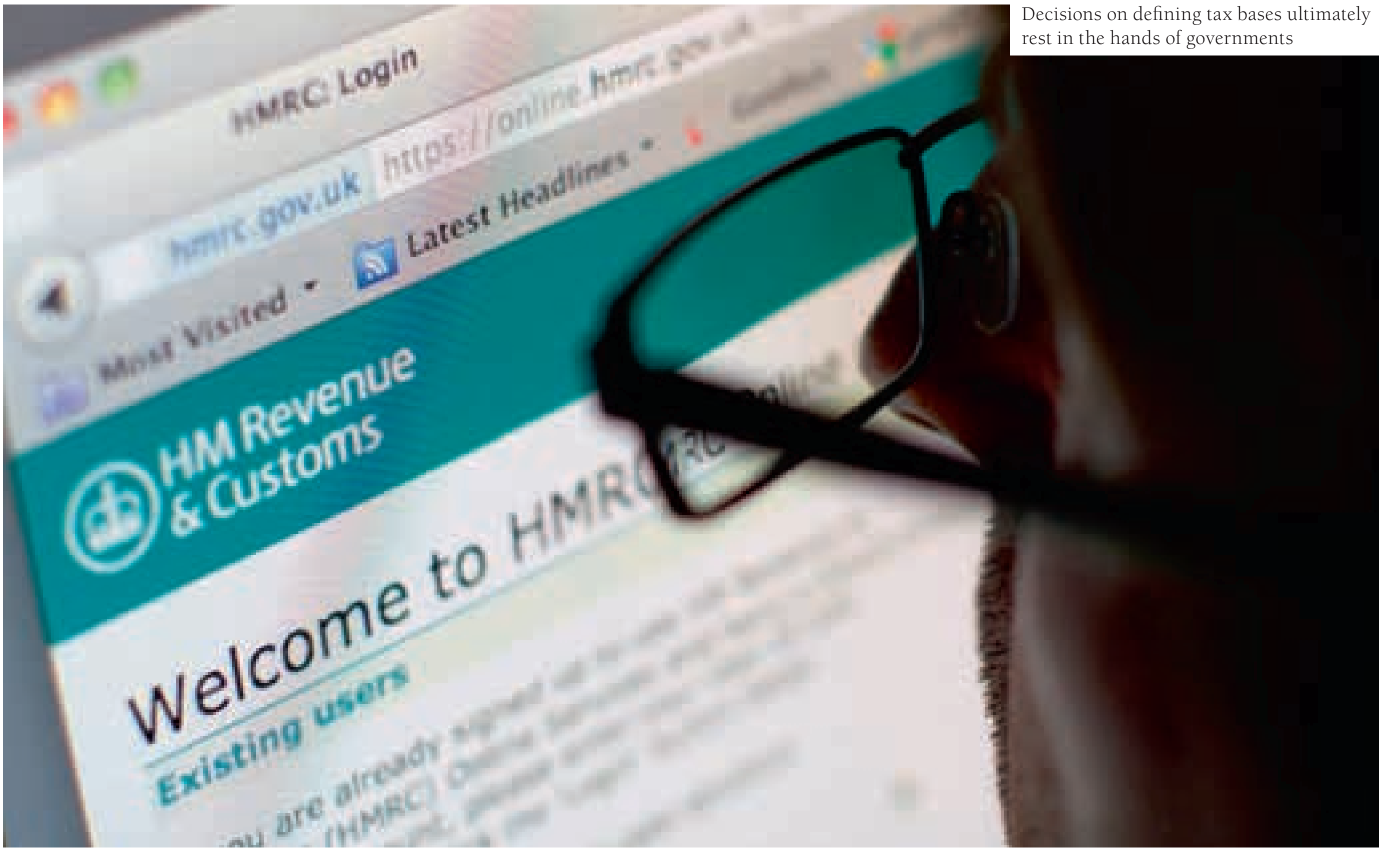
Since the global crisis, a spotlight has fallen on businesses' tax affairs. The extent to which large multinational enterprises have taken advantage of existing weaknesses in the international tax architecture and in many developing country revenue authorities themselves to lower their tax payments significantly has risen closer to the top of the G8, G20 and European Union agendas. Quantifying the extent of such behaviour globally is very difficult. Indeed, it may sometimes increase investment by those directly involved, but create indirect costs to others. While (in some cases) legal, it tilts the playing field against domestic and smaller businesses that have much less scope to engage in such tax planning and avoidance. Many countries have beefed up their competition policy regimes in recent decades. The world needs to ensure that the resulting growth benefits derived from more competitive markets is not undone by unfairness between companies that stem from the international tax system.

Growth, investment and job creation are best supported where investment flows to those companies that offer the highest economic returns from the business activity undertaken, not when investment deviates as a result of tax system abuse and aggressive tax avoidance techniques. The latter undermine the principle of fair competition and, if they are not tackled effectively, result in market pressures on the more compliant corporate taxpayers to follow suit.

### Unintentional tax gaps

The efficient allocation of capital is important for global and national welfare. It requires that the impact of the tax system should be as neutral as possible between different investment choices, unless very good economic rationales exist for introducing non-neutralities. However, the interaction of intentional tax competition between countries for reported profits, and not just economic activity, and unintended gaps in the international tax system that go further than relieving double taxation, can result in zero taxation in some circumstances. The increasing economic significance of intangible assets to business and knowledge-based growth, as documented by the OECD, poses particular difficulties for tax systems given the ease with which ownership of these assets can be transferred among related corporate entities globally. The uncertainties involved in attaching a value to them is a challenge for both the accounting and tax professions.

The expectations of citizens and investors about corporate integrity have increased. Tax transparency and tax fairness have recently made it into the headlines worldwide, and there is now more awareness about the implications of this for developing countries. The impact of aggressive tax avoidance on the attitudes of citizens and customers towards multinational enterprises undertaking such activity has been seen in the form of loud public protests in many countries, and also in negative impacts on brand equity and reputation. Relying on these effects alone to

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Decisions on defining tax bases ultimately rest in the hands of governments

address the issues would not suffice as not all companies are equally visible to the public and so susceptible to such pressures.

Concerns over fairness also extend to the way in which corporate tax revenues are divided internationally. A perceived lack of transparency in existing financial reporting and in tax compliance by multinational enterprises drives many to believe that developing countries are losing significant tax revenue. The current volume of evidence available on the true extent of this loss is still limited, but it is improving.

### A balanced and targeted approach

More and more detailed financial and other corporate reporting standards have a resource cost to economies in addition to benefits. However, greater country-by-country reporting of detailed activities and tax payments may allow tax administrations to more easily detect and deter the shifting of profits. The potential benefits of greater access to accounting information is one issue being explored by the multi-stakeholder Informal OECD Task Force on Tax and Development. Furthermore, to promote transparency in the extractive sector, in October 2011 the European Commission adopted a legislative proposal requiring listed and large non-listed EU companies to disclose financial data, and notably payments to governments, on a country-by-country basis. On 9 April, EU institutions reached a political agreement on the legislative text, which is scheduled to be adopted over the next few months.

Substantial natural resource revenues can reduce a government's need to raise other tax revenues from its own citizens and domestic businesses, to the extent that it also significantly reduces a government's accountability to its citizens. Adoption of legislation in the European Union and the United States in regard to more detailed reporting of tax payments by companies to governments related to the extraction of natural resources, and support for the Extractive Industries Transparency Initiative, will enhance transparency over what revenues are being received by governments dependent on natural resources. Lifting the natural resource 'curse' in terms of decreasing the likelihood of poor national governance and lack of accountability will require further changes. Much greater transparency over how, who decides and where these revenues are spent is even more vital.

### International action on tax affairs

The EU, OECD, the International Monetary Fund (IMF) and the World Bank are making significant efforts to help many developing countries improve their capacity to administer the tax affairs of international businesses, and to deal with the complexities of implementing internationally agreed rules and norms on issues such as transfer pricing, undertaking tax audits and in obtaining the information to do this most effectively. The EU, OECD and World Bank have partnered to assist countries such as Colombia, Ghana, Kenya, Rwanda and Vietnam in these key areas. The Global Forum on Transparency and Exchange of Information for Tax Purposes continues to work towards improving record keeping in jurisdictions across the world, so that revenue administrations can make more effective use of the international tax information exchange mechanisms that exist. The World Bank is helping developing countries to adopt international tax transparency and accounting standards, as part of wider programmes to improve their business climates.

Getting international and national financial reporting standards right, in combination with the other tax-related activities by international organisations and G8 and G20 countries, will support growth. Improved standards can make for better informed investment choices, and assist tax authorities in ensuring that the tax rules apply fairly to all business regardless of size. This combination of measures will also help ensure that the cross-country allocation of tax revenue is related to the underlying economic activity that generates the taxable profits. ■

*The International Tax Dialogue is a collaborative initiative of the European Commission, Inter-American Development Bank, IMF, OECD, World Bank Group and the Inter-American Center of Tax Administrations designed to encourage and facilitate dialogue on tax matters and the exchange of good practices.*

*The views expressed are those of the author and should not be interpreted as a statement of the policy positions of partner organisations of the International Tax Dialogue.*

# Generating economic growth, jobs, and prosperity for the long term

**In advance of the G8 meeting in London, comments by U.K. Prime Minister David Cameron suggested that the G8 agenda might be based on three pillars: trade, tax, and transparency. In a speech delivered in late-January, Mr. Cameron declared that "We need more free trade. We need fairer tax systems. We need more transparency on how governments and, yes, companies operate." In our opinion, addressing these three "Ts" aligns with the G20 goal of creating strong, sustainable, and balanced economic growth.**

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The first element of expanding international trade can clearly contribute to the global economic recovery. The slowing trend in global trade experienced in recent years certainly provides strong incentives to act. According to the WTO, world trade is forecast to grow by 3.3% in 2013, after a mere 2% expansion in 2012. These figures pale in comparison with the 20-year average of around 5% annual growth. And, if current-account surplus countries take actions to bolster their domestic demand while current-account deficit countries improve their competitiveness, the increase in trade can help to reduce global imbalances. Accordingly, bi-lateral and multi-lateral trade talks – such as the Trans Pacific Partnership, Canada-EU free trade and potential U.S.-EU free trade – are commendable. It would also be laudable to see countries – advanced nations in particular – making their best effort to advance negotiations ahead of the Bali WTO conference to be held in December 2013. A commitment by the G8 leaders to promote trade opportunities is also desirable in that it reduces the risk of protectionist policies that might be politically appealing during weak economic times, but would be globally damaging to all nations. This is a key lesson from the 1930s that must never be forgotten.

While progress on the trade front can foster economic opportunities, stronger global economic growth depends on much more than just trade. Indeed, fiscal policies will also play a prominent role. Fiscal adjustment has been brought upon most advanced economies by the compounded effect of structural spending drivers – such as population ageing – and the cyclical detrimental impact on fiscal balances inflicted by the Great Recession. At the start of the crisis, advanced economies had a weighted average sovereign debt-to-GDP ratio of about 80%. By the end of 2012, the ratio was close to 110% and was still rising. Furthermore, the latest IMF projections show that, within the G8, only Canada and Germany are projected to have lower public debt-to-GDP ratios two years from now. This highlights the severity of the challenge of restoring fiscal soundness against the backdrop of weak economic growth.

Therefore, while the objective of putting fiscal accounts on a sustainable trajectory is beyond dispute, governments must be mindful of the dampening effect on economic activity. The choice between fiscal consolidation or economic growth should be regarded as a false one. Economies need both for the fiscal rebalancing to ultimately succeed. Moreover, policymakers should be aware that there are inherent limits on the ability of central banks alone to support economic recovery. Fiscal and monetary policy need to be coordinated. At the end of the day, as events in Europe in recent years have shown, front-loaded fiscal austerity unpaired with significant economic structural reforms can only yield modest results at a high social and economic cost.

Indeed, pursuing fiscal adjustment at a time of unavoidable private deleveraging has led to protracted economic weakness, missed fiscal targets, significant increases in unemployment, and lagging fixed investments. Just to illustrate the latter, across advanced economies, the unemployment rate jumped from a weighted average of 5.8% in 2007 to 8.3% in 2010 and has remained above 8% since then. Fixed investments fell from a weighted average of 21.7% of GDP in 2007 to around 18.4% in the last four years.

Waning investments and persistent high unemployment not only curtail current demand but also hinder potential GDP growth. Therefore, those countries that face favorable funding conditions should make use of the policy room they have to distribute the burden of fiscal adjustment over several years. In other words, putting in place fiscal policies and enacting entitlement reforms that progressively tackle fiscal sustainability concerns can be more effective than front-loading the adjustment and hindering the economic recovery. However, make no mistake, the sooner credible medium-term consolidation strategies are laid out, the better.

> Broadening the corporate tax base and lowering corporate tax rates will facilitate the economic recovery.

In line with this, and attending to the objective of pursuing fiscal consolidation without unduly handicapping the economic recovery, it is essential to formulate tax policies that do not create disincentives to the supply of labor, savings, and investments. For instance, broadening the corporate tax base and lowering corporate tax rates would perfectly align with this precept. In this context, consideration should be given to broaden the tax base beyond taxable business income of corporations. Increasingly, business income is generated by entities that are not subject to a tax on their business income. Examples are partnerships and trusts, such as REITs. This creates significant competitive disadvantages for taxable corporations.

In the financial industry, broad-based reforms have taken place, or are underway, and these actions should help to reduce systemic financial risks. The changing landscape is also creating its own challenges. For example, traditional banks now regularly compete with tax-exempt sovereign wealth funds, hedge funds and pension funds for market share. Any tax policy changes, such as interest expense deductibility limitations, should be carefully crafted to avoid creating additional competitive advantages that would favor some players to the detriment of others. It is vitally important that a level playing field among financial market participants is established and maintained, making for a fairer tax system and a more robust global financial system. Naturally, these efforts require coordination across countries.


On this front, initiatives such as the Base Erosion and Profit Shifting (BEPS) consultation being led by the OECD are welcome and should receive full support across the G8 and the G20. The G8 and G20 countries should use any corporate tax base increases resulting from the BEPS project to reduce their corporate tax rates. The OECD's own studies have found that corporate income tax is the least efficient tax and has the greatest negative impact on economic growth. Increasing the corporate income tax burden on corporations while more and more business income is generated through entities that are not subject to corporate income tax should be avoided.

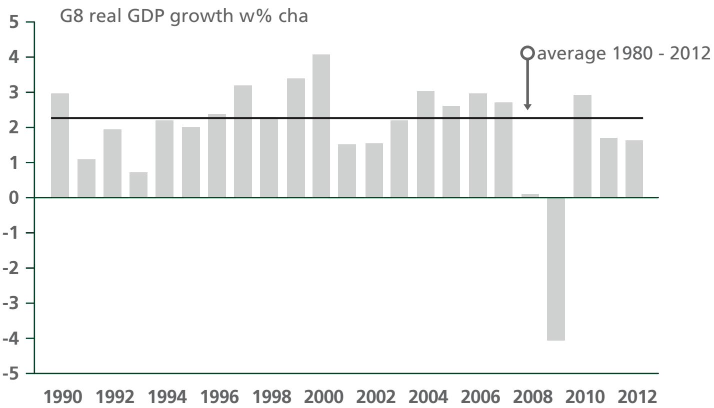
Within the BEPS project, the need for greater transparency in relation to leverage, debt, and ownership structure of multinational corporations also plays a central role. It is important to stress that coordinated tax policies that seek to reduce differences in the treatment of equivalent economic transactions across countries reduce incentives to exploit tax arbitrage opportunities and should naturally lead to more transparent business practices. Furthermore, appropriate phase-in arrangements should be contemplated from the onset. By granting an adequate period to adopt any tax policy changes that may arise from BEPS workstreams, governments would secure more support for the prospective changes, which could lead to more ambitious reforms.

For instance, the significant progress on financial regulatory reform spearheaded by the Financial Stability Board in over-the-counter derivatives markets, as well as the Bank for International Settlements progress towards the implementation of Basel III capital ratios, should serve as encouraging examples. On the tax transparency front, increased tax information exchange agreements are also desirable.

All in all, it is undisputable that more free trade, fairer tax systems, and more transparency would improve economic prospects around the world, creating more prosperity and improving standards of living. Government officials and the private sector should bear in mind that reducing tax discrepancies, both across countries and across participants within each industry, would ultimately lead to increased global production and investments. And, in a globalized marketplace, it is much easier to thrive if everybody else is also thriving. Hence, increased cooperation truly is the way forward to achieve strong, sustainable, and balanced economic growth.

## The Quest for Strong, Sustainable Growth

Source: IMF, TD Economics.
G8 weighted average real GDP growth




In a globalized marketplace, it is much easier to thrive if everybody else is also thriving.


**Craig Alexander**
SVP & Chief Economist
TD Bank Group



**Peter van Dijk**
SVP & Head of Tax
TD Bank Group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# Governance in natural resources: the development challenge of the day

## Good governance of extractive industries has the potential to release millions from poverty, and the G8 has the opportunity to play a central role

*By* Daniel Kaufmann, president, Revenue Watch Institute

Today, there is widespread awareness about how costly corruption is for socio-economic development and global financial stability. Yet corruption is also a symptom of institutional failure, and thus cannot be approached narrowly. 'Fighting corruption by fighting corruption', by instituting yet another anti-corruption law or commission, is futile. It papers over the complex political, economic and institutional dimensions of governance, which are determinants of corruption and have a significant effect on inclusive growth and development.

For the future, it is essential that the international community in general, and G8 governments and policymakers in particular, further focus their collective efforts on the broader challenge of governance and accountability. Improved governance in natural resources is central to this challenge.

For more than 60 countries, how oil, gas and minerals are managed will make or break their development prospects, making improved governance in natural resources arguably the development imperative of this decade. New research by the Revenue Watch Institute points to a major 'governance deficit' in natural resource management around the world, since scores of countries lack satisfactory standards of transparency and accountability in managing their natural resources. This governance deficit is largest in the most resource-dependent countries, where citizens live in poverty despite the countries' vast resource wealth. Today, about 40 per cent of the 1.7 billion people who are living in the most resource-rich countries make less than $2 a day.

Fortunately, the evidence suggests that countries can make major inroads in natural resource governance. There is nothing deterministic about the 'resource curse', as illustrated by the experiences of not only industrialised countries such as Norway, but also emerging economies such as Chile and Ghana. The transformative potential of well-governed natural resource development is enormous. Aid inflows to Africa are dwarfed by the value of mineral exports – oil revenues collected by the Nigerian government alone were 60 per cent higher in 2011 than total international aid to all of sub-Saharan Africa.

### The good governance benefit

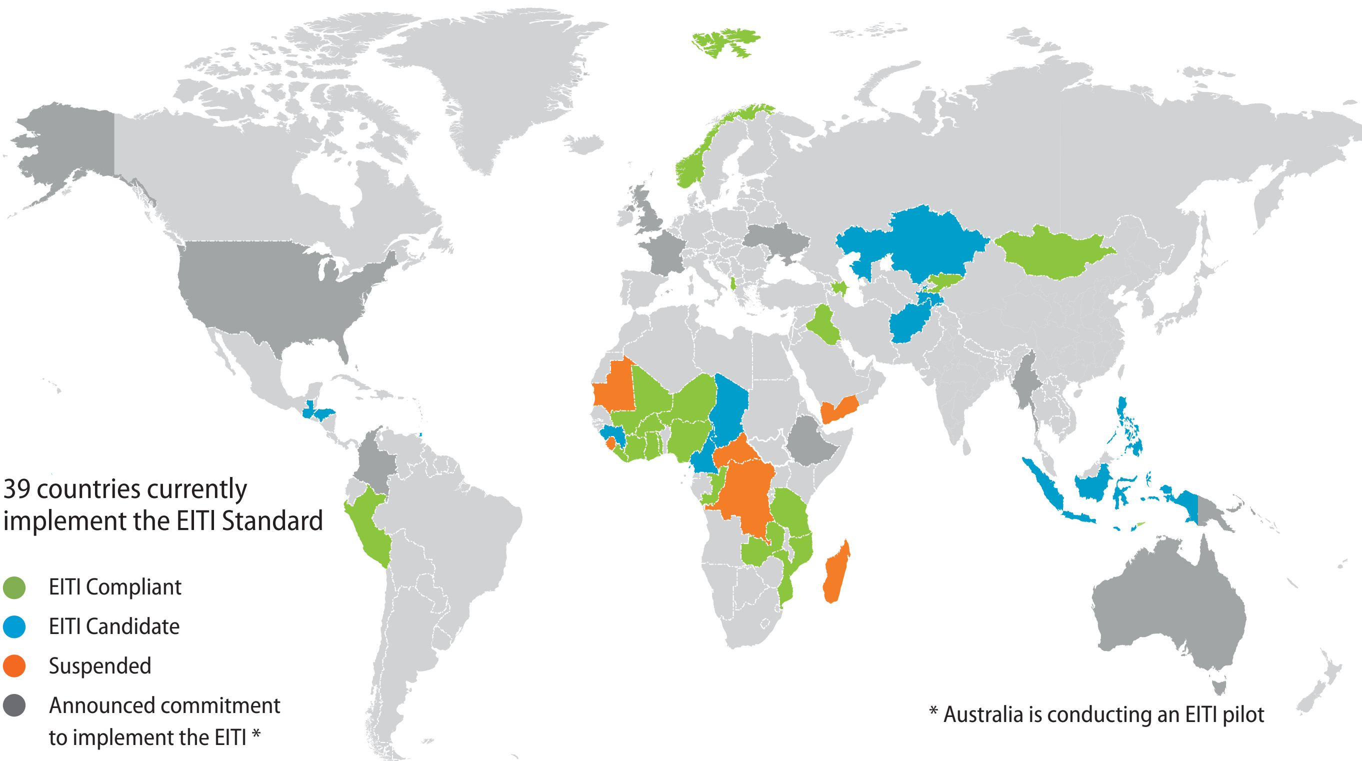
On a broader scale, research shows that a significant 'good governance' benefit can flow to countries that control corruption, embrace transparency and improve governance, by as much as tripling their incomes per capita in the long term. This enormous governance dividend also applies to countries rich in natural resources, as seen in Figure 1.

***This governance deficit is largest in the most resource-dependent countries, where citizens live in poverty despite the countries' resource wealth***

The progress made in natural resource governance has been evident in recent years in the spread of important transparency reforms. A decade after the founding of the International Extractive Industries Transparency Initiative, basic tenets of revenue transparency and resource governance have taken hold in many corners of the world – through ongoing government reform efforts, global civil society action, and increased attention from donor agencies and international organisations. The United States


The Amenam-Kpono oil platform employs mostly Nigerians. Positive resource management in Nigeria has enabled the government to collect vast sums in oil revenues

Extractive
Industries
Transparency
Initiative




# The EITI, the global standard for transparency in natural resources

A country's natural resources belong to its citizens. Citizens expect to be able to see what their government is receiving for its oil, gas and mineral resources. The EITI (Extractive Industries Transparency Initiative) is a global standard that ensures more transparency about countries' oil, gas and mineral resources.

The EITI Standard is implemented by governments, with support from companies, civil society, investors and international organisations. When implemented, it ensures transparency in how the country's natural resources are governed, and full disclosure of government revenues from its extractive sector. It has a robust yet flexible methodology, which countries adopt to address the issues they are facing.

Governments benefit from following an internationally recognised transparency standard, which demonstrates a commitment to an open government.

## France & UK to implement the EITI

In May this year, President François Hollande and Prime Minister David Cameron announced that France and the United Kingdom will implement the EITI Standard.

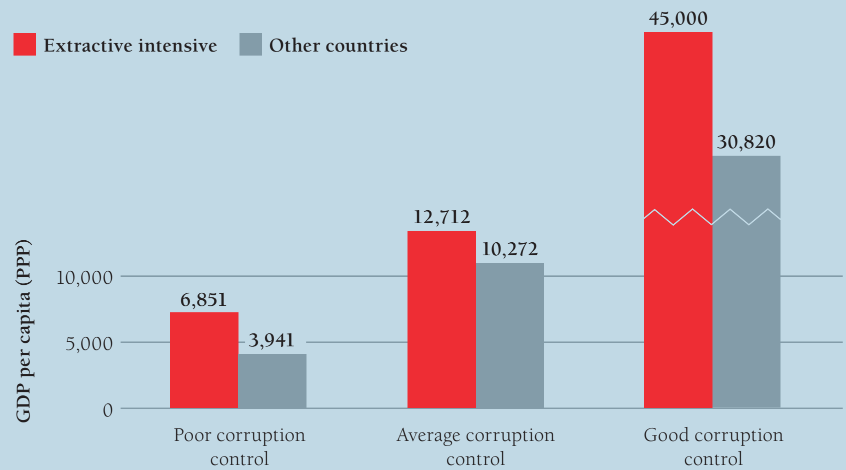
In 2011, President Barack Obama announced that the US will implement the EITI.

web: www.eiti.org email: secretariat@eiti.org address: EITI International Secretariat, Ruseløkkveien 26, 0251 Oslo, Norway

Around 40 per cent of the 1.7 billion people who live in the most resource-rich countries earn less than $2 a day. However, better governance is obtainable

REX FEATURES

**Figure 1: Better governance and corruption control results in higher incomes per capita in extractive-intensive (and other) countries**




*Sources: Gross domestic product (GDP) per capita (atop each column) from World Bank World Development Indicators, 2012. Corruption control data from Worldwide Governance Indicators (WGI), 2012. Countries grouped into terciles based on WGI Control of Corruption scores. Extractive-intensive country classification according to the International Monetary Fund (2010).*

*source: Revenue Watch Institute*

and Europe have moved decisively to mandate transparency within extractive sectors, by requiring new disclosure from oil, gas and mining companies. Further G8 members and other governments may soon follow suit.

## The challenges that lie ahead

Fuller implementation of these transparency initiatives still lies ahead. Major oil companies and some governments are still holding on to opaque systems and resisting the drive for transparency. Challenges regarding data collection, quality and analysis will also need to be addressed in order for disclosure to be translated into effective transparency and accountability. But expectations have changed, and global disclosure agreements are starting to become the new normal.

As the world consolidates and reinforces these transparency reforms, it needs to look to the next 'grand bargain' in managing natural resources. It needs to address governance issues throughout the value chain, in order to bridge the accountability gap and make sure resources are deployed effectively for development. Ensuring access to the underlying contracts and other agreements that govern what companies pay and how they are expected to operate is as important as having clear, timely and publicly accessible information on the payments made by oil, gas and mining companies to governments.

Furthermore, the effective management of natural resource revenues and allocation of expenditures will be a necessary complement to revenue transparency if natural resource wealth is to deliver the broadly shared public benefit that it should. Finally, policymakers must embrace comprehensive governance reforms to improve the overall enabling environment, which will require addressing weak rule-of-law institutions, improving media and civil society freedoms, and striving towards effective public finances and public procurement systems.

The G8 has an important role and responsibility in helping to address these governance challenges – within 'home country' public and private sectors, and by supporting reforms in the rest of the world. The influence that the G8 exerts through the reach of its financing, the operations of multinational corporations and the rules of the game established by international organisations must be further leveraged towards global standards in transparency and accountability in natural resources.

Specifically, the G8 should:

- Endorse both home- and host-country mandatory disclosure standards in line with the new US and European standards, and make a concrete commitment to their implementation. In particular, Canada and Russia ought to also adopt these standards, and ensure that the G20 and emerging economies including Australia, Brazil, China, South Africa and Switzerland follow suit;
- Support the disclosure of the beneficial ownership of companies, so as to disclose who the real owners of these firms are (thereby helping to mitigate corruption and tax evasion) and support a common, public registry to house this data;
- Support explicitly the transparency of extractive industry contracts and encourage all multilateral development banks to incorporate the transparency of extractive industry contracts (in addition to revenues) as a component of their lending programmes and technical assistance;
- Work to extend transparency and accountability standards to state-owned companies and natural resource funds; and
- Promote the common idea of the baseline transparency requirements (as in a standardised set of data and indicators) necessary to enable open, effective resource and revenue management throughout the value chain – and commit new funding for the development of institutional resources to support the use of key data in resource-rich countries.

Ultimately, the responsibility for improving governance rests mostly with each country, its leaders, politicians, companies and civil society. Yet global initiatives such as those discussed above can have a catalytic effect in supporting reforms at the country level. ■

# International standards and Cyprus: global action against money laundering, terrorist financing and tax transparency

Global action for the fight against money laundering and terrorist financing, as well as on tax transparency, would not have been a reality if not for the political will and determination of countries and groups of countries like the G7, G8, G20 and the European Union (EU).

The outcome of these efforts in the past two decades has been the setting up of standards towards these goals, as well as the means to assess systems and countries on their implementation. The Financial Action Task Force (FATF), which is an intergovernmental organisation founded in 1989 on the initiative of the G7, has issued Recommendations on Money Laundering and Terrorist Financing, which has set the world standard on the matter.

Regarding tax transparency, the Global Forum on tax transparency and Exchange of Information for Tax Purposes, which is comprised of 120 member countries, is a multilateral framework within which the internationally agreed standard on transparency and exchange of information for tax purposes is ensured. In 2009, in response to the G20 call to strengthen the exchange of information, the Global Forum was dramatically restructured to render it a more effective and open body, mandated to put in place a robust and in-depth peer-review mechanism – a move which has proved to be very effective.

This setting up of standards and the means of assessing the legal framework and its implementation in countries worldwide has also given a practical way forward for every country that wants to better and enhance its structures and procedures. Cyprus has not only viewed the full adherence to these standards as a necessary seal of approval by the international community, but also as an important, practical way to set up a framework that would help it in becoming a reputable international business centre.

## Cyprus and its adherence to the international standards

Cyprus has in place legislation that is in line with the UN Convention (Vienna Convention), the Council of Europe Conventions on Laundering, Search, Seizure and Confiscation of the Proceeds for Crime, the EU Directives, the EU Council Framework Decisions on Freezing and Confiscation as well as the FATF Recommendations on money laundering and terrorist financing. It is noted that the Cyprus legal framework has provisions that are even stricter in some respects than the FATF standard. For instance, there is a strict obligation in the law to identify natural persons who control 10% or more of the legal entity or arrangement, rather than the 25% threshold that is provided in the FATF standard and EU Third Anti-Money Laundering Directive. Another example is the power given in the law to the Financial Intelligence Unit, to issue instructions for the suspension or non execution of a transaction – a feature that goes beyond international standards.

The legal framework of Cyprus has also been assessed four times by the relevant Committee of Experts of the Council of Europe on the evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), the last two of which also related to its implementation. These assessments have shown the good standing of Cyprus and also provided recommendations for enhancing it – a valuable tool for the country in this respect. Regarding the Financial Action Task Force, it should also be mentioned that Cyprus has never been on its published list of countries that present strategic deficiencies in their anti money laundering (AML) systems.

On the issue of tax transparency, Cyprus's national legislation fully adheres to the relevant EU Directives, the EU Administrative Cooperation Directive as well as the EU Recovery Assistance Directive. In addition, Cyprus's tax framework fully adheres to the Code of Conduct for business taxation, a political agreement between EU member states that is part of the acquis communautaire and which sets strict criteria against the use of harmful tax measures in member states.

Cyprus, as a member of the Global Forum, has also been assessed through the Peer Review Process on its legal and regulatory framework in 2011 (which was deemed appropriate) so that the peer review process could proceed on the review of the practical implementation of this framework – something that is currently taking place.

Despite the significant efforts of our country to fully adhere to these international standards throughout the years and be assessed on them by the appropriate international bodies, we have seen with great concern in the past months an atmosphere created through the press or through statements of officials of various countries of nullification of these efforts and achievements. Setting aside the unfairness of this treatment, such an approach undermines the standards as well as the international organisations entrusted to see to their implementation. In addition, they send the signal to any country that its efforts to adhere to these standards on money laundering, terrorist financing and tax transparency might be in vain, if for political reasons they become a target on these issues. No country of course has a perfect system, nor is it immune to money laundering or tax crimes. As a business centre, Cyprus is no exception to this rule.

**The Cyprus legal framework has provisions that are even stricter in some respects than the Financial Action Task Force standard**

Notwithstanding this, Cyprus stands ready and is committed to implementing any measures, legislative or practical, to enhance its framework in these fields, as per the recommendations of the relevant international bodies. Where warranted, it is also committed to implementing measures beyond the international standards and according to best practice.

We view such an approach as an opportunity and not as a burden. Moreover, we strongly support that only through a unified response from all countries can these phenomena be contained.

We would like to note that recently Cyprus has conducted specific assessments, not usually conducted in other jurisdictions, on the effective implementation of customer due-diligence measures in its banking sector. The findings of this work reveal a solid level of compliance in the banks, as well as areas requiring further attention that Cyprus will duly address.

## A way forward for the international community

As a way forward with regard to the fight against money laundering and terrorist financing, Cyprus believes that more work is needed internationally for the harmonisation of the domestic legislative and practical measures in line with international standards. At the international level there is a need for the implementation of the revised FATF recommendations, while at the EU level the draft 4th Directive will be an additional tool in this direction. Moreover, the enhancement of international cooperation, not only with the exchange of information but with the mutual recognition and enforcement of court orders, freezing and confiscating of assets is essential in order to have a more effective global system to fight these phenomena.

On the tax transparency front, we believe that an important enhancement of the effectiveness of the review and ratings process of the Global Forum would be the introduction of an ongoing and periodic review procedure in the Global Forum assessment methodology. A periodic procedure, instead of a static process, would result in up-to-date ratings of the various countries and would additionally act as a strong incentive for jurisdictions to improve their position and maintain it.

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# Managing and thwarting the criminal risk in an open world

## In a globalised world that is increasingly open to trade, investment and the flow of people, countries are ever more vulnerable to international crime

*By* Ronald K Noble, secretary general, INTERPOL

If humankind were to stop for a second and look over its shoulder, the view would be breathtaking – because of the progress that has been made socially, economically and technologically. Equally astonishing is that through the millennia of history, the basic laws of nature have endured. Untouched. Universal.

Among them is the miracle of growth. Plant a seed, give it enough space to stretch its roots, provide water to feed it and air for it to breathe, and it will soon bear fruit. In other words, open up the world around that seed, nourish it and it will prosper.

Unfortunately, this same principle applies in adverse ways. Open a single crack in a dam, and witness a catastrophic flood. Give fire a breath of oxygen, and see it rage unbridled.

### An open and interconnected world

The global landscape does not escape this duality. Over the past century, borders built to protect became more porous to allow for the lawful movement of individuals, investments and goods, resulting in spectacular growth. But as in nature, cracks and fires also emerged that must be mended and extinguished. One is the unprecedented opportunity for criminals to strike across borders without warning and enjoy anonymity in an increasingly open and interconnected world.

A century ago, those new opportunities led to the birth of a then revolutionary concept: connecting police for a safer world. Today, INTERPOL stands as the world's largest international police organisation, operating around the clock, serving 190 countries and facilitating the arrest of thousands of fugitives around the world each year.

As key world leaders gather at Lough Erne for the G8 summit, the issue of openness will once again be central, and understandably so. In the past 60 years, access to international markets has proven to be a fundamental measure for economic success in some of the fastest growing countries; following the recent financial downturn, the incredible resilience of migrant flows and related remittances has come as a surprise to many analysts. But the criminal risks of an open world must continually be considered if we are to design a way forward.

In 2011, the World Trade Organization estimated that the value of total world merchandise trade is $18.2 trillion. Between two and seven per cent of this amount is thought to represent the illicit trade in counterfeit and pirated goods, not counting revenues lost from legitimate products when they are smuggled internationally.

*In March 2013, I visited Tripoli, hearing first-hand from local authorities how a country entering a new era in its history was left vulnerable by its recent internal crisis to inflows of criminals and radicals*

### The economic impact of smuggling

With much of the world still confronting the economic crisis, countries must do their best to prevent the diversion of this enormous flow of goods and revenue from their lawful destinations. The implications for safety, job creation, economic growth and government revenue are too great not to do so.

One important element of INTERPOL's answer to this global crisis is its Trafficking in Illicit Goods Programme. In 2012 it helped member countries seize $70 million in counterfeit items and arrest some 2,000 people though international operations. Combined with training, awareness raising, legal assistance and strong public-private partnerships, this represents a one-stop, global initiative against illicit trade. As such, it will need the support of governments and industry alike to achieve its ambitious goals.

### Disrupting organised crime networks

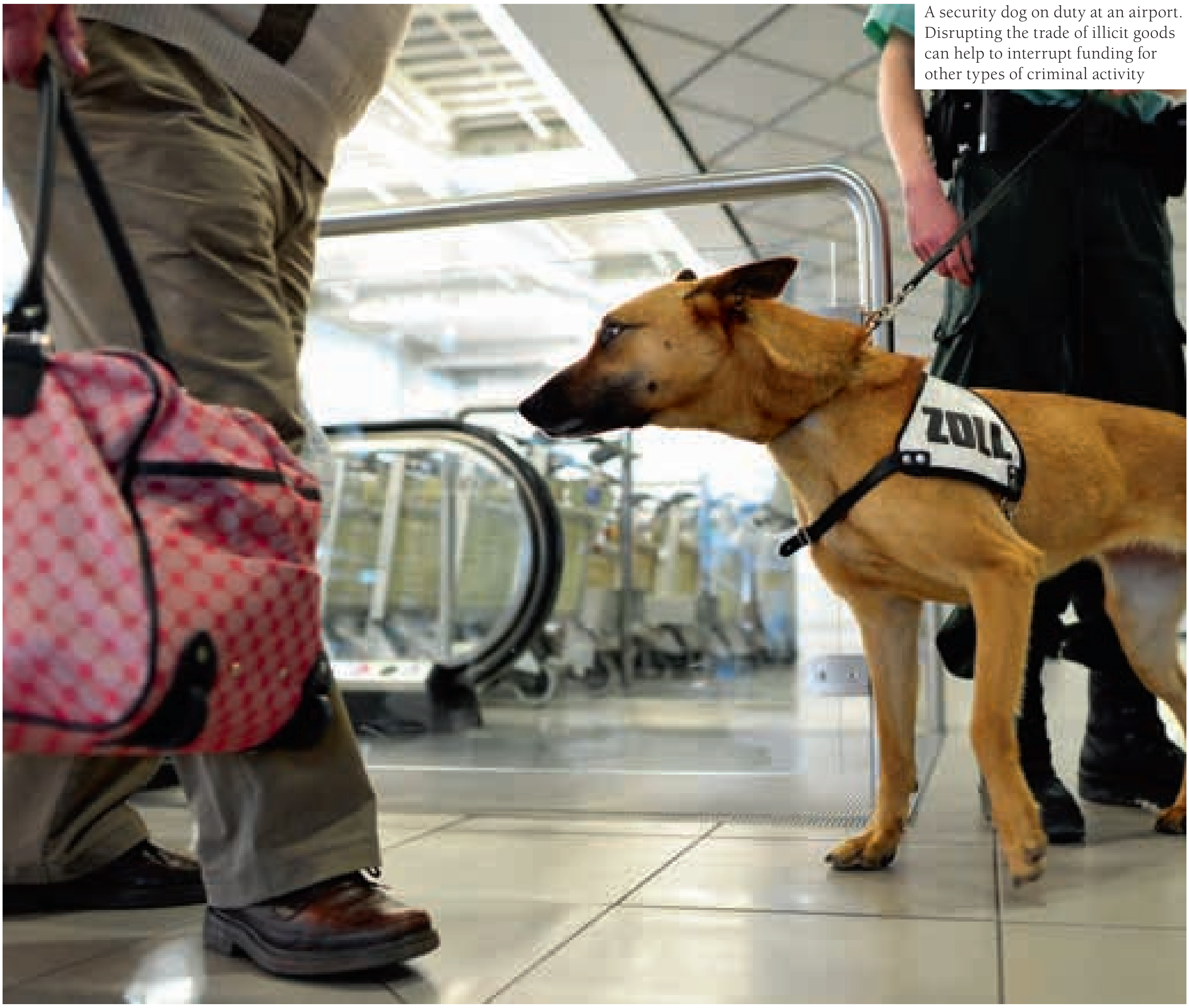
Among them is – first and foremost – disrupting the flow of proceeds to the groups enjoying the low risks and high profits of illicit trade, including organised crime syndicates in southern Europe, the Real IRA in Northern Ireland and Hezbollah in the Middle East. The same risks and profits were enjoyed by Mokhtar Belmokhtar, whose history as a tobacco smuggler throughout the Sahara preceded the attack he masterminded on the In Amenas gas facility in Algeria last January, which left some 30 hostages dead.

That tragedy highlighted another key risk that results from tremendous international flows: they allow dangerous individuals to engage in cross-border crime. Belmokhtar had relied on 20 years as a jihadist from Afghanistan to Algeria – a life in the service of international terror. It comes as no surprise that he targeted innocent foreigners.

Allowing for the free movement of goods, skills and services while keeping crime and violence at bay is the cornerstone of any prosperous and growing economy. This is particularly true when human flows and investments support the growth of young or transition economies, as I found to be the case in Libya. In March 2013, I visited Tripoli, hearing first-hand from local authorities how a country entering a new era in its history was left vulnerable by its recent internal crisis to inflows of criminals and radicals.

In partnership with the European Union, INTERPOL launched Project RELINC, to provide Libyan law enforcement authorities with much needed infrastructure and analysis capacity. As part of RELINC, Tripoli International Airport was connected to INTERPOL's Stolen and Lost Travel Documents database to screen incoming passengers, supporting the re-establishment of the rule of law and the country's rebuilding.

Yet tools alone are no panacea for combatting international crime. Their effectiveness is only as strong as the commitment of their users to maximise




DPA/PA

A security dog on duty at an airport. Disrupting the trade of illicit goods can help to interrupt funding for other types of criminal activity

their value. In 2012, searches in INTERPOL databases reached the record number of one billion – 70 per cent of which are Stolen and Lost Travel Document checks. However, INTERPOL tools are being used systematically only by a handful of countries. In other words, the flows of goods and individuals are still left largely unscreened.

A bright and safe future for all the world's countries and citizens is within reach. But to achieve it, leadership and coordinated action from the G8 and others are required. INTERPOL witnessed this before: in 2004, the G8 unanimously endorsed the vision of the Stolen and Lost Travel Document database; in 2003 it supported the creation of the first global International Child Exploitation Image Database. Both solutions are today deployed in the field in order to enable the identification of criminals at borders and the rescue of almost 3,000 abused children worldwide.

In 2013, the G8 leaders gathered in Lough Erne will have another chance to act as a powerful global beacon by calling for the systematic, worldwide use of INTERPOL's tools. This will help secure borders, while still allowing for the flexibility and opportunities that the global market demands and offers.

A more open, safer world is possible. But it will need exceptional leaders to approach, manage and thwart the international criminal threat that comes with open borders. ■

# From resource curse to resource cure: the G8 opportunity

## Harnessing resource revenues is vital for the world's poorest countries, but they require help from the G8 in combatting tax avoidance and money laundering

*By* Paul Collier, Blavatnik School of Government, Oxford University

The G8 remains the world's most important opportunity for effective international cooperation. The leaders of eight major countries, of which Canada is one, meet privately. Freed from the usual need to posture before the media, they can agree to common action. If they address the right issues, they can help both their own societies and those far less fortunate.

The commodity super-cycle of the past decade has been a massive opportunity both for Canada and most of the world's poorest countries. High prices not only directly raised revenues, but also triggered investment in prospecting. Many countries that were resource-poor at the start of the millennium are now resource-rich. The flow of resource revenues into the poorest countries is already around 15 times their receipts from aid, and this figure is set to rise further as new discoveries come on stream. The coming decade will truly be the greatest opportunity that the poorest countries have ever had.

### Plunder or prosperity?

Canada is renowned for having managed its resource base well: per capita income is now higher than that of Germany, which is Europe's most successful major economy. This is all the more impressive because globally the history of resource-based development has more commonly been plunder than prosperity. The default option in poor, resource-rich societies is for history to repeat itself, in which case this will be a missed opportunity of catastrophic proportions.

While it is therefore a vital matter that 'this time it's different', the G8 cannot tell other countries what to do. What it can do is to ensure that it is not, inadvertently, part of the problem. Much of the resource extraction in poor countries is being undertaken by G8-based companies. While these companies are the engine of potential prosperity in poor countries, their behaviour could determine how and whether this potential is harnessed. Similarly, much of the legal work that helps facilitate international business is undertaken in G8 financial centres. While some of this is essential, at the margin it also facilitates tax avoidance and money laundering.

### The cycle of tax avoidance

At its best, resource extraction produces the kind of success seen in Canada. At its worst, in poor countries, it has been characterised by bribery, tax avoidance and embezzlement. Companies have bought their way into biased deals that disadvantage the country so that not enough revenue is taxable. Transfer pricing has then further reduced tax payments by shifting profits to tax havens. Finally, such revenues as companies have paid to governments have been subject to looting by corrupt officials. Governments in poor countries usually lack the capacity both to prevent officials from being tempted by bribes and helping themselves from the public purse, and to scrutinise companies and prevent transfer pricing. In contrast, G8 countries are in a strong position to tackle these abuses.

The G8 can prevent G8-based companies from bribing officials by criminalising bribery and putting serious resources into prosecution. Individual G8 governments have gradually been tightening their laws: for example, in 2011 the tough new Bribery Act came into force in the United Kingdom. Following a bribery scandal, the Canadian government committed to tightening Canadian legislation. But companies are rightly concerned that standards should be set in common. Standards need to be raised, but if a single country gets tough it disadvantages its own companies. Without coordination there is a risk of a race to the bottom; G8 coordination can achieve a leap to the top.

***Within the G8, Canada is the beacon of well-managed, resource-fuelled development***

The G8 can curb the embezzlement of public funds by corrupt officials if resource extraction companies publicly report their payments to governments. In the United States, the Cardin-Lugar amendment to the 2010 Dodd-Frank Act made this a legal requirement for all companies registered on US stock exchanges. The Parliament of the European Union is in the process of enacting equivalent legislation. This places Canada in pole position, because Canadian financial centres are where most of the world's resource extraction companies are listed. As with anti-


The G8 summit presents an opportunity for its leaders to take real action, without posturing for the media. Only through such concerted effort will regulation of the resource-extraction sector have a tangible benefit for poor, resource-rich countries

POOL/ABACA/PA

bribery legislation, the choice is between a race to the bottom and a leap to the top.

The complementary international process that is encouraging greater transparency is the Extractive Industries Transparency Initiative (EITI). This is a voluntary standard, multi-stakeholder organisation that is gradually raising standards. Thirty governments have already committed to the initiative. Canada is not yet a member of the EITI, but the G8 can scarcely hope to influence the behaviour of other governments unless it practises what it preaches.

**Taking on money laundering**

Both bribery and embezzlement depend upon being able to launder the money that corrupt individuals receive. So a further point of assistance in combatting these practices is to make money laundering more difficult. The key mechanism for money laundering is 'shell' companies – legal entities that can have bank accounts but whose true ownership cannot be ascertained. The lawyers and bankers who set up such companies, and so are the lackeys of corruption, are not based in Lagos and Togo, but in London and Toronto, and while African governments cannot crack open corporate opacity, the G8 is in a position to do so.

Finally, G8 governments are recognising that they too are victims of transfer pricing: profits are shifted to tax havens not just from African jurisdictions but also from the G8's own members. Pascal Saint-Amans, head of taxation at the Organisation for Economic Co-operation and Development, aptly describes the present international corporate tax system as permitting 'double non-taxation'. Tackling the problem of transfer pricing is an example of how, by curtailing abuses, the rich can help themselves and help the poorest societies.

Within the G8, Canada is the beacon of well-managed, resource-fuelled development. For the G8 to tackle the issue of corruption and money laundering effectively, the key partnership is therefore between the Canadian government and the G8 host, which takes the lead in proposing an agenda. Fortuitously, this year's host government is the UK: the two leaders are both conservatives, and so common history and common beliefs have aligned the stars for collaboration.

**A big opportunity for change**

A billion people are living out their lives in poverty, while their countries could be propelled to prosperity by resource-fuelled growth. This year's G8 is the world's chance to adopt practical measures that help to make this possibility a reality. Or the G8 leaders can say 'not our problem' and turn their meeting into yet another fatuous display of theatre. ■

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# Resource curse or blessing?

## Harnessing resource wealth for wider economic benefit

The mining, oil and gas industries can have a powerful and positive impact on development. But in recent years there has been much discussion of a so-called 'curse' that holds back growth of resource-rich nations in which governance is weak. To the contrary, countries like Australia, Canada, Botswana and Chile have effectively used their resource endowment to create strong economies in which the benefits of development are shared broadly. We can use their experience to understand how minerals and energy wealth can be best harnessed for development.

It is now broadly accepted that the most successful raw material exporting nations are those with strong institutions that ensure the income from resource development is well spent; the capability to develop robust macro-economic policy; and resource companies that make a larger contribution to the economy by using domestic suppliers and employing local people.

But ahead of this year's G8 summit, debate has focused on a single subject: transparency. Making mining, oil and gas companies disclose the taxes they pay to government, it is argued, will help expose corruption and ensure that communities get a greater share of the resource wealth.

As founding members of the Extractive Industry Transparency Initiative (EITI), BHP Billiton agrees that transparency can contribute to better governance. We are already implementing Dodd Frank 1504 and are working with UK policymakers on the EU proposals. But we do not think that this regulation alone will significantly benefit resource-rich developing nations.

Transparency is a prerequisite to successful governance and economic stewardship, but it is not a panacea. The legislation adopted by the EU and US will not apply to many state-owned mining companies, non-EU and US-listed companies, nor the 15 to 20 million artisanal or small-scale miners that depend on mining for their livelihoods, unless they have European or American

Caoimhe Buckley, Head of Public Affairs, Europe, BHP Billiton, Neathouse Place, London, SW1V 1LH, UK

subsidiaries. It will only apply to EU- and US-listed companies that are already, according to Transparency International, among the most transparent companies in the world in terms of their reporting.

To deliver real benefits from natural resource wealth, there are three things that need to change and in which we can play a role:

## Transparency – necessary but insufficient

Firstly, if recent transparency legislation is to be effective in helping to eliminate corruption, a global standard is required that encapsulates the companies and countries currently excluded by EU and US regulation. In addition, communities need a process that helps them understand the disclosure and hold government to account. BHP Billiton believes that EITI is the best existing mechanism to build on, and in that light, welcomes the UK and French adoption of EITI.

## Increasing shared value

Secondly, investors, national governments and civil society all have roles to play in improving market-based national economic strategies of countries with large resource endowments. Chile, where mining accounts for 20 per cent of GDP, 60 per cent of exports and roughly 10 per cent of employment, is successfully converting its resource endowment into social capital. While each country will adopt its own particular solutions, Chile's government for example has created sovereign funds to successfully manage the cyclical nature of mineral revenues. It has no public debt and enjoys impressive macroeconomic performance.

BHP Billiton has a significant copper business in Chile, where we operate the world's largest copper-producing mine, Escondida. Our tax contribution last year was US$1.3 billion but our economic contribution to the Chilean economy was multiples more, at US$11 billion.

Beyond this, BHP Billiton supports the government's ambition to achieve broad-based growth and diversify the economy by promoting research and development. Our world-class supplier programme will transform 250 suppliers into knowledge-intensive mining services companies, operating on a global basis. The programme, which has been praised by the IFC, OECD and World Economic Forum has proven so successful, it is being supported by Chile's state-owned mining company Codelco and is attracting other private-sector supporters. And this year the programme received a Big Tick from Business in The Community for their 2013 Responsible Business Awards.

## Building institutional capacity

Contrary to popular perceptions, the appetite of multinational mining companies for greenfield investment in countries with poor resource governance is not increasing. Across the industry, companies are cutting investment and prioritising projects that enhance their portfolios and deliver shareholder returns without taking on unnecessary political risk.

Enhancing institutional capacity in emerging economies can improve the investment climate for all industries and promote broad-based development. To support these objectives, BHP Billiton will identify more community programmes focused on governance and support measures to ensure that the transparency created by legislation has the impact intended by policymakers.

Our sponsorship of the Australian Indigenous Governance Awards and the Peking University Public Policy Executive Training Program are examples of our current approach. But we are ready to work with G8 governments to help us identify robust, ethical and long-term initiatives that will ensure our community investments have the most benefit.

## Conclusion

The UK Presidency of the G8 will focus on how extractive companies can support the global development agenda. The industry has much to contribute. Several of its largest companies have developed programmes that successfully address some of the major challenges faced by developing nations – from reducing the incidence of malaria and HIV to promoting entrepreneurship and building the capacity of national and municipal governments. Our experience can help inform more effective support for emerging economies.

The G8 allows companies like BHP Billiton to engage more effectively with governments, communities and civil society in the search for a more constructive and meaningful way to foster successful resource management. We plan to make full use of the opportunity.

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# Continued progress in a democratic Liberia

**After a decade of peace and progress, democratic Liberia is looking to the future with renewed confidence. However, it still faces many challenges**

*By* Ellen Johnson Sirleaf, president, Liberia

Liberia is ripe for transformation. It is a country stepping out of the shadow of civil war. Experts have postulated that countries emerging from civil crises are likely to relapse into conflict within seven years. Liberia is experiencing its 10th year of uninterrupted peace and solid progress.

In 2003, Liberian stakeholders, including the warring factions, political parties and civil society groups, signed the Comprehensive Peace Accords (CPA) in Accra, Ghana. This ushered in an interim government with a two-year mandate. In keeping with the CPA, the international community helped to organise democratic elections in 2005, in which the Unity Party (UP) came out victorious. The inauguration of the UP-led government in January 2006 marked the formal end of the Liberian civil conflict.

### Building on democratic elections

The country held its second successful election in 2011. This time the election was organised and conducted by Liberians themselves. The Unity Party was returned to power based on its track record.

Liberians know all too well that promoting democracy and building a nation for sustainable growth and development require much more than simply holding elections. There is the need for good governance with functioning and transparent institutions, the rule of law, the protection of human rights, an independent judiciary, a free press and free speech, as well as a vibrant civil society and private sector.

That is why, in the first six years, the Liberian government adopted a development strategy based on the four pillars of peace and security, economic revitalisation, governance and the rule of law, and the rebuilding of infrastructure and restoration of basic services. The government also initiated a number of reforms aimed at addressing some of the issues that contributed to the civil conflict in the first place. Several independent commissions were established to this end, including the Governance Commission, the Public Procurement and Concession Commission, the Liberia Anti-Corruption Commission, the Land Commission, the Law Reform Commission, the General Auditing Commission, the Constitutional Reform Committee and the Independent National Commission on Human Rights.

### Protecting the public purse

The government also passed the New Public Finance Management Law to bring accountability and transparency to how public money is spent. With the strong support and cooperation of its international partners, the government entered into the Highly Indebted Poor Countries process with the World Bank and the International Monetary Fund, and succeeded in having more than $4 billion of Liberia's external debt written off. Successful negotiations with the Paris Club also led to the write-off of Liberia's commercial debt. Now debt free, the country is determined to avoid the mistakes and the type of borrowing that led to its heavy debt burden in the first place.

The policies of prudence and restraint of the last six years, which were seen as a period of stabilisation and economic recovery, have put the country firmly on the path to sustainable growth. The economy grew at an average of nine per cent annually from 2006 to 2008. It has averaged seven per cent following the global financial crisis of 2008-09. The national budget has grown from $80 million in 2006 to $580 million in 2012. It has been a jobless growth, however, and the country continues to grapple with high unemployment, especially among the young people, many of whom were former fighters.

Restoring key infrastructure damaged by the years of civil conflict, specifically roads, power and ports, is essential to Liberia's continued economic recovery

REUTERS

The government undertook a review of several investment agreements to ensure that the country's abundant natural resources are exploited for the benefit of all Liberians. In the meantime, it mobilised more than $16 billion worth of foreign direct investment, mainly in the agriculture and mining sectors.

**A term of transformation**

The government sees its second term as a period of national transformation for Liberia. It is convinced that as a resource-rich country, Liberia can transform itself if these resources are exploited for the benefit of the country's entire population.

After extensive nationwide consultations with the broadest possible participation of its citizens, the government has adopted a five-year development programme entitled Agenda for Transformation, together with Vision 2030, a long-term strategy to make Liberia a middle-income country by the year 2030.

***The national budget has grown from $80 million in 2006 to $580 million in 2012. It has been a jobless growth, however, and the country continues to grapple with high unemployment, especially among the young people***

The government is determined that Liberia should not be in need of official development assistance in 10 years' time.

As a necessary first step to achieving its objectives, the government has identified, as priority projects, power, roads and ports. Power generation and distribution were severely degraded during the years of conflict. Prior to the conflict, the country produced about 400 megawatts of power; it produces less than a tenth of that amount today. In addition, the country has one of the highest costs of power in the world, at $0.54 per kilowatt. The lack of power is a serious disincentive to investment and industrialisation. The government has

*Photo credits: Bottom left - © Andy Weekes/Sightsavers, bottom right - © Nikki Bayliss/Sightsavers*

**Improving Quality of Life**

**Building Human Capacity**

**Creating Training Opportunities**

**Supporting Local Businesses**

**Investing in Liberia's Future**

African Petroleum CORP LTD

*In partnership with*

Sightsavers kelway beyond technology

African Petroleum is committed to operating responsibly and endeavours to enrich the communities in which we operate. To ensure our efforts are sustainable, corporate social investments are primarily focused on project work across human capacity development and access to quality healthcare across the areas where we operate. Specific to Liberia, our work includes:

## Human Capacity Development

**University Enrichment Programme:** To ensure local capacity development across petroleum geosciences, African Petroleum partners with the University of Liberia Earth Sciences and Engineering Department. Support in this area is centred on building a modern geological and geophysical computer lab inclusive of industry software, hardware and power generation. This investment includes a relationship with IT Services and Solutions Provider Kelway which, in collaboration with African Petroleum, supplies and donates IT equipment.

**After School Enrichment Programme:** The goal of this project is to encourage academic growth, enhance decision making around reproductive health and personal relationships, and develop leadership skills.

This programme runs parallel to the academic calendar year, and includes a range of projects covering: academic tutoring, literacy training, employment skills development, reproductive health awareness and leadership development. Vocational courses range from sewing and baking to typing and computer skills.

## Access to Quality Healthcare

This area of corporate social investment revolves around partnerships with international and locally based health agencies to provide larger scale training to local health and medical professionals.

In partnership with Sightsavers, the Sheikh Zayed regional training centre, and rural hospitals and clinics across West Africa, African Petroleum will provide funding to train 18 cataract surgeons, ophthalmic nurses and ophthalmologists. Once this training is complete, medical equipment will be provided to carry out their work across urban and rural communities.

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More than 50 per cent of the Liberian population is made up of young people aged 15 to 34, and the high rate of youth unemployment is a key challenge for the country

AP/PA

targeted a production of about 330 megawatts by 2015, including rehabilitation of the Mount Coffee Hydro Plant and importation of additional power from the West African Power Pool. It also aims to achieve a rate of $0.22 per kilowatt, which is closer to the regional average. In addition, there are plans to develop mini hydro plants in rural areas by taking advantage of the country's many rivers and waterfalls.

**Roads to recovery**

Roads are another major constraint for the country's development programme. Most roads fell into disrepair during years of neglect from the conflict, and bridges collapsed. Many of Liberia's roads are virtually impassable during the heavy rains, which last for six months each year. The movement of goods and people becomes extremely difficult and prices of essential commodities skyrocket around the country. Similarly, the ports provide outlet for exports and imports. Today, all of the country's ports need an infusion of capital for repair and expansion. In short, Liberia continues to face the challenges of a weak infrastructure. It has the additional challenges of low human capacity development and high unemployment, especially among the youth. More than 50 per cent of the population comprises young adults aged 15 to 34.

***Liberia continues to face the challenges of a weak infrastructure, low human capacity development and high unemployment, especially among the country's youth***

Liberia's phenomenal progress over the past six years has been supported in large measure by the United Nations Mission in Liberia, the Economic Community of West African States and the African Union. The country has also built partnerships with its traditional friends, many of which are members of the G8. It is expected that these partners will continue to lend support to the emergence of a strong democratic tradition and good governance in Liberia. Such support should extend beyond the usual conditionality for upholding rights and encouraging dissent. G8 partners should help Liberia become a true success story by opening access to their capital markets and making available those policy tools that will direct and protect investment from these countries into Liberia for job creation. Travel advisories and warnings about Liberia should be updated more regularly to reflect the peaceful reality that has taken hold over the past ten years.

The true success story of Liberia is a credit to its international partners and G8 friends. ■

# Why we believe in Liberia: a year on, we achieve more together


The Putu camp


View from the mountain

Christian Masurenko, CEO of Putu Iron Ore Project Ltd. (part of OAO Severstal, one of the world's leading steel and steel-related mining companies).

Liberia, driven by its mining resurgence, is becoming an increasingly attractive proposition for international investors. Led by strong direction from the Liberian Government and the enthusiasm and hard work of its people, Liberia is returning to its great mining heritage and is once again on the verge of becoming a leading mining nation. Our faith in the opportunities and future prospects for Liberia and its people is a major reason why Severstal is investing in the country.

Severstal is a global company, with approximately 70,000 employees across its operations in Russia, North America, Europe, South America and Africa. The company's overarching goal is to be the leader in value creation, an objective that extends far beyond simply maximizing returns for our shareholders. We firmly believe that long-term success can only be achieved by being a responsible business, which is why we prioritize being a responsible and sustainable operator, partner and employer within all of the local communities where we have a presence, including Liberia.

Since 2008, Severstal has invested approximately US$120 million to develop the Putu Range Iron Ore Project in Liberia. The project is located on a 13km-long iron-rich ridge 130km inland from the shoreline of Eastern Liberia. Since April 2012, when Severstal acquired a remaining 38.5% minority stake in the project, the company has held a 100% interest in the project. A Mineral Development Agreement (MDA), covering a 25-year period with the option for extension in line with the mine's life, detailing the financial and legal terms for the development and mining of the deposit was granted and ratified by the Government of Liberia in September 2010.

## Liberia is returning to its great mining heritage, on the verge of becoming a leading mining nation

The Putu project is progressing to plan towards our objectives of developing a world-class mining operation in Liberia. In September 2012, Putu Iron Ore Mining Inc. (PIOM) completed the pre-feasibility study phase (PFS) and handed over all PFS documents to the Government of Liberia. The feasibility study (FS) is being performed in conjunction with world-leading consultancy firms, who are working closely with our local partners, and is due to be completed by March 2014.

The construction phase of the project is scheduled to begin in 2014. It will include the construction of the mine and a processing plant, and will last about three years. During this period, Severstal will also invest significantly in upgrading Liberia's infrastructure, with a focus primarily on the country's Grand Gedeh, Rivergee and Sinoe regions. This infrastructure investment will include the construction of approximately 160km of railway and a number of new port facilities. Furthermore, a power plant newly constructed by Severstal will be designed to not only supply the mine, but also the surrounding communities within a 10km radius. The renovating of the Greenville-Zwedru road into an all-weather paved road is planned, which will bring significant benefits to transportation in the Putu region. As well as creating new jobs, these projects will all significantly enhance the quality of living in local communities.

We strongly believe that the Putu project, and the investments that Severstal is making locally, will generate significant social and economic benefits for the region, including the creation of around

Drilling and team work at Putu

Part of the team at Putu

2,000 permanent jobs, with a further 15,000 to 20,000 jobs created indirectly when the mine is operational.

Since 2010, Severstal has also supported local Liberian communities through donations to develop: local community projects (US$500,000 to US$3 million per year); education funds (US$300,000 per year); and scientific foundations (US$200,000 to US$350,000 per year). Severstal is also training local people so that they are equipped with the necessary skills to take jobs within the company.

Along with our local partners, together we have so far:

## Education

- Supplied a number of schools with materials and contributed to teachers' salaries
- Provided training and skills development to Liberian locals in partnership with the Zwedru Multilateral Vocational Training Institute
- Sponsored an adult literacy program through the PIOM Night School
- Provided scholarships to high school students within the community
- Sponsored a number of three-year scholarships to students entering university this year
- Partnered with the International Youth Fellowship (IYF) to provide skills training to local youth communities, including business education, computer literacy, carpentry and arts and crafts skills

## Health and Safety

- Supported emergency response units within the local community
- Provided medical supplies to local clinics
- Improved sanitation through the rehabilitation of water pumps within the affected communities
- Provided medical support in life-threatening medical cases from the local community
- Carried out a health and sanitation awareness campaign among the local people

We anticipate annual production at the Putu Range will be initially in the range of six-eight million tonnes of high-grade iron ore per year, eventually rising to around 20-25 million tonnes per year. This will, we forecast, generate approximately US$100 million per year of royalties for Liberia, and up to US$300 million per year in corporate income tax contributions. We are committed that our investments in Liberia bring significant benefits to all stakeholders, partners and local communities and contribute to economic growth in the region. As Severstal's motto says: we achieve more together.

### ABOUT THE PUTU RANGE IRON-ORE PROJECT

The Putu Range iron-ore project is one of the most perspective world iron ore deposits located in the Grand Gedeh County of south-east Liberia, approximately 460km from Monrovia (via Ganta) and 130km from the port of Greenville. The nearest major population centre is Zwedru, the regional capital, which lies 62km away. Access by road from Monrovia takes 12-16 hours, depending on road conditions. The project is managed by Putu Iron Ore Mining Inc, an indirect subsidiary of Severstal Resources, the mining division of OAO Severstal.

www.severstal.com

Severstal

Achieve more together

# Charting the development of Africa: the G8 and the continent's ambitions

## As Africa's economic growth builds in momentum, focus is turning to ensuring equity and efficiency

*By* Donald Kaberuka, president, African Development Bank Group

The last time the G8 met in the United Kingdom, Africa was the highest topic on the agenda. Some of the good things that have happened in the continent since the Gleneagles Summit in 2005 – not least extraordinary growth rates and significantly improved human development indicators – can be attributed in part to the help of the G8 and other rich countries. The bulk of them, though, come from Africa's own efforts – its own use of its natural and human resources, and its own ability to attract foreign direct investment.

As the G8 returns to the UK at the Lough Erne Summit in 2013, Africa's place on the agenda ought to be just as prominent. This is in part because of the continent's role as a global dynamo for growth: as the world's new growth pole, and its final development and investment frontier. It is also because the challenges that Africa still presents are very real, as much for the wider world as for itself. The continent still faces too many challenges – in the poverty that persists for nearly half of its citizens, in the pockets of serious fragility and tension that span 20 countries and 200 million people, in the growing population of young people who need jobs – for anyone to rest on any laurels.

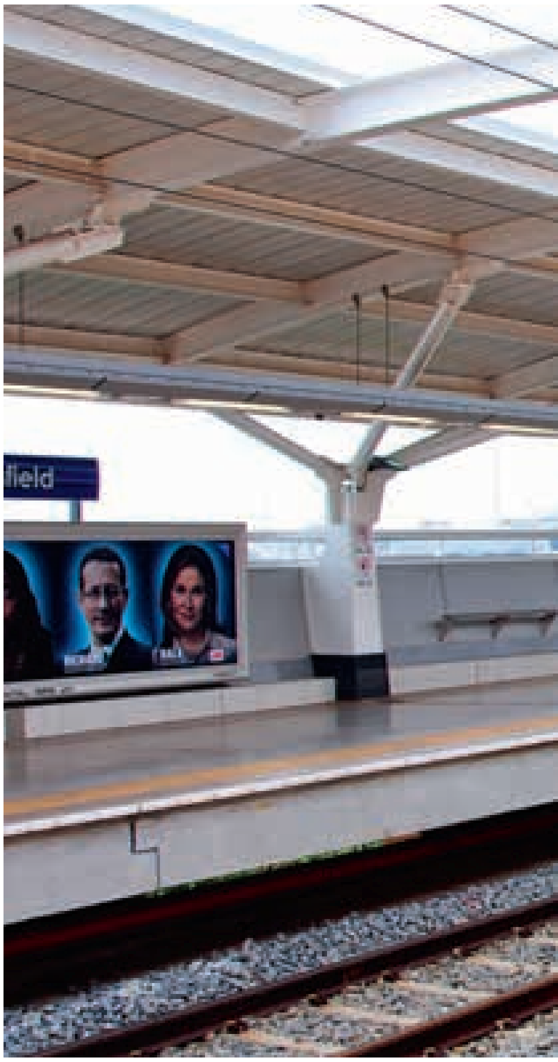
So the G8 and Africa must look in the same direction. Given the G8 presidency's agenda for 2013, and its three-part agenda of trade, transparency and tax, the G8 and Africa may look through different lenses but can see the same goal.

On trade, the G8 may want to formalise the powerful trade links with developed countries that already exist, and not least between the European Union and the United States, which together make up nearly a third of all global trade. But Africans need to keep trying to generate trade before they can think about formalising it. They also strongly need the framework of a global trade deal – rules based and equitable, which the Doha round has found so elusive to achieve – rather than bilateral or regional deals. The big convergence is on the fact that trade and investment, not aid, will bring about real transformation in developing country economies. Trade and investment are now where they should be – at the centre of the development agenda.

### Private-sector taxation

On tax, the G8 may want to debate evasion and avoidance. Africans, meanwhile, need first to collect the tax before debating dealing with those who avoid it. Africans currently levy tax on only 13 per cent of their gross domestic product. On a continent where the informal economy accounts for some three-quarters of all business, and where governments' best efforts at ploughing back into society the benefits of its natural resources are often thwarted, Africans need to continue to support the discipline of revenue collection, and the collective sense of ownership and responsibility that comes with it. The big convergence is on the fact that while private sector companies in rich and poor countries alike should publish what they pay, it matters more that they should pay their full dues.

On transparency, where the G8's focus is on the revenues from natural resources, the convergence is clear from the outset. Africa knows full well that unleashing the power and harvesting the benefits of the fruits of its earth can far outweigh the achievements of aid budgets, which are small at the best of times, and are now diminishing in anything but the best of times. Last year, Nigerian oil exports were worth almost $100 billion, more than the entire aid package given to sub-Saharan Africa. In principle and in practice, transparency is crucial to the optimal use of natural resources. This is the reason that the African Development Bank Group (AfDB) supports several countries in implementing the Extractive Industries Transparency




Initiative, while running the African Legal Support Facility, which helps African countries draw up contracts to ensure the fair and foolproof distribution of their natural resource revenues.

Given these different perspectives and endowments, how should Africa and the G8 perceive each other?

Africa's view of the rest of the world is dramatically different even from 10 years ago, and likewise the world views Africa very differently. The bonds of history are now the ties of transition and transformation. Africa looks towards its new and burgeoning

The African Development Bank invests in railway and infrastructure projects in Africa, facilitating regional economic integration

ALAMY

business relationships with India and China, just as it looks towards deepening and widening relationships based on natural resources, to those based on human resources.

Africa aspires to a future that combines development with democracy, prosperity with peace – or indeed 'trade, with tax and transparency'. Each of these combinations is predicated on growth built on the principles and solid foundations of equity and efficiency.

For all its progress, Africa has further still to travel. In reaching a point where it and the world can clearly see the extent of its decade of extraordinary growth (6.5 per cent in 2012, with six of the world's 10 fastest growing economies), it can also see the difference between stellar economic growth and deep-rooted economic and political transformation.

As the AfDB enters its 50th year next year, it has consulted widely to articulate a vision and chart a path that reflect the aspirations of an entire continent. The thrust of its direction is that growth should be shared and not isolated. It should be for all African citizens and countries, not just for some. It also aims to bring about growth that is not just environmentally sustainable, but also economically empowering. When growth is inclusive as well as 'green', it creates the jobs that the continent needs now, and that it will need even more as millions more young people enter the job market with the energy and aspirations to match.

### Five core operational priorities

One of those three Ts – trade – will unleash the economic potential of a continent, and create the jobs and the shared 'quality growth' that can deliver the true transformation to which Africans aspire. As the AfDB plots a course for the next 10 years, its – and the continent's – five core operational priorities

# Promoting critical skills for accelerated and sustainable development in Africa

The government of Burkina Faso had the great honor of hosting the Triennale of the Association for the Development of Education in Africa (ADEA)* in Ouagadougou on 13-17 February 2012. The Triennale was a policy dialogue on education underpinned by a systematic process of research, consultation with stakeholders, debates and recommendations on the critical skills that must be promoted in Africa to achieve accelerated and sustainable development. The overarching take-away message of the Triennale, which was attended by four Heads of State, representatives of two Heads of State, 50 African Ministers and numerous representatives of development partners, private sector, civil society and the youth, was that any endeavor aimed at accelerating economic growth, innovation, competitiveness, job creation, youth employment and entrepreneurship, structural transformation and sustainable development must begin with equipping Africans with critical skills. I took the same message, in the form of a strategic policy framework, to the Summit of the African Heads of State on 28 January 2013 and they unanimously endorsed it. The reason is not far to seek.

## Achieving the African Vision

The Heads of State of the African Union were inspired by the realities on the continent to adopt, in 2009, the vision of what Africa must become: "An integrated, prosperous and peaceful Africa, driven by its own citizens and representing a dynamic force in the global arena." Today, Africa is generally regarded as the continent of the future, not only because of its great potential but also because of its gravitation towards a take-off. Since the mid 1990s, its economic growth of more than five per cent had brought an end to three decades of recession and stagnation, and it is estimated that its GDP per capita could rise to 5,600 dollars by 2060. Returns on investments in Africa are now among the highest in the world. Africa is endowed with extensive natural resources, and its high demographic growth makes it the youngest continent with a huge potential for a dynamic work force.

However, Africa's future depends on the ability of its people to meet the existing and emerging challenges, and optimize its strengths and opportunities. To catch up with the rest of the world, the continent cannot go at the same pace as others; it must "run while others walk".

In order to accelerate development, Africa must undertake, among others: (i) structural transformation of the economies by moving from the exportation of raw natural resources to efficiency and value-addition; (ii) economic diversification; (iii) regional and continental integration; (iv) preservation of the environment and non-renewable natural resources; (v) promotion of inclusive growth model; and (vi) commitment to peace and political stability. The achievement of these structural changes and qualitative leap to higher levels of development are contingent on the quality of Africa's human resources and the acquisition of critical skills in sufficient quantity and quality. This is precisely the reason the promotion of knowledge and innovation must be placed at the heart of the strategies for accelerated and sustainable development.

**The ability of Africans to be productive, competent and innovative and be able to actualize their potential largely depends on the acquisition of relevant knowledge and skills**

## Critical Skills for accelerated and sustainable development

The ability of Africans to be productive, competent and innovative and be able to actualize their potential largely depends on the acquisition of relevant knowledge and skills. In Africa and elsewhere, a major weakness in the current education system is that it is characterized by a disconnect between it and the needs of society, with the result that the products of the system find it difficult to integrate into the world of work. There is, therefore, an urgent necessity to identify clearly the critical skills required for development and determine the reforms that must be implemented in the education and training systems so that African children, youth and adults can acquire relevant skills in sufficient quantity and quality. These critical skills are:

- *Common core skills,* which include language and numeracy skills, cognitive skills, personal development skills and skills to enable them to integrate successfully into society and the world of work;
- *Technical and professional skills* are designed to significantly enhance the productive and creative performance of the masses of workers so as to accelerate economic growth, and;
- *The scientific and technological skills* seek to create and strengthen an African transformational leadership that is capable of leading structural changes, and emergence of knowledge-based economies and societies.

The current education system cannot produce these skills in sufficient quantity and quality. Indeed, indicators of learning outcomes, internal efficiency, relevance and individual and social performance call for an immediate need for system reform.

For any reforms to be meaningful and successful, there must be a break with the past and a shift in paradigm. The following changes are critical to progress. First, it is necessary to adopt a holistic approach that recognizes acquisition of skills both in and outside formal school. This is because Africa's need for skills cannot be met only through formal education.

## The paradigm shift and reforms needed

The advantage of this approach is that the education system will be comprehensive, diversified, integrated and flexible, and will recognize and strengthen all forms and methods of skills development. Second, there must be a strategic approach to education and training that recognizes that they are not ends in and of themselves but a potent tool to serve the cause of development. It is a shift


His Excellency Blaise Compaoré, President of Burkina Faso, at the 2012 ADEA Triennale in Ouagadougou, Burkina Faso

from supply-led approach to a demand-led one. Third, every African should have opportunities adapted to his or her needs and circumstances so that they can successfully acquire the necessary learning. Equity also implies quality – that is, every learner is able to acquire the ability to use their knowledge and skills to respond to development challenges. Finally, there is a need to make a qualitative break with the past in order to put African systems on a new footing. This will be achieved by: (i) Integrating African cultural, spiritual, linguistic and historical heritage into education systems; (ii) Developing a scientific culture; (iii) Promoting lifelong learning, and; (iv) Integrating ICTs into education and training systems.

I had the privilege of presenting the recommendations of the Triennale to the African Heads of Summit in January 2013 and am pleased to report that they were wholeheartedly endorsed. The support of African political leadership is important for the purpose of a broad national consensus, funding priorities, establishment of partnership, motivation and empowerment of stakeholders and the mobilization of the education apparatus to ensure the success of the reforms. The implementation of reforms requires the involvement of all stakeholders: governments, development agencies, private sector, civil society, African Diaspora, women and the youth.

The initiative by ADEA is a challenge to stakeholders in education for development; more so now that Africa is about to celebrate the 50th anniversary of the African Union/Organisation of African Unity, which symbolizes the pan-Africanist vision of its leaders of independence and the need for an African renaissance. It is, therefore, timely that the economic performance of African economies and the construction of peace and stability in our countries be underpinned by structural and philosophical transformations of the education and training systems.

**Blaise COMPAORÉ**
*President of Burkina Faso*

*ADEA is a pan-African organization and the foremost forum for policy dialogue in education in Africa. Its membership consists of Education Ministers from 54 African countries and representatives of 18 development agencies. It is hosted by the African Development Bank in Tunisia. For more information, visit www.adeanet.org

# Financial Inclusion strategy in Nigeria

**Sanusi, Lamido Sanusi Governor, Central Bank of Nigeria**

The purpose of defining a Financial Inclusion strategy for Nigeria is to ensure that a clear agenda is set for increasing both access to and use of financial services within the defined timeline, ie by 2020.

Financial Inclusion is achieved when adults have easy access to a broad range of financial products that are designed according to their needs and provided at affordable costs. These services include payments, savings, credit, insurance and pensions.

The definition of Financial Inclusion is based on the following:

- Financial products must be within easy reach for all groups of people and should avoid onerous requirements, such as challenging Know your Customers (KYC) procedures;
- Financial Inclusion implies access to a broad range of financial products including payments, savings, credit, insurance and pensions products;
- Financial products must be designed according to target clients' needs and should consider income levels and access to distribution channels;
- Formal financial services should be affordable even for low-income groups, particularly when compared to informal services.

Despite being the most populous African nation, Nigeria is a mid-level player in the sub-Saharan banking sector and is behind some of its peers in Africa with respect to Financial Inclusion.

The Central Bank of Nigeria (CBN), as the guardian of the financial system in Nigeria, has identified Financial Inclusion as a key lever to achieving the objectives under its mandate. As such, the CBN has set out to define a Financial Inclusion strategy that is executable and achievable.

Increasing Financial Inclusion will support the CBN in achieving its core mandates. The strategic approach is to determine the current situation with regard to Financial Inclusion in Nigeria as a foundation on which to base the Financial Inclusion strategy. This involves:

- Establishing a clear understanding of the current state of Financial Inclusion in Nigeria, including the status of ongoing initiatives;
- Quantifying the gap and identifying barriers to Financial Inclusion;
- Developing targets for Financial Inclusion by 2020;
- Proposing business and operating models for achieving Financial Inclusion targets;
- Identifying stakeholders and defining their roles in implementing the strategy;
- Establishing the CBN as the project manager for the Financial Inclusion strategy;
- Outlining an implementation plan with clear milestones and timelines;
- Assessing the current state of Financial Inclusion in Nigeria;
- 22 Commercial Banks serving about 20 million clients, network of about 6,000 branches and 10,000 ATMs;
- About 866 microfinance banks serving about 3.2 million clients;
- About 671 unlicensed microfinance institutions;
- Around 49 insurance companies serving about 1% of Nigeria's adult population;
- Five development finance institutions;
- 24 Pension Fund Administrators;
- Nine mobile network operators.

**Targets for Financial Inclusion have not been defined in Nigeria in the past**

## Financial Inclusion Targets

Targets for Financial Inclusion have not been defined in Nigeria in the past. To ensure that Nigeria sets targets that will put it ahead of its peers, each financial services product and channel has been benchmarked against the best-in-class country and growth factors have been used to define targets for Nigeria for 2015 and 2020. The targets relate to product use, channel penetration and client benefits. They take into account the current position of Nigeria and forecast levels that are believed to be achievable within the given timeframe.

## Overall targets

The overall target is to increase penetration of all five primary services (payments, savings, credit, insurance and pensions) to at least 40% by 2020: the target for insurance and credit is 40%, for pensions 40%, for savings 60% and for payments 70%. By 2020, an estimated 73.4 million adults (based on a projected adult population of 104.8 million) will be financially included, using at least one formal financial product. Consequently, financial exclusion will fall to less than half the current proportion (from 64% to 30%) by 2020.

To support the target picture for Financial Inclusion in 2020, the number of bank branches will need to increase from 5,797 in 2010 to 10,000 in 2020. The number of ATMs will need to be increased from 9,958 to 62,440 and the number of POS devices from 11,223 to 400,000. A mobile agent network of 65,000 agents will also be required by 2020.

In order to achieve its mandate of ensuring monetary and price stability and promote sound financial system, the CBN is involved in financial inclusion activities to influence the savings and investment as well as promote employment, economic growth and poverty reduction, which are primary concomitants in economic development.

**Central Bank of Nigeria Head Office**
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**Garki**

are all designed to boost trade. Those priorities are infrastructure development, regional economic integration, private sector development, governance and accountability, and skills and technology.

Nothing will happen without the transport and energy systems that oil the machinery of trade. Africa's infrastructure gap, including the costs of building the new, and rehabilitating the old, is put at $50 billion a year for the next 10 years. Two-thirds of all AfDB investments are in road, rail, port, water and electricity projects – and the bank quantifies their benefits: the children who use the road to get to school, the pregnant mothers who use it to get to hospital, the farmers and traders who use it to get their products to market, the truck drivers who use it to cross countries. This crossing of countries is at the core of a regional economic integration agenda that must counteract the historical legacy of more than 50 separate African states and economies without the wherewithal, or sometimes the inclination, to trade with their neighbours.

### Improving Africa's business climate

Just as African governments have experienced a sea-change in thinking to empower the private sector in order to galvanise trade, so has AfDB lending to the private sector increased tenfold in 10 years. The AfDB's threefold focus now is on improving the investment and business climate in Africa (by supporting governments to strengthen the laws, policies, tax systems, rights, regulations and surveillance procedures that govern business); expanding access for businesses to social and economic infrastructure both 'hard' and 'soft' (including payments clearance and settlement systems, financial intermediaries and capital markets); and also promoting enterprise development by improving access to finance, and building the necessary skills.

From the banks of Lough Erne to the AfDB, how should the G8 view this agenda? What does it see in a continent which this year celebrates the 50th anniversary of the establishment of the Organisation for African Unity, the forerunner of today's African Union, in 1963? Perhaps it sees two Africas – one that is bounding ahead, one taking two steps forwards and one back. Perhaps, too, it asks where and how it should support those two Africas, and whether it is public or private money that it needs to be using in the process.

For the pockets of fragility in Africa, international public funds are vital to the very survival of societies chronically weakened by disasters, both natural and human-made. Africa and the world feel the effects of contagion. In places such as Mali and Somalia, they have paid for it, with colossal sums of money spent on security operations. That is why the AfDB attaches such importance to the lesser, less well-known and long-term funds that help Africa's fragile states to build the institutions of local and national government; provide infrastructure in the form of roads, electricity, water and sanitation; and safeguard and create livelihoods and jobs. In recent months, for instance, the AfDB has approved loans and grants to support water and livestock management for the 12 million especially vulnerable people in the Horn of Africa. At a time when aid budgets are under pressure, as bilateral aid to sub-Saharan Africa fell by eight per cent last year in real terms, the pressure on the poorest countries to reach their development goals has never been greater. Aid remains a part of this equation.

Yet for the rest of Africa, which surges forwards, development assistance is no longer the norm when it comes to financing the future. Nor should it be. It is private resources that have fuelled the great growth rates of the past 10 years. Foreign direct investment in Africa has multiplied sixfold in that time, while the continent's stock exchanges have attracted growing numbers of African investors. The AfDB itself is increasingly a lever for the funds of others, and research conducted in 2012 shows that one of its own dollars can bring in six more.

**_One of the AfDB's biggest projects in 2013 is to launch an African Infrastructure Finance Facility, which will combine sovereign and non-sovereign resources – both domestic and international_**

One of the AfDB's biggest projects in 2013 is to launch the African Infrastructure Finance Facility, which will combine sovereign and non-sovereign resources – both domestic and international – to invest in carrying Africa over the threshold of its infrastructural and developmental doorway. As the manager of the public sector-led Programme for Infrastructure Development in Africa, the AfDB has already identified a portfolio of $70 billion of priority infrastructure projects that need financing. The G8 should consider working with the bank – whether by investing in high-return projects within the African Infrastructure Finance Facility or by developing new ways, such as guarantees, of bringing about private investment to increase trade between Africa and the G8.

The world needs to feel the pulses of economic growth, and it is clear that it is most likely to do so from the emerging markets. A new and very significant thought is emerging – that a young, dynamic, entrepreneurial, creative and consuming Africa can be not a global challenge, but a global solution, and a global growth pole. A transforming Africa can have a transformative effect on the world: its time has come. "Let me say to you that Africa is rising! Africa is transitioning!" said Liberian president Ellen Johnson Sirleaf when she addressed the AfDB's directors in February. "Africa continues to be committed to those processes that will lead to rationalisation of its own natural resources to accountability, transparency, mutuality and responsibility."

Africa may not be present physically at the G8, but its virtual presence is a matter of global interest. ■

The African Development Bank invests in road infrastructure, which it sees as one of the key facilitators of socio-economic development in Africa

EMPICS SPORT/PA

# Banking comes home


Customers can access funds in townships through spaza shops rather than making a journey to the nearest urban centre

Standard Bank is redefining the spectrum of financial inclusion in South Africa.

Financial inclusion is widely recognised as a vehicle for the sustainable, inclusive growth and development of communities and economies across the globe. According to the inaugural *Global Financial Inclusion (Findex) Database* report released by the World Bank in 2012, over half of all adults across the world remain unbanked and outside the financial system.

The *Global Findex Database* acknowledges that inclusive financial systems that allow broad access to financial services are especially likely to benefit poor people and other disadvantaged groups. In South Africa in 2012, 51% of the adult population earned less than R2000 per month (around US$226). As one of the drivers of inclusive growth, the South African government and financial institutions are targeting increased access to the financial sector through appropriate financial solutions. There is no doubt that significant progress has been made. In 2004, less than half of the country's adult population was banked. This increased to 67% in 2012.

However, challenges remain. According to the South Africa 2012 Finscope survey, 19% of South African adults are entirely excluded from the financial sector, while almost 40% rely on a combination of both formal and informal mechanisms to manage their financial needs. This indicates that their needs are not yet being fully served by the formal financial sector. Of banked adults, fewer than 20% have a formal savings account or credit facility, and only 12% used insurance products.

## Driving inclusion

Clearly, effective financial inclusion must incorporate a range of financial services if it is to provide real opportunities for the majority of the population to invest in income-generating activities, build assets, and protect themselves from shock and exploitation.

The Standard Bank Group's Inclusive Banking division is at the forefront of driving real financial inclusion in South Africa. As an organisation with a 150-year history in the country, the bank has a deep understanding of the needs of the country's population, and has reengineered its banking system to bring financial access to poor and underserved communities in ways that are relevant and accessible to them.

Standard Bank's unique presence in the many townships and informal settlements across the country bears testament to the bank's efforts to bring relevant financial services to a community's doorstep. Most South Africans living in these areas rely on relatively expensive public transport to reach urban centres, with estimates indicating that it can take between 45 minutes and an hour to travel to the nearest ATM, bank branch or insurance provider.

Removing the need to travel to engage with the bank, Standard Bank has recruited local sales agents, or AccessAgents, from these communities. This means customers can interact with familiar community members, in their own language, and away from the often intimidating traditional banking environment. The AccessAgents are able to open bank accounts in communities with just a hand-held mobile device, and a customer's identity document and proof of residence.

Standard Bank opens an estimated 180,000 new bank accounts a month. The account, known as AccessAccount, has no monthly management fee and has an affordable and simple pricing structure. In 10 minutes, a customer can open and activate a bank account, with a debit card that can be used at most shops with point of sale devices, and is automatically registered for cellphone banking.

This local presence extends further to actual facilities to conduct banking transactions. Standard Bank is the first bank in the country to partner with local informal retailers already operating in townships, running small businesses known as 'spaza' shops. By walking to a spaza shop, customers can use a Standard Bank 'AccessPoint' that provides cash-in (deposit), cash-out (withdrawal) and money transfer services. With over 7,000 AccessPoints across the country, this alternative banking channel has proven to be successful, reflected in the high volume of transactions and increases in cash balances at the local retailers.

The automatic registration for cellphone banking also allows customers to conduct simple transactions, such as checking balances, transferring money, purchasing goods from a spaza retailer, or buying prepaid electricity and airtime, with just their phones. Standard Bank's cellphone banking drive has been highly successful in a country where at least 83% of the population are active cellphone users.

Once customers are registered in terms of a bank account, the Standard Bank offering opens up access to a full range of financial services. In 2012, the bank launched its AccessSave offering, a savings account that can be opened in communities without needing to go into a branch, either at the same time as an AccessAccount, as well as entirely separately from the AccessAccount. While almost 70% of South Africans do not save formally, there are indications that close to R12 billion (approx US$1.5 billion) is kept 'under mattresses' in the country rather than in formal financial institutions, earning no interest and put at high risk.

**Standard Bank's cellphone banking drive has been highly successful in a country where at least 83% of the population are active cellphone users**

The AccessSave account charges no monthly fee, requires no minimum balance and offers interest from the first deposit, no matter how small. It has a seven day notice period before funds can be accessed, to allow for some level of discipline without locking funds away for an extensive time when they may be urgently needed. The account has seen massive take up, with 160,000 savings accounts opened within the first 3 months of launching. Another tailored saving offering is a group savings option (AccessGroupSave), which provides a safe store of value, and the benefit of interest, for the many informal savings groups that can be found in South African society.

## Low income loans

Many South Africans rely on borrowing to fund an emergency or a large expense such as school fees. Worryingly, 15% of South Africans borrow from informal sources rather than financial institutions leaving them vulnerable to possible exploitation and reckless lending practices. Standard Bank provides customers in the lower income segment with access to personalised loan facilities (AccessLoans) that take individual circumstance and affordability into account, and can be structured to best suit their needs. Again, loan centres (called AccessBankingCentres) that are set up close to the communities in which the lower income customers live or work means access is convenient. The benefit of a pre-existing relationship with the bank, through a transactional account, means that the bank has a history with the customer and can tailor rates that take this history into account.

Over and above the transactional, saving and loans products, Standard Bank's AccessBanking full service offering also includes access to credit card facilities, insurance products, and even a home loan, as customers' needs grow and evolve.

Standard Bank is a market leader in the affordable housing market, funding one out of every three homes sold to households with monthly incomes under R16,000 (US$1,800). The majority of this lending goes to first-time buyers, fulfilling ambitions of owning their home. These first-time home owners also undergo borrower education to assist in managing what is likely to be their biggest purchase. Property ownership can enable real long-term wealth creation.

With a growing market of over 5 million customers in the lower income segment, Standard Bank is a leading player in creating better access to a holistic range of financial services for lower income groups in South Africa. Providing customers with the full range of banking services required, convenient channels of banking, and at a cost that is affordable, means that real opportunities are being created to drive sustainable, inclusive growth and development in the country.

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Moving Forward™

# Financial inclusion: a factor in economic growth and stability

**The potential of financial inclusion to combat poverty and support economic growth is widely recognised, but making progress on this front requires strong leadership and coordination**

*By* Alfred Hannig, executive director, Alliance for Financial Inclusion

Central banks and other policymaking bodies from across the globe are increasingly pursuing financial inclusion because of its contribution to financial stability, a strong financial sector, overall economic growth and poverty reduction. However, financial inclusion is a cross-cutting national economic development issue that requires the participation and cooperation of many government ministries, the private sector and civil society players.

### Stakeholder coordination

Given the multiplicity of government actors involved in financial inclusion policy, leadership and a single coordinating body are key to setting a common direction. Although countries have taken different approaches, it is becoming common for the central bank to take a leadership role in coordination, often by chairing a council that unites private and public stakeholders. The central bank is well placed to take on this role of coordination as it typically has the respect of other government agencies and greater political independence, allowing it to overcome barriers and steer activities towards shared goals.

A survey of 30 Alliance for Financial Inclusion (AFI) member institutions on organising for financial inclusion found that 21 institutions had created a specific financial inclusion unit within the central bank and four had a national coordination mechanism for financial inclusion led by the central bank.

'Leadership' is the first of the G20 Principles on Innovative Financial Inclusion and it encourages policymakers to cultivate a broad-based government commitment to financial inclusion and alleviating poverty. AFI compiled 11 case studies showing how countries are bringing the G20 principles to life, and leadership emerged as an essential foundation for implementation of these principles. In these case studies, the most effective approaches to financial inclusion were backed by leadership at the political and regulatory levels, as well as a will to bring about change with the complete commitment and capacity of all players.

The strength of commitment from policymakers and regulators to financial inclusion is tangible, marked by a shift from talk to action as central banks organise internally to implement their commitments and take a leadership role in coordinating as well as maximising the work of the stakeholders within their countries.

***The strength of commitment from policymakers and regulators to financial inclusion is tangible, marked by a shift from talk to action as central banks organise internally to implement their commitments and take a leadership role***

AFI members, policymakers and financial regulators from developing and emerging countries, reaffirmed the urgency and importance of financial inclusion with the Maya Declaration, a framework for domestic and collective network commitments to bring more of the world's 2.5 billion poor into the formal financial sector. The Maya Declaration was crafted out of a consultation process and three days of deliberations at the 2011 Global Policy Forum (GPF) in Riviera Maya, Mexico.

The declaration recognises the role that financial inclusion policy plays in creating financial stability and integrity, fighting poverty, and promoting inclusive economic growth in developing and emerging countries.

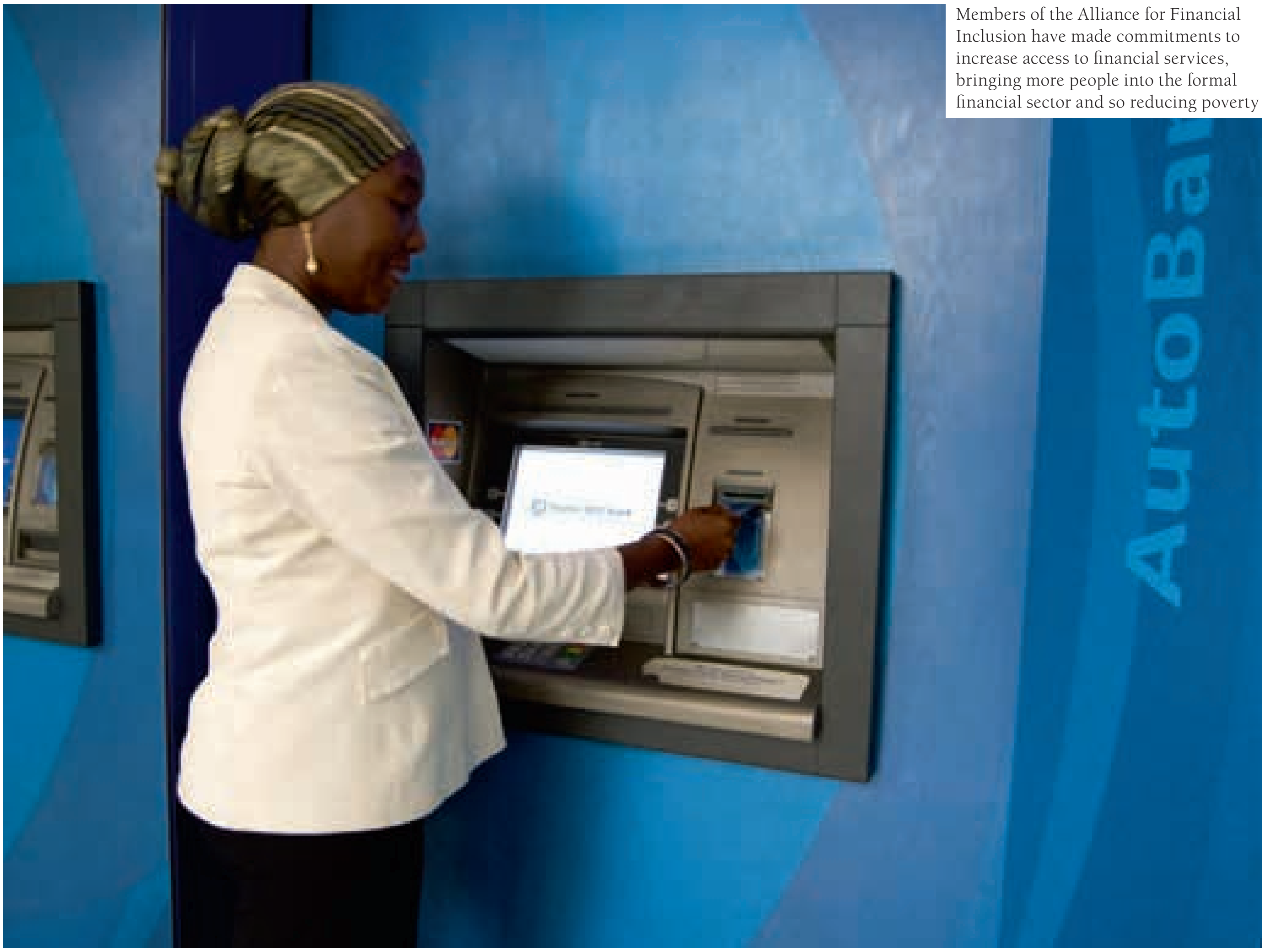
Through this initiative, AFI members have reaffirmed the importance of peer-to-peer knowledge exchange and learning among financial regulators and policymakers to help develop and implement innovative and relevant policy solutions. More significantly, the declaration commits the AFI network of developing country financial authorities to four concrete actions to increase access to financial services. They commit to:

- Create an enabling environment to harness new technology that increases access and lowers costs of financial services;
- Implement a proportional framework that strengthens the links between financial inclusion, integrity and stability;
- Integrate consumer protection and empowerment as a key pillar of financial inclusion; and
- Utilise data to inform policymaking and track results.

### Commitments to action

Since the adoption of the declaration at the 2011 GPF, 38 AFI members responded with concrete commitments outlining their specific goals and targets. Some highlights included:

- Banco Central do Brasil pledged to launch the National Partnership for Financial Inclusion by the end of 2011;
- The Bank of Tanzania pledged to expand financial access to 50 per cent of its population by 2015 through mobile financial services and other initiatives;
- CNBV Mexico committed to establishing banking agents or branches in every municipality by 2014;
- The Central Bank of Nigeria will work to reduce the number of unbanked people by 50 per cent by the year 2020;
- The Reserve Bank of Malawi will introduce agent banking in 2012;
- The Bank of Zambia will aim to increase




Members of the Alliance for Financial Inclusion have made commitments to increase access to financial services, bringing more people into the formal financial sector and so reducing poverty

DEMOTIX

financial inclusion to 50 per cent in two years, while the National Bank of Rwanda set a target of 80 per cent by 2017; and
- SBS Peru pledged to enact a new law regulating electronic money before the end of 2012.

The efforts of these policymakers have already started to pay dividends. Banco Central do Brasil, CNBV Mexico, the Reserve Bank of Malawi and SBS Peru are among those to have already achieved their targets and are in the process developing even more ambitious goals, while those with longer term commitments have been reporting progress.

Why does all this matter? To use just one example, according to a recent World Bank analysis of Mexico's drive to increase financial inclusion, a 10 per cent increase in inclusion rates can boost the number of new businesses by five per cent, employment by seven per cent and annual growth of GDP by three per cent. Apply those numbers globally and the potential impact of smart financial inclusion for economic health becomes apparent. Consider also how lower unemployment and greater prosperity could affect poverty and stability, and the untapped power of financial inclusion is clear. In short, everyone wins by embracing financial inclusion.

Today, financial inclusion has finally taken its rightful place as a key element of the mainstream discussion on global economic development. Financial inclusion is a field that can provide lasting and significant benefits in both the developing and the developed world, improving the health of the world economy and providing valuable tools to reduce poverty. ■

*The Alliance for Financial Inclusion is a global network of financial policymakers from over 100 institutions in more than 85 developing and emerging countries, working together to increase access to financial services for the poor.*

“Our journey to heal the lingering wounds of slavery began five years ago when the trustees of the W.K. Kellogg

# A Journey of Healing

W.K. KELLOGG FOUNDATION™

**THE W.K. KELLOGG FOUNDATION, FOUNDED MORE** than 80 years ago by breakfast cereal pioneer Will Keith Kellogg, is partnering with communities in the Americas to support efforts leading to racial healing across a variety of ethnic communities and cultural traditions—called America Healing. Our journey to heal the lingering wounds of slavery and the displacement of indigenous populations, and the belief in racial hierarchies that spawned and sustained these injustices, began five years ago when the trustees of the W.K. Kellogg Foundation took a hard look at our own mission. After carefully reviewing our mission and the world we live in today, the board of trustees believed that if we were to live up to our founder's vision to protect and nurture vulnerable children, we had to address the historical ideology of racism that was continuing to create structural inequities impacting the health, educational achievement and financial security of children and their families.

These challenges are found throughout the world and one private foundation can only do so much. Global leaders and the institutions they represent have an obligation to create opportunities for the kind of public discourse that acknowledges past injustices visited upon communities due to beliefs in racial hierarchy and its constructs of privilege, rights and entitlement. This dialogue also must present pathways to addressing inequitable outcomes for these communities. Civic, business and faith-based leaders must play their part, too, and use their considerable influence to heal racial division and build more equitable opportunities.

This call for dialogue toward action is made all the more pressing by the seeming unending stream of news of racial, inter-ethnic and religious divisions. Within the last year, reports of mass killings of teens, the murder of innocent school children, along with escalating racial tensions and violence in many nations stand as stark and the displacement of indigenous populations… Foundation took a hard look at our own mission."

—Dr. Gail Christopher, *vice president – program strategy, W.K. Kellogg Foundation*

reminders of the danger that looms when extremist, xenophobic, hateful and racially driven beliefs are allowed to fester. The untimely and violent deaths of too many young people in the United States has sparked protests in cities across the country, yet this story is repeated—yet untold—in communities across America and indeed, the world. Thousands of young people are killed each year, lost to senseless violence. The cycle of hate repeats itself over and over again yet the proverbial needle has not moved. Progress must be made, and we must hold ourselves accountable for that progress.

To move forward, it is important for our leaders to understand the ubiquitous nature of racism and its historical lineage across all nations. The devastating effects of slavery, colonialism and resource-driven conflict have been well-documented, yet we have not done enough to challenge the ideology of racial hierarchy that supported and sustained these ills. To this day, we still see a world where the nations that benefitted the most from the slave trade and colonial ambition remain the most economically and technologically developed. These countries, paradoxically, are often the most reluctant to confront or discuss the impact race has on the day-to-day lives of their citizens and have instead left these difficult conversations to countries such as South Africa.

Our entire global economic system is built on finding and procuring human and natural resources in ways no one could have envisioned at the turn of the century. Technological advances and interconnectivity force citizens and regimes alike to grow more global in their outlook. Crises around water, food, climate and unemployment cause massive migrations of people. Nations that fail to accept this reality and to engage in productive conversations about race risk their economic and democratic potential and they deprive children, our most important resource of opportunity and justice.

While laudable, The United Nations Convention on the Elimination of All Forms of Racial Discrimination is not enough. Deliberate and conscious racial discrimination is a symptom of a much deeper and more widely embedded belief system—the idea of assigning value to a person's being based on physical characteristics such as skin pigmentation. Because this belief system flourished for so many centuries fueling conquest and expansion of the "New World" in the 17th and 18th centuries, it became foundational to the systems and cultures that exist in so many countries today (G8). It is past time in the course of human evolution that this belief system be uprooted and put aside. Its vestiges are no more suitable to the 21st century and beyond, than the belief that the world was topographically "flat" at the turn of the 14th Century. That flawed belief limited the journeys and advancement of the world community, just as a continued reliance on entrenched racist biases still stagnate our global community's growth.

It is our collective challenge to come together in our own way and on our own terms to change attitudes and beliefs. We must all be held accountable and begin the hard work of racial healing across nations and in homes, schools, neighborhoods and places of worship. Communities, indeed nations, often respond to these types of tragedies with calls for tolerance and temporary efforts to restore peace and civility. But history tells us that episodic efforts are not adequate. The insidious nature of engrained hateful beliefs requires sustained and coordinated work for their eradication. Leaders must prioritize this vital work as part of broader efforts to promote development and economic progress within and between countries.

But to truly succeed in the long-term, there must be a solemn commitment by one and all to this work, to unifying our planet, to rejecting racism, to finding strength not resentment in our differences. Our children and their collective futures are at stake.

The world cannot wait until some dream of better opportunity—this work, the work of racial healing, must start today. We call on our global leaders gathered here to demonstrate the courage and commitment to build a more equitable and just world for these children, across communities, across cultures and across nations.

# Promoting inclusive growth in Asia and the Pacific

## Asia's rapid growth in recent years has been accompanied by a significant increase in inequality. Tackling this will require coordinated action

*By* Haruhiko Kuroda, former president, Asian Development Bank

Developing Asia's swift rebound steered the world out of the global financial crisis. But as the slowdown in the major industrial economies drags on, the region's performance is also slowing down. Governments must remain vigilant about the possibility of further global shocks in the near term, and must not lose sight of the important long-term development challenges that still confront Asia.

Asia's rapid growth in recent decades has lifted hundreds of millions out of poverty, but the region remains home to two-thirds of the world's poor. In 2008, about 828 million Asians were still living on less than $1.25 a day, with 1.7 billion surviving on less than $2. Poverty reduction remains a daunting task.

**Rising inequality**

A new, perhaps more complex, challenge for developing Asia is how to confront rapidly rising inequality. The gap between Asia's rich and poor has widened significantly in the past two decades. In many countries, the richest one per cent of households accounts for close to 10 per cent of total consumption, and the top five per cent accounts for more than 20 per cent. If developing Asia is seen as a single unit, its Gini coefficient – a measure of inequality – increased from 39 to 46.

The gap is not only in income. Inequality of opportunity is prevalent and is a crucial factor in widening income inequality. For example, school-age children from households in the poorest income quintile are up to five times more likely to be out of primary and secondary schooling than their peers in the richest quintile. Infant mortality rates among the poorest households are 10 times higher than those among the affluent households.

Rising inequality can dampen the impact of economic growth on reducing poverty and weaken the basis of growth. If levels of inequality had remained stable in Asian economies, growth between 1990 and 2010 would have lifted another 240 million people out of poverty – equivalent to 6.5 per cent of developing Asia's population in 2010.

In response to this disturbing trend, the Asian Development Bank's (ADB) long-term strategic framework, Strategy 2020, emphasises inclusive economic growth – that is, growth that is based on equality of opportunity – as one of its three strategic agendas (the other two being environmentally sustainable growth and regional integration).

A recent ADB study cites three forces behind Asia's rising inequality: new technology, globalisation and market-oriented reform. Ironically, these are also the primary drivers of Asia's rapid growth.

***The gap is not only in income. Inequality of opportunity is a crucial factor in widening income inequality***

These forces have created enormous economic opportunities, but these opportunities have not been equally shared by all people.

There are three groups in particular who have benefited most from Asia's growth. The first is the owners of capital, who, as a result of the bias of technological progress, have seen their share of national income rise while the share of labour has fallen. The second is those living in cities and near coasts, who have gained greatly from better infrastructure and market access. The third group comprises better-educated graduates, who have widened the income gap compared with people who have just basic levels of education.


The Asian Development Bank is loaning the Philippines $300 million for e-tricycles, which will stimulate local industry. The ADB has a focus on inclusive economic growth

AP/PA

# The Kuwait Fund: helping people help themselves

Since its independence in 1961, Kuwait has committed itself to the principles of cooperation and humanitarian aid, largely through the Kuwait Fund for Arab Economic Development. The Fund, which was the first institution in the Middle East to take an active role in international developmental efforts, celebrated its 50th year in 2011, and over that time up until today it has built an enviable track record of financing development projects in developing countries.

The Fund is largely focused on providing loans on concessionary terms, offering technical assistance to finance feasibility studies, contributing to projects for social and economic improvement and training people in developing economies. The motto of the Fund is ‘helping people help themselves’, and it has been the cornerstone of friendship and solidarity between the State of Kuwait and the developing world.

To reach those most in need of its help, the Fund extends its generosity across cultures and around the world. For more than half a century, Kuwait has used the wealth that flows from its rich oil industry to bring finance, knowledge and support to countries that need to tackle serious health problems or invest heavily in agriculture and industry to strengthen their economies and raise standards of living. After more than 50 years of giving, it is fitting to reflect on the achievements of the Fund, and look ahead to the future.

## Driving the future

The Fund has provided more than US$2.35 billion over the past five decades – around 16 per cent of its total lending – to farming and agricultural projects. These include irrigation, animal production, fisheries and agro-processing. The support provided by the Fund has provided vital assistance to countless people, and even just a few key initiatives demonstrate how diverse an understanding the Fund has of the needs of the agricultural sector, and the value that it places on cross-cultural ties.

One example is the 15,000-hectare water project in South Lebanon, which focuses on irrigated agriculture fed from the Litani River to support the production of fruit, vegetables and animal fodder. It is estimated that hundreds of thousands of people will benefit from the project in the years ahead, which concentrates on drainage and irrigation works, land reclamation and water treatment.

In Mali, the Fund has helped to finance the Ke-Macina irrigation project, which aims to increase the production of crops – mainly rice – in the eastern region of the country by using water from the Niger River and reclaiming some 4,600 hectares of land. Thousands of rural families continue to benefit directly from the new infrastructure.

In Nepal, the Fund has backed the Praganna irrigation project, which brings water to a 5,000-hectare area on the bank of the Rapti River.

**To reach those most in need of its help, the Fund extends its generosity across cultures and around the world**

Projects that directly address human health issues are equally important. For instance, Guinea worm, which is caused by a nematode parasite, is found in many African and Asian countries. People who drink infected water suffer terribly as hosts to the worm, which causes intense physical pain and can lead to severe conditions such as sepsis, arthritis and tetanus.

The solution to this incurable disease is mainly education about the simple filtration of drinking water and technology to provide clean drinking water. Since the formation of the Global Guinea Worm Eradication programme in 1986, which the Fund has supported, the incidence of the disease has fallen from around 3.5 million each year to just 542 cases in four countries in 2012 (Chad, Ethiopia, Mali and South Sudan).

Alongside its support for health programmes that help developing countries to combat diseases like Guinea worm and river blindness, the Fund has also shown its willingness to contribute to other initiatives such as the Chernobyl Fund, which was set up to help Ukraine deal with the after-effects of the 1986 nuclear disaster.

Another key focus for the Fund is the transport sector, due to its potential for huge social and economic impact. Up to the end of 2011 the Fund had extended 339 loans to 80 developing countries – from China and Central Europe to South America and Southern Africa – to improve transport infrastructure, aware that it is vital for food and medical supplies to reach remote and rural areas, and that it is the backbone of the agricultural and industrial sectors – for export as well as for domestic use.

## Moving forwards

The Fund’s long history of involvement in projects that have dramatically improved the lives of millions of people is set to continue for many more decades. Work is ongoing to understand the needs of communities around the world, and to identify the best solutions for them.

Recently, the Fund signed a loan agreement with the government of Ghana for the construction of an Emergency Trauma and Acute Care Centre at the Korle-Bu Teaching Hospital. Across the years, the Fund has supported development in Ghana, particularly within the health, power and agricultural sectors.

Throughout its history, the Fund has built strong ties with many countries around the world, and its commitment to ‘helping people help themselves’ is as strong as ever.

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helping people help themselves

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Fiscal policy plays an important role in ensuring that the poor are not left behind. Increased spending on education is required in order to build further human capacities

The impact of these forces has been compounded by various forms of unequal access to opportunity, which have been caused by institutional weaknesses, market distortions and social exclusion.

Because the forces behind rising inequality are also the engines of productivity and income growth, the policy options to reverse these trends become more complex. A distinction needs to be made between the income differences that arise as economies and individuals take advantage of opportunities created by new technology, trade and efficiency-enhancing reforms, versus those that are generated by unequal access to market opportunities and public services. This latter source of inequality requires a rigorous policy response since it is magnified by the driving forces of growth, leads to inefficiency and inequity, and undermines the sustainability of growth.

## Coordinated actions

Reducing inequality and making growth more inclusive in Asia therefore requires coordinated actions from all actors, including the G8 and G20, on the following four mutually reinforcing policy actions.

First, productive and decent jobs are a must for inclusive growth. Such growth requires a business environment conducive to private investment and a well-balanced composition of industry, services and agriculture. Also, eliminating distortions that favour capital over labour, supporting small and medium-sized enterprises, building labour market institutions and setting up public employment schemes to address pockets of unemployment and underemployment can raise labour incomes.

Second, fiscal policy must play an important role. Spending on social sectors, including health, education and social protection, should be increased in order to build human capacities, especially of the disadvantaged, and in order to reduce inequality in human capital.

This can be achieved without upsetting fiscal stability if governments raise more revenue by improving the tax system and administration and switching inefficient general subsidies (such as those on fuels) to more targeted transfers. At the same time, social sector spending should be used more effectively and efficiently, through better allocation and by plugging leakages.

Third, the gaps between rural and urban areas and across provinces must be bridged. Regions lagging behind need more and better infrastructure – not just in the form of physical connectivity, but also in policies and institutions that ease the flow of goods and services. Growth centres could be developed in lagging regions. Barriers to migration from poor and rural areas to more prosperous and urban areas should also be removed.

Finally, measures that have been designed to create more opportunities and equalise access to those opportunities must be supported by good governance. This may take the form of promoting wider participation, strengthening the rule of law, reducing corruption and eliminating social exclusion.

Asia has enjoyed a remarkable period of growth and poverty reduction. However, the new realities of technological progress, more globally integrated markets and greater market orientation are magnifying the effects of the inequalities that exist in physical and human capital.

Together, we must look for new ways in which we can collaborate to address these challenges. By promoting sustainable and inclusive growth, Asia and the Pacific can make a significant contribution to worldwide prosperity and stability. ■

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*This article is based on Haruhiko Kuroda's contribution to the* Organisation for Economic Co-operation and Development Yearbook 2013. *Kuroda resigned from the Asia Development Bank, effective 18 March 2013, following his nomination as governor of the Bank of Japan, a post that he has occupied since 9 April.*

# WORKING TOGETHER TO EXPAND


In recent years, the G8 has raised the profile of linkages between sustainable global economic growth and improvements in agricultural productivity in developing countries. In their 2005 Gleneagles Declaration, for example, the Group's members pledged to match increases in agricultural spending by African governments as a way of encouraging more public-sector investment in agriculture. The 2012 Camp David Declaration included a prominent announcement of the New Alliance for Food Security and Nutrition, an initiative to increase the flow of private capital to African agriculture.

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# GLOBAL ECONOMIC GROWTH

These and other commitments made by the G8 over the past decade reflect a heightened awareness about the potential contributions of Africa to global economic well-being. The Group's actions also reflect a consensus among its members regarding what African farmers need to be successful: supportive policies, better seeds, access to affordable finance and fertilizer, effective extension services, stronger national research systems, open markets and improved rural infrastructure.

The Alliance for a Green Revolution in Africa (AGRA) has been working since 2006 to meet these needs in 16 sub-Saharan countries. The efforts by G8 and African governments, combined with those of the global donor community, major private foundations, international research institutes, domestic and international agribusinesses, NGOs and many other players – not least, farmers themselves – are generating considerable progress and momentum.

### BEYOND THE TIPPING POINT

With the right policies in place, and with adequate public and private investment, African agriculture can become a major driver of global economic growth in the 21st century. According to AGRA's Chair, Mr Kofi Annan, the green revolution in Africa recently moved beyond its tipping point, and millions of African farmers are now poised to become integral participants in the global economy, both as producers and consumers.
Increasing agricultural productivity in sub-Saharan Africa is now both an imperative and a major opportunity for enhancing food security, accelerating sustainable economic growth and reducing the need for foreign aid. Recent research by the International Food Policy Research Institute (IFPRI) reveals that doubling the productivity of food staples across Africa could raise the continent's annual average GDP growth to 5.5%, lift over 70 million people out of poverty and transform Africa from a food deficit to a food surplus region.

### INTENSIFYING AFRICAN AGRICULTURAL SYSTEMS

Enormous potential exists for agricultural growth in Africa. The continent is blessed with abundant natural resources. It has 12 times the land area of India, for example, but only half as many people to feed. With few exceptions, the distribution of land is equitable by international standards, and efficient (but poor) small farms dominate the agricultural sector. Numerous opportunities exist for intensifying agricultural systems across the continent, and recent production successes using improved varieties of cassava, rice, and hybrid maize show that there are effective technologies that can be put to use while new R&D continues.

The demand for Africa's agricultural production is also firming up. Rapid population growth and urbanisation across the continent is strengthening domestic markets, and opportunities and incentives for Africa to contribute to global food security are growing. Capitalising on these opportunities requires policies that encourage trade and strengthen performance across the entire African agricultural value chain – from seeds, soil health and water to finance, markets and agricultural education. It also requires African-led, but globally coordinated development – and a sharp focus on farmers and the small- to medium-sized agribusinesses that serve them.

### PARTNERING WITH THE G8

AGRA is working closely with G8 member states as it strives to improve African agricultural productivity, and to strengthen African participation in and contributions to the global economy. For example, the UK's Department for International Development (DFID) was the first to respond to AGRA's efforts to diversify its funding base beyond its initial private foundation investors. USAID and the US-based International Food Policy Research Institute are also important partners, as are a number of US universities. Ties with Canada are growing stronger as well, with the International Development Research Centre (IDRC) participating in the design of a farmer-focused social science and policy agenda for AGRA.

Partnerships like these provide the impetus needed to unleash Africa's agricultural potential and open the door for meaningful contributions to long-term global economic growth.

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# The Feed the Future initiative and the New Alliance for Food Security and Nutrition

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The New Alliance for Food Security and Nutrition aims to lift 50 million people in sub-Saharan Africa out of poverty

## US-led food and nutrition initiatives are reaping significant results that are improving lives and expanding agricultural investment opportunities

**By** Rajiv Shah, administrator, United States Agency for International Development

Launched in 2009 by US president Barack Obama, Feed the Future is the US government's global hunger and food security initiative. Designed to help unlock agricultural growth and transform economies, the presidential initiative works to improve the incomes of smallholder farmers, particularly women, in coordination with partner country-led development plans.

Although the initiative is still in its early days, it is beginning to see significant results, as well as evidence of the cost effectiveness of those impacts. Thanks to a recently completed cost-benefit analysis of Feed the Future investments in six focus countries, the United States Agency for International Development (USAID) knows that its projects are delivering a rate of return that averages 22 per cent – with a range from 11 per cent to 148 per cent.

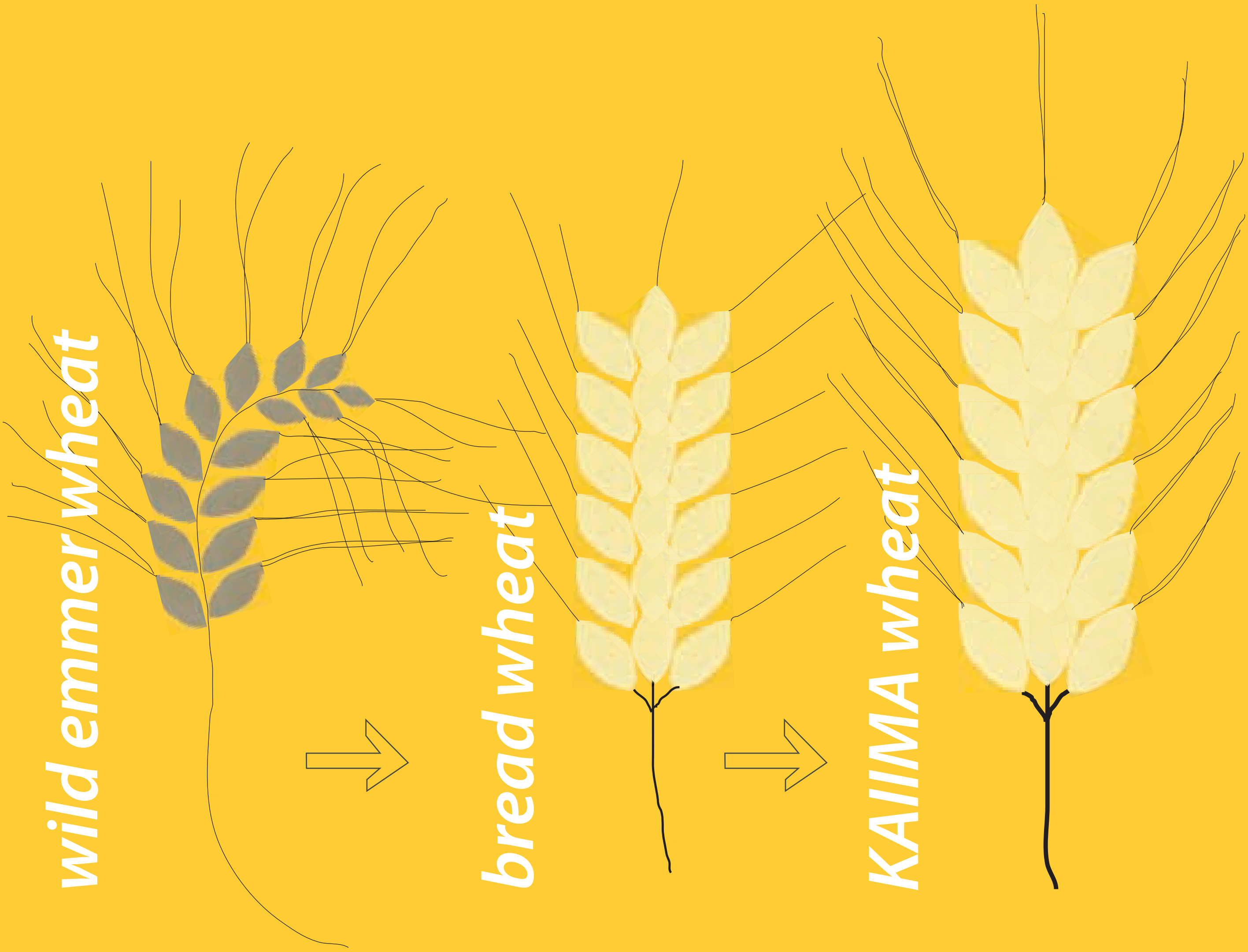
In October, USAID released the first *Feed the Future Progress Report*. The report showcases these early results, including helping 1.8 million people adopt improved technologies or management practices. The programme has also reached 8.8 million children through nutrition programmes that reduce anaemia, support community gardens and treat acute malnutrition.

With support from Feed the Future, rice farmers in Senegal are planting an improved seed variety and have gone from having a rice deficit – actually needing to purchase additional rice to feed their families – to producing a surplus. In two seasons, the number of farmers using this new rice has grown from 114 to 5,000. Sales have jumped from $12,000 to $365,000.

In Bangladesh, USAID has helped more than 400,000 rice farmers increase yields by 15 per cent through the more efficient use of fertiliser, leading to the first ever rice surplus in the country's poorest state.

To bring these results to an even greater scale, USAID helped design the New Alliance for Food Security and Nutrition, a significant new model of partnership that brings private-sector companies and developing countries together to expand investment opportunities in African agriculture. Launched by President Obama ahead of last year's G8 Camp David Summit, the New Alliance aims to lift 50 million people in sub-Saharan Africa out of poverty in the next decade. So far, more than 70 global and local companies have committed more than $4 billion to expand seed production and distribution, establish small-scale irrigation systems and source food for global supply chains. ■

*Adapted from the Administrator's Message in the* Fiscal Year 2012 Agency Financial Report.




# Enhancing Plant Potential to Enhance Food Security

By the Kaiima Team

**Our drive** to sustain this planet's ever-increasing and ever-advancing human population is straining its limited agricultural capacity. By 2050, farmers will be tasked to produce 70% more food than they do today just to sustain our and our children's generation.

Climate change impact and reduced access to water and arable land are rendering this formidable task even more difficult.

To prevail, we have to leap-frog today's scientific capabilities and achievements in agricultural productivity. Kaiima is developing a promising technology, based on intrinsic evolutionary mechanisms in plants, to help meet this challenge.

## *Game-Changing Technology*

Genome multiplication, or polyploidy, is widely acknowledged as one of the most important evolutionary processes that plants use to naturally adapt to stressful environmental changes. Some of our most important crops, such as wheat and maize, first appeared in nature because of genome multiplication events.

However, the practical use of polyploidy has remained limited because the multiplication processes used by breeders interfered with the integrity of the original plant genome. Ultimately, this led to the loss of fertility and genetic stability in plants and overcoming this obstacle has eluded experts for decades.

Kaiima has been able to successfully harness the potential of polyploidy by developing a pioneering non-GMO technology – called Enhanced Ploidy (EP™) - that multiplies the plant's genome without compromising its integrity. When applied to high-impact food crops, EP™ significantly boosts productivity and improves land and water-use efficiencies.

## *A Yield Revolution in the Making*

To date, agro biotechnology has been effective at introducing yield-preserving traits rather than yield-enhancing traits. In fact, inherent yields in main agricultural crops have remained relatively stagnant for years.

EP™ promises an opportunity to change this equation.

Trials in key crops developed by our enhanced-ploidy breeding programs have shown exceptional yield increases of several tens of percent.

**By 2018, we expect a 15-30% commercial-scale yield increase and 30% improvement in WUE (water-use efficiency) in crops such as wheat, maize and rice.**

## *Seeds of Change*

We have set a mission for ourselves and our partners: to help feed the world and energize it by introducing new varieties of key agricultural crops – specifically designed for sustainable agriculture – and with vastly improved yields.

Maximizing the yield potential of the seeds we provide to the world's farmers is the cornerstone of our commitment. This is our part of a global collective effort to achieve food security for all.

***9 billion***
*people by 2050*

***70%***
*increase of global annual food production to feed them*

***12 million***
*Ha are lost each year due to drought, desertification and soil degradation*

***<1%***
*per year yield improvement in main food crops*

***70%***
*of freshwater is used for irrigation in agriculture*

***90%***
*of freshwater is used for irrigation in fast-developing countries*

***2.8 billion***
*people to face water stress by 2025*

***100%***
*higher $CO_2$ intake by plants with enhanced ploidy*

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# Building biodiversity for agriculture, food and nutrition security

## The past decade has seen increased cooperation between the agricultural and environmental sectors, but further policy action is required

*By* Braulio Ferreira de Souza Dias, executive secretary, Convention on Biological Diversity

The challenges facing agriculture and sustainable food and nutrition security feature strongly in contemporary discussions of sustainable development post 2015. A World Economic Forum assessment places food shortage crises among the 10 top-ranked global risks for 2013, together with the dependent risks of extreme volatility in energy costs and prices of agricultural products, water supply crises, rising greenhouse gas emissions and the failure of climate change adaptation. Recent turbulence in food prices has highlighted the underlying increasing competition for land and other resources among food, urbanisation and other needs, driven by an expanding population and shifting consumption patterns. Solutions to meet these challenges and reduce risks are available through building on the ability of biodiversity to support more efficient and sustainable production landscapes and seascapes, alongside sustainable consumption.

Putting food production and consumption on a truly sustainable footing requires agricultural systems to become much more efficient, resilient and diversified: growing more, with less input per unit, while simultaneously reducing externalities. This can be done through government policies that support win-win outcomes for agriculture and the environment. Solutions start with the recognition that farming is based upon ecological processes set within a broader landscape, including integrating sustainable approaches in urban and peri-urban areas. Biodiversity underpins these processes. The world needs to move beyond the current narrow focus on a few major crops and livestock, to a broader agenda that also promotes food diversity. This will mean more attention to smallholder farming, including nutritionally high and locally sustainable food sources based on local traditions.

At present, some 70 per cent of farming soil worldwide is degraded, and the trend is worsening. Soil is formed by ecosystems over a period of 100 to 1,000 years, so its continuing loss is a cause for serious concern. Restoring soil biodiversity enables healthy soils to deliver increased and more sustainable crop yields through improved cycling and retention of nutrients, water and carbon, as well as natural regulation of pests and diseases. This reduces the need for irrigation, fertiliser and pesticides, both benefiting farmers and reducing off-farm impacts. Increasing the level of organic matter within soil not only improves fertility but also helps to both mitigate and adapt to climate change.

> ***Soil is formed by ecosystems over a period of 100 to 1,000 years, so its continuing loss is a cause for serious concern***

Pollinators required to sustain the productivity of many major crops are in serious decline through loss of habitat and pesticide use. Better integration of pollinators into farming landscapes will help reverse this trend and provide other co-benefits for wildlife and landscape values.

By providing a diverse range of foods with high nutritional value, biodiversity underpins nutritious diets. Diversity in foods and farming systems also supports economic diversity, increasing resilience to local or global economic shocks, thereby supporting livelihood security and promoting greater equity in the benefits of farming. Alongside these advantages, biodiversity also leads to increased productivity, as much for smallholdings as for highly industrialised operations. It is a key element of building a more sustainable and resilient food supply system – one that is more nutritious, economically stable and equitable.

The genetic diversity of crops and livestock, including their wild relatives, is an essential resource for the continued improvement of varieties and breeds, particularly in a changing climate. Most of these genetic resources are held *in situ* within farming systems, including in the broader landscape, and under the stewardship of farmers and local communities. Supporting the conservation of these resources, together with associated local knowledge and management practices, is a sensible strategy to enable farming systems to continue to evolve and meet future needs. Therefore, more attention to and support for on-farm and other *in situ* conservation is needed to balance the current reliance on *ex situ* conservation through gene banks. After all, genetic resources are only able to adapt to a changing climate and changing land use when *in situ*.

There has been significant progress in these areas through stakeholder partnerships, in particular with farmers, that identify common goals and realign incentives to achieve them. For example, we are seeing the rapid spread of low-till farming, which avoids bare soils in fields and reduces chemical and water needs in both small- and large-scale operations. This increases yields and reduces off-farm impacts, as well as improving resilience of landscapes to erosion, landslides, floods and droughts. Both farmers and the environment win. These and other successes use biodiversity to support simple, intelligent solutions that deliver sustainable outcomes. But the world needs to significantly increase its efforts. This need not necessarily require increased overall investment, as in many cases biodiversity-based solutions can reduce overall costs. But it does raise the question of whether investments and incentives are working with or against nature.

Policies in the G8 need to recognise that food and nutrition security involves the global exchange of benefits for, and impacts on, ecosystems that underpin sustainability

Government policies that encourage biodiversity in farming will deliver benefits not only to the environment, but also to the farmers who work the land

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for all, and has important links to economic prosperity, poverty reduction and other aspects of security and peace. Economic accounting systems need to better capture the values associated with ecosystem goods and services, the status and trends in natural capital – nationally, regionally and globally – and any ecological limits. More equitable trade, based on sustainability, can strengthen opportunities for farmers to help themselves out of poverty. Subsidies and incentives, where necessary, can be better aligned to promote sustainability, especially at the local level. International aid and relief to combat famine and poverty also need to be oriented to support resilient and sustainable local food production, including reducing risks from floods and droughts. Biodiversity needs to shift from being a fringe 'conservation' issue to become central to economies and a sustainable future. The G8 can help make this approach mainstream across the globe.

Parties to the Convention on Biological Diversity (CBD) have already adopted initiatives designed to harness the benefits of pollinators, soil biodiversity and biodiversity for food and nutrition. The Strategic Plan for Biodiversity 2011-2020, and its Aichi Biodiversity Targets, adopted at the 10th meeting of the Conference of the Parties (COP 10) to the CBD in Nagoya, Japan, is a framework for action for biodiversity that serves the sustainable development agenda. The CBD Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from Their Utilization, also adopted at COP 10, provides for more predictable conditions of legal certainty, clarity and transparency and incentives for conservation and sustainable use of genetic resources. The CBD Cartagena Protocol on Biosafety assists parties to manage the risks that are associated with international transfers of living modified organisms.

The past decade has seen a significant shift from conflict to cooperation between the agriculture and environment sectors. Last year, the Rio+20 Conference on Sustainable Development's The Future We Want outcome document contained a call for more sustainable development policies and a further enhancement of this cooperation. It also served to catalyse the global call to make sustainable development priorities central to global thinking. Recognition of interdependencies, common goals and win-win outcomes is making it possible for all to work better together for a sustainable food- and nutrition-secure world founded on biodiversity. The technical solutions already exist – but stronger enabling public policies are needed, as are economic incentives and effective cross-sectoral partnerships based on win-win outcomes to achieve integrated, sustainable and resilient production landscapes and seascapes. ■

# The other global crunch:
## nitrogen, environment and the economic opportunities

**Smarter use of nitrogen could save £110 billion a year, protect the environment and help feed the world. *Professor Mark Sutton* of the UK Centre for Ecology & Hydrology, and Chair of the International Nitrogen Initiative (INI), reveals how.**

I wonder how often you think about nitrogen as you eat your lunch. My guess is, not very often. Society is only beginning to realise the massive impact that nitrogen has on our lives. As colleagues and I highlighted in the recent report *Our Nutrient World*, prepared for the United Nations Environment Programme (UNEP), manufactured nitrogen compounds are fundamental to feed humanity and sustain the luxury levels of meat consumption that many of us enjoy. At the same time, more than 80% of this nitrogen is lost into the environment, contributing to climate change, air, water and soil pollution, and threatening human health and biodiversity. We have a major challenge on our hands. But there are also substantial economic opportunities.

There are huge opportunities for innovation in nitrogen supply, management and mitigation

To understand this story we need to go back a century to when there was simply not enough nitrogen to go around. Although 78% of the atmosphere is nitrogen ($N_2$), this cannot be used by most plants and animals. The result is that we depend on nitrogen compounds such as ammonia ($NH_3$) and nitrates ($NO_3$) as the building blocks of life.

Historically, the main source of nitrogen compounds was through biological fixation by legumes, with careful recycling of livestock manures. However, as human population expanded, there was an urgent need to find fresh sources of nitrogen fertilizers.

The answer came through industrial innovation. In the now-famous Haber-Bosch process, 1913 saw the first large-scale manufacture of ammonia, combining nitrogen and hydrogen directly. Today, humans have more than doubled the global rate of nitrogen fixation.

While it has been estimated that these man-made fertilizers feed half the world's population, surplus harvests have also allowed a rapid increase in livestock production and consumption. The result is that 82% of nitrogen in global harvests now goes to feed livestock, emphasizing the importance of our food choices.

Unfortunately, nitrogen efficiency has also decreased, wasting most of this key resource while polluting our planet. The problems include greenhouse gases, poor air quality that is shortening human life, and threats to biodiversity through air pollution, with a raft of problems for groundwaters, rivers and seas. In Europe alone, the annual costs are estimated at between £60-270 billion.

So what can be done? The INI is exploring opportunities for improved nitrogen management, linking scientific and stakeholder communities. *Our Nutrient World* outlines 10 key actions, showing the benefits of a 20:20 target: where 20% better Nitrogen Use Efficiency by 2020 would save 20 million tonnes of nitrogen, with annual benefits worth around £110 billion.

These issues will be discussed at our conference N2013, in Kampala, 18-22 November 2013. You are welcome to come along to learn and share what nitrogen means for your business. For as human consumption rates increase, there is no doubt that we are looking to another global crunch – unless action is taken. There are huge opportunities for innovation in nitrogen supply, management and mitigation, bringing economic benefits from food and energy security to environment, climate and human health.

**For more information on INI, *Our Nutrient World* and N2013, contact: G8@initrogen.org or visit: http://initrogen.org/index.php/G8**

Centre for Ecology & Hydrology
NATURAL ENVIRONMENT RESEARCH COUNCIL

International Nitrogen Initiative

# Plant protection addresses food security through effective regulation

## With a growing global population and existing food security issues to address, the G8 has a key role to fulfil in pest regulation and control procedures

*By* Yukio Yokoi, secretary, International Plant Protection Convention

One of the world's most fundamental problems in the 21st century is hunger within a growing population. Countries face the challenge of collaborating with one another to eradicate hunger and poverty. The current demographic trends predict that by 2050 there needs to be a 70 per cent expansion of the global agricultural output to meet the food needs of the population. This fact brings to light the desperate need for sustainability, particularly in crop production systems, food security and nutrition. In trying to meet the demands of this rapid population growth, it is of the utmost importance to maintain healthy and sustainable agro-ecosystems, while continuing to uphold the increase in production.

### Addressing global food security

The International Plant Protection Convention (IPPC), which comprises 178 contracting parties, aims to secure cooperation among countries in controlling pests of plants and plant products and in preventing their international spread, particularly their introduction into endangered areas. By protecting plant resources from pests, the IPPC tackles various global issues related to food and agriculture, trade, environment and development, all of which are connected to food security and livelihoods.

First, crop production could increase or be secured through appropriate phytosanitary protection to contribute directly to global and national food security. The main focus of the IPPC is the prevention of pests being introduced through trade – the movement of goods and travel – which results in substantial savings on pest management costs by keeping pests outside national territories. Preventive costs are a fraction of what they would be if new economically or environmentally damaging pests are introduced. National plant protection organisations (NPPOs), as the national phytosanitary authorities, are charged with assessing and managing pest risks, as well as responding in a timely and efficient way to plant pest risks.

NPPOs benefit from the IPPC capacity development activities, particularly in developing international plant health standards and implementing them, to strengthen their ability to manage and respond more efficiently to those phytosanitary risks. As an example, the Cassava mosaic virus in Africa generated severe losses in areas where income was based on agriculture and in weakly industrialised economies. Such vulnerability exists in many countries, requiring the improvement of infrastructure and increased efficiency of regulatory systems to handle the imports of new commodities, particularly those from new origins and new trade pathways.

### International standards

Second, trade is facilitated by the international standards for phytosanitary measures. These provide a scientific basis for the measures that countries are allowed to take in protecting plants from pests, often reducing the trade and regulatory costs as well as minimising the trade disputes. The information that is available as a result of countries meeting their national reporting obligations is also essential for trade facilitation and IPPC contracting parties have clear obligations in this respect. Plant health trade conflicts can also be addressed through the IPPC dispute settlement mechanism.

In addition, the current introduction of electronic phytosanitary certificates has substantial potential to facilitate the trade processes between the exporting and importing countries. Such development can affect substantially the more than 300,000 phytosanitary certificates that are exchanged globally each year. These efforts are not only to facilitate safe trade, but also to promote access to food, reduce fraud, and expedite the safe movement of plants as well as plant products through ports of entry.

### The impact of trade liberalisation

Trade liberalisation opens up opportunities for immense economic growth, but it can also be viewed as a challenge in safeguarding the agricultural production and environment of importing countries from pests of plants. Without the proper regulation of pests of plants, the introduction and spread of pests could be economically devastating for growers, industries and consumers that have to pay for pest control and production losses.

***Without the proper regulation of pests of plants, the introduction and spread of pests could be economically devastating for growers, industries and consumers***

Third, the IPPC provides the framework to protect not only cultivated plants but also wild plants, and acts directly on the protection of the environment. As an example, one of the international standards for phytosanitary measures provides guidelines on how to treat wood packaging materials used in trade of all types of commodities. The phytosanitary measures consistent with the standard ensure that the materials are properly treated and thereby substantially reduce the risks of devastation of the world's forests by pests possibly hidden in the materials. For instance, the Asian long-horned beetle is having a major environmental impact in North America after its introduction through wood packaging before this standard was introduced. Furthermore, the IPPC also

Controlling the spread of pests will be essential for ensuring future food security around the world

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protects other plant resources, which could have the potential to trigger innovation in food production in the future.

Since 2009, the G8 has focused on the global supply of food. In 2013, it will ensure that food security and growth through effective regulation, including enhancing multilateral trade, are addressed. The work of the IPPC is therefore highly relevant.

The G8 leaders of the Lough Erne Summit should be aware of, and should increase public awareness of, the importance of the plant protection efforts of the IPPC, which addresses various global phytosanitary risks such as trade, environment and food security. They should tell the world that fighting against countless plant pests requires the dedication and active support of all the governments and their citizens, and it plays an immense role with direct and indirect impacts on sustainable food security.

G8 leaders therefore need to actively support investment in global and national plant protection systems as a top priority when they are addressing future sustainable global food needs while expanding and maintaining trade networks. ■

# CONTROLLED QUALITY VEAL


*The VanDrie Group is a Dutch family-owned company and global market leader in the production of veal and calf milk powder.*

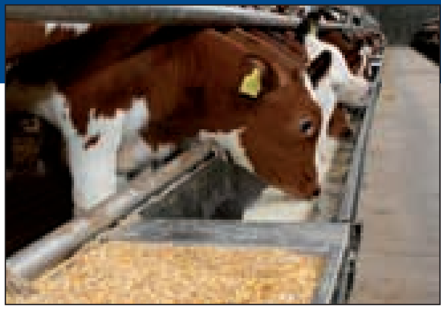
In 2012, the group exported its products to more than 60 countries and generated an annual turnover of approximately EUR 2 billion. The group operates within an integral production chain, which makes it unique in the industry: it has total control over all steps of the process, from raising the calves up to and including selling its products in international markets. The Safety Guard quality system provides a framework for chain management. All of the VanDrie Group's activities are focused on guaranteeing food safety and treating people, animals and the environment with respect. Thanks to Safety Guard and its traceability system, performance can be monitored, measured and managed right throughout the chain, which comprises the following components:

**I. Sourcing new-born calves**
The veal sector is closely linked to dairy farming. After all, a cow can only produce milk if she bears a calf every year. Immediately after birth, the calves are registered in the national Identification and Registration (I&R) system. Each calf receives an ear tag showing its unique I&R number. This number allows a large amount of data to be recorded and monitored for each calf, up to and including the end products. This forms the basis for the Safety Guard traceability system.

Safety Guard

**II. Veal farms**
The calves, which are 100% owned by the group, arrive at the VanDrie Group veal farms when they are 14 days old where they are raised to an age of between 24 to 29 weeks. All feed – and any medicine – they receive is registered against each calf's individual I&R number. All veal farmers are governed by Integrale Keten Beheersing ('Integrated Chain Management' or IKB), which is a system developed by the Dutch food industry in order to guarantee the quality and origin of a product and its production methods in all links of the chain. The independent Veal Calf Quality Guarantee Foundation (SKV) ensures that all calves are farmed in line with the relevant legislation and guidelines.

VanDrie Group
CONTROLLED QUALITY VEAL



**III. Calf feed**
The group's integral chain also includes the production of calf milk powder and mixed feed. These carefully formulated products have been developed by the group's R&D department and have been extensively tested against all relevant parameters in its own test farms. The group sets high standards for all feed ingredients. Manufacturers are only allowed to supply products based on tried-and-tested procedures and specifications. Before any raw materials enter into the production process, the in-house laboratory analyses samples to ensure that they comply with the relevant specifications.

**IV. Slaughterhouses**
All of the group's slaughterhouses are certified in accordance with HACCP, ISO 22000 and BRC, among others. As soon as the calves arrive at the slaughterhouses, the SKV certificates are checked against the corresponding I&R numbers. Each calf's ear tag is scanned individually so that the quality-related data remains linked to the carcass and the resulting cuts of meat during the entire process.

**V. Veal product**
The VanDrie Group supplies veal products in line with customer-specific requirements. All products are labelled to indicate not only the required product-related information but also details of the country where the animal was raised and slaughtered, and where the meat was processed.  VanDrie veal is a high-quality product which guarantees food safety, transparency and respect for people, animals and the environment.

VanDrie Group P.O.Box 20095 7302 HB Apeldoorn-NL  T +31 (0)55 5492152  E info@vandriegroup.com

# The power of rural development

## By supporting rural communities, the G8 can ensure the survival of the people who live within them, as well as long-term global food security

***By*** Kanayo F Nwanze, president, International Fund for Agricultural Development

The world's understanding of what makes development effective has become more sophisticated in recent years. The G8 and indeed the international community as a whole have been moving away from the paternalistic, aid-centred approach that once defined most development cooperation, and are looking for new ways of working with countries to create the conditions for sustainable, inclusive, job-rich growth.

The focus of this year's G8 summit on trade, transparency and taxation is part of this change, as are the elements of the "golden thread" of development put forward by British prime minister David Cameron. It hinges upon the rule of law, the absence of conflict and corruption, and the presence of property rights and strong institutions. However, for this year's G8 to move the world even closer to eliminating poverty and hunger, each of these elements must also be given a particular rural focus. Despite rapid urbanisation, extreme poverty and hunger are still most deeply entrenched in developing countries.

**Towards 21st-century development**

How the world responds to today's challenges will determine not only how effective present efforts are, but also the shape of future food systems, the survival of ecosystems, future demographics, and the nutrition and health of the world's population in the decades to come. The stakes are higher than ever. Most of the world's hungriest and poorest people still live in rural areas. The pervasive poverty in the rural world has a particularly great impact on some of the most disadvantaged groups. Women, indigenous peoples and minorities are disproportionately affected by poverty, and 85 per cent of the world's young people (aged 15 to 24) live in developing countries, mainly in rural areas in sub-Saharan Africa, much of southern Asia and Oceania.

If the world does not act now to create vibrant, modern rural economies, the consequences will be as dire as they are predictable: more and more young women and men will follow the well-trodden path from rural areas to overcrowded urban areas, adding to existing problems of unemployment, pollution and social instability. Rural areas will become increasingly depopulated, their natural resources more degraded, and their ecosystems damaged or lost – all at the very time when the world needs to increase agricultural productivity to meet the demand for food of a more affluent global population, which will exceed nine billion by 2050.

But there is another scenario, where rural areas are dotted with sustainable farms and non-farm enterprises of all sizes, providing a variety of jobs and decent incomes while also making a significant contribution to poverty eradication, food security and improved nutrition, and environmental sustainability.

***The elimination of poverty and hunger requires a commitment to a new rural-urban nexus – investing in rural areas, people and their links to urban economies***

This scenario is a realistic one, which the G8 should embrace. Countless studies show that growth in gross domestic product generated by agriculture is significantly more effective in reducing poverty than growth in any other sector. Small farms are not synonymous with subsistence; they predominate in rich countries such as Japan, Norway, Korea and Switzerland. More than 90 per cent of farms in Thailand and Vietnam, the world's two biggest rice-exporting countries, are smaller than 10 hectares. In many parts of the world, there is potential to increase the output of smallholder agriculture, which can achieve higher productivity per hectare than large commercial farms.

Time and time again, the world has seen how modern, diversified rural economies generate demand for locally produced goods and services, how they spur non-farm employment in services, agro-processing and small-scale agriculture, and even how they can contribute to reverse migration, with people choosing to return to their families, rural communities and their roots. Furthermore, within rural economies, it is increasingly evident that sustainable agriculture can provide a range of environmental services, including reducing greenhouse gas emissions, protecting biodiversity and managing precious water resources for the benefit of downstream users.

Encouraging young people to remain in rural communities is vital to long-term food security and is a means of reducing poverty

IFAD/SUSAN BECCIO

Today, there are unprecedented opportunities for people living and working in the rural areas of developing countries. New markets and higher food prices hold out the promise of higher incomes. At the national level, there is ample opportunity to link small-scale producers with domestic, medium-sized private companies, and there is a growing understanding and appreciation of the environmental services that rural areas offer.

But for the impoverished family farmers, landless labourers, indigenous peoples and other poor rural people who most need these opportunities, life remains insecure. Food price volatility on international markets has created an unsettled and uncertain environment. Climate change is making weather patterns less predictable and is contributing to more frequent and extreme events, such as flooding and droughts. Competition is increasing for the land that has provided poor rural people with food, shelter and income for generations, and in many areas where the International Fund for Agricultural Development works, people still struggle with issues of insecurity or violence.

## Land of opportunity

To eliminate poverty, hunger and myriad other social ills, conditions must be created for rural people to participate in modern markets, invest in their businesses and contribute to vibrant rural economies. To do so requires the advances in trade, tax compliance and transparency that are part of this year's G8 agenda, as well as the strong institutions, land tenure security and a host of other elements that together weave into the golden thread of development. But most of all, the elimination of poverty and hunger requires a commitment to a new rural-urban nexus – investing in rural areas, people and their links to urban economies. By creating the conditions for smallholders to feed themselves while preserving the environment today, the world will be investing in the long-term well-being of cities, economies, societies and indeed the planet. ■

# Nourishing the world

## Food security is one of the most pressing issues of our time.

With an estimated one billion people still going hungry every day, the G8 leaders recognise the urgent need to increase food production to give people the opportunity to live healthy and prosperous lives.

Rising incomes, particularly in actively developing economies such as the BRICS nations, have led to changes in diet patterns in recent years. People are demanding more food, a wider selection and higher quality.

However, not everyone is benefiting from this food revolution. A large share of the world's undernourished live in emerging economies where average incomes are much lower compared to developed agricultures and crop yields are significantly inferior.

With the global population forecast to increase to nine billion by 2050, it is clear that change is needed. Solutions are required which offer sustainable ways to produce more food without damaging the environment.

## Uralkali in the global context

As one of the world's largest potash producers by volume, Uralkali understands the integral role it can play in improving agricultural methods.

The mineral fertilisers we produce are optimal for ensuring balanced plant nutrition.The application of potash provides vital nutrients to crops, helping to maximise yield and achieve their highest possible quality. This is vital given the rising demands for food and falling size of areas to grow crops.

**However, we do much more than simply providing fertiliser to farmers. We also share best practices in agricultural methods to educate farmers on proper plant nutrition to ensure that potash is applied at the right time and in the right quantity. This is the key to achieving increased yields and contributing to the future prosperity of developing nations.**

**Vladislav Baumgertner**

CEO
Uralkali

Uralkali collaborates with international scientific institutions, including the International Plant Nutrition Institute (IPNI) and International Potash Institute (IPI). We participate in a number of intergovernmental programmes that promote balanced use of fertilisers. In partnership with leading universities and large fertiliser distributors, Uralkali carries out projects to increase the yield of major crops in 12 regions of the world. For example, corn and soya in Brazil, sugar beetroot in India, rice in Vietnam and potato in China.

We also share our agriculture expertise with farmers all over the world through seminars, newsletters, social networks and our website.

## Together, we have the ability to shape the future to provide food for everyone.

For more information on the benefits of balanced plant nutrition, please visit our website at www.uralkali.com and our dedicated potash resource hub at www.infopotash.com/en

## Our commitment

Hunger is a global challenge which requires the teamwork and combined knowhow of many different companies, governments, NGOs, academics and citizens.

As part of Uralkali's ongoing quest to find solutions to global agriculture practices, we will continue to collaborate with leading scientific and research institutions, communicate the merits of potash application, and work on the expansion of educational programmes for farmers.


**Balanced fertilisation –**
a solution to increase yield
**Farmer education –**
key to ensure food security
+13% population has grown by 13% over the past 10 years and can add another 40% by 2050
x2 demand for meat and milk has doubled over the past 10 years
x4 demand for biodiesel has quadrupled over the past 5 years
-30% arable land per capita has decreased by 1\3 over the past 50 years
URALKALI®
**Uralkali is a vertically intergrated potash company with control over the whole business chain, from potash ore mining through to the supply of potassium chloride to customers, and a market share of about 20%.**
• The Company's assets consist of 5 mines and 7 ore-treatment mills situated in the towns of Berezniki and Solikamsk (Perm Region, Russia).
• Uralkali's sales geography covers over 40 countries in North and South America, Asia and Europe.
• Uralkali plans to expand its production capacity to 19 mln tonnes by 2021 through cost-effective brownfield and greenfield projects.
• Uralkali's shares and GDRs are traded on the LSE and MICEX-RTS.
For more information visit www.uralkali.com

# Ensuring access to food: responding to crises, supporting development

## Despite progress in reducing hunger, 870 million people remain undernourished today, and this issue becomes even more prominent in times of crisis

*By* Ertharin Cousin, executive director, World Food Programme

With the announcement of the Zero Hunger Challenge at the 2012 United Nations Conference on Sustainable Development in Brazil, UN secretary-general Ban Ki-moon placed the elimination of world hunger at the top of the international agenda. In recent decades, unprecedented progress has been made in the fight against hunger. Economic growth in many developing countries and a renewed focus on food and nutrition security from governments around the world, especially in the wake of the food price crisis of 2008, have generated momentum for ensuring that everyone has access to as much food as is needed to live a healthy, productive life.

Despite progress in reducing the share of the global population that is suffering from hunger, the absolute number of people who are undernourished remains unacceptably high. According to the most recent estimates, 870 million people around the world are undernourished, with 165 million children suffering from chronic malnutrition. In some regions, such as sub-Saharan Africa, the absolute number of undernourished people has actually increased over the past five years.

As the frontline UN agency in the fight against hunger, the World Food Programme (WFP) is committed to working with governments and other partners to ensure that hungry people around the world have access to nutritious food, particularly during times of crisis. This commitment focuses on making cost-effective investments to support the resilience of complex systems, which include government-led safety net programmes, market-based hunger solutions and the provision of support to rural communities.

Nobel Laureate economist Amartya Sen's analysis of the 1943 famine in the Indian state of Bengal transformed the world's understanding of the importance of access to food in crises. He showed that a variety of factors, such as economic inequality, social marginalisation, government policy and information failure, combined to prevent people from acquiring food in time to avert catastrophic human suffering and loss of life.

Although 70 years have passed since the Bengal famine, Sen's findings remain relevant. In today's interconnected world, the poorest people are increasingly vulnerable to food price shocks that may originate thousands of miles away. Cyclical patterns of food crises are emerging in areas most directly affected by climate change, such as the Horn of Africa and the Sahel, where they can be both a cause as well as a consequence of violent conflict.

### Turning crises into long-term change

Ensuring access to food for victims of conflict and natural disaster on a large scale has become a principal normative concern. When there is sufficient political will and where governance and security conditions permit, the international community now possesses the resources and expertise to prevent major shocks from degenerating into large-scale humanitarian crises. The international community must do more, however, to turn crises into opportunities for long-term change.

It must recognise that the transition from emergency relief to post-crisis recovery and development is rarely linear. Just as effective emergency response, by ensuring immediate access to food during a crisis, can help protect hard-won gains in health and poverty reduction, so must development planning respond to sudden changes in the needs of vulnerable populations. Investments in both humanitarian response and long-term development must be multidimensional, and they must focus on enhancing the long-term resilience of the most vulnerable populations.

The poorest and most food-insecure people often live in environments affected by water scarcity, land degradation and erratic weather patterns. In sub-Saharan Africa, for example, 650 million people depend on rain-fed agriculture to meet their food needs. Investment in rehabilitating degraded land, as well as irrigation and water storage improves access to food and strengthens the ability of these vulnerable communities to withstand and quickly recover from shocks.

In the arid Karamoja region of north-eastern Uganda, WFP is working with the government, the UN Food and Agriculture Organization and non-governmental organisations to increase the ability of the poorest to cope with the effects of cyclical drought. When harvests failed in the past, many relied on relief assistance.

By shifting the way that the effects of drought are managed, from focusing on crisis response to mitigating the potential impact of drought, many communities have significantly reduced their dependence upon relief assistance. Investments in water harvesting, agricultural extension, child nutrition and road infrastructure have helped significantly reduce underlying vulnerability and improved the productivity of rural livelihoods.

> ***When there is sufficient political will and where governance and security conditions permit, the international community now possesses the resources and expertise to prevent major shocks from degenerating into large-scale humanitarian crises***

Government leadership and investment are critical for bringing an end to world hunger. National safety net programmes that provide vulnerable populations with transfers of cash or food are one of the most effective tools. Safety nets are often a component of broader social protection policies that address the essential needs of the poorest members of society. These programmes often support longer-term objectives for reducing poverty and improving access to basic services. When functioning safety nets exist, countries can more rapidly, effectively and efficiently respond to shocks, such as sudden food price increases. Safety nets that mitigate shocks can contribute to social stability, reducing the risk of crisis at the local and national levels.

**Delivering nourishment at school**

School feeding, which contributes to long-term educational goals while providing access to food for the poorest children, is one of the most widely adopted safety nets worldwide. It is a central feature of the Brazilian government's Fome Zero initiative, reaching 45 million children across the country.

In partnership with the Brazilian government, WFP works to promote South-South learning in school feeding through the Center of Excellence Against Hunger, located in Brasilia. Leveraging Brazil's success in reducing food insecurity and WFP's support to school feeding in over 60 countries, the centre brings together policymakers and managers from around the world to facilitate the expansion of government-owned school feeding programmes. The Brazilian government provides technical support to partner governments in safety net policy and design. The centre also assists countries to develop innovative ways of linking the production of smallholder farmers to national safety nets, including school feeding.

When food is not readily available in local markets, the direct provision of food is the most appropriate response in the aftermath of a crisis. Where food is available in markets, transfers are increasingly useful tools in emergency response. They may take the form of vouchers, cash or bank payments, which people can use to purchase food from local traders. Following a crisis, these transfers also support the recovery of market systems and stimulate demand for agricultural production.

Food assistance transfers made through financial mechanisms have the added benefit of improving financial literacy and increasing the potential for access to other financial services, such as credit, in the future. Ultimately, as marginalised people become more integrated into the larger economy, opportunities to diversify sources of household income arise. With banking services expanding into rural areas, technology provides opportunities for integrating food assistance and financial services. In Kenya, for example, WFP has worked with the private sector to develop new ways of providing transfers in remote areas through mobile phone technology.


ALAMY

Access to food during times of crisis forms a vital part of any strategy aimed at providing long-term food security

Investments in global food security must ensure that access to food during periods of crisis is embedded within long-term efforts to eradicate hunger and poverty. In support of these investments, WFP and its partners around the world are developing innovative tools for emergency response that strengthen community resilience to shocks and contribute to the health of the social and economic systems that form the foundation for lasting solutions to world hunger. The continued support of the G8 for global food security, including in the context of the post-2015 development agenda, will be critical for maintaining the momentum required for ensuring sustainable access to food for the world's most vulnerable populations. ■

# Queen's University Belfast
## – an international powerhouse in higher education

Professor Sir Peter Gregson, President and Vice-Chancellor

Queen's is an innovative and progressive 21st century institution, a driver of growth within its campus and beyond, proud to hold a place in the top one per cent of global universities.

The University plays a crucial role in the development of a confident, outward-looking Northern Ireland, contributing £700 million per annum to the local economy. Its graduates are global citizens whose lives and careers make a positive impact at home and across the world.

**The University is a powerhouse of enterprise, playing an influential role through its global collaborations**

Investment of £350 million in the past 10 years has transformed the University into a dynamic environment for learning and research. Under the leadership of its President and Vice-Chancellor, Professor Sir Peter Gregson, Queen's has become a magnet for talent, attracting and developing some of the world's most gifted academics. More than 200 have joined in the past two and a half years.

This is a University with a distinguished record of discovery. It is a powerhouse of enterprise, playing an influential role through its global collaborations with businesses, such as the Malaysian petrochemical company Petronas, the Indian IT giant Infosys and Seagate in the US.

Our academics are dedicated to addressing the greatest challenges of the modern world. Now, through the establishment of important new Institutes, we are helping them to take their achievements further.

### FROM DISCOVERY TO RECOVERY

**Institute of Health Sciences**

Queen's is bringing some of the finest minds in clinical and scientific research together to take medical translational research to new levels.

Under the leadership of Professor Patrick Johnston, Dean of the School of Medicine, Dentistry and Biomedical Sciences, they are seeking to overcome some of the major health problems of our time: cystic fibrosis, asthma, multiple sclerosis, infectious diseases, diabetes and cancer.

Their work brings recognition and results. In 2012 we received from Her Majesty the Queen the Diamond Jubilee Queen's Anniversary Prize for developments in cancer care. In Northern Ireland more people are surviving cancer than anywhere else in the UK and the figures are growing.

The clinicians and scientists at the Institute devote their lives to improving the lives of others. They include Professor Joe O'Sullivan, leading clinical research on cancer; Professor Danny McAuley, an expert on acute lung injury; Professor Ian Young, working to prevent heart disease; Professor Usha Chakravarthy, renowned internationally for her work on diseases of the eye.

Their foresight and commitment, together with that of their many colleagues and partners, is resulting in enhanced outcomes for patients throughout Northern Ireland and beyond.

Queen's medical student, Jamie Clements, who recently won the UK-wide surgical skills competition

The Lanyon Building, Queen's University

### TOWARDS A MORE PEACEFUL WORLD

**Institute for the Study of Conflict Transformation and Social Justice**

For many years, researchers at Queen's have been engaged in transformative work right across the world: in the Middle East, South Asia, eastern Europe and in Northern Ireland. The new Institute will build on their achievements and create new opportunities, providing a harmonious space where researchers and political figures can engage with society.

The Institute was launched in May 2013 by the Nobel Peace Prize laureate and diplomat Martti Ahtisaari. Its Director is Professor Hastings Donnan who carries out research on border areas which have experienced conflict and on how people there have suffered.

Other leading academics include Professor John D Brewer, an authority on religion in peace processes; Professor Pete Shirlow, an expert on how society views ex-combatants; and research fellows exploring the Cyprus conflict and the Occupy movement, the Israel-Palestine situation and the role of civil society in building peace.

Queen's Chancellors have made a major contribution in their own right. His Excellency Kamalesh Sharma was preceded by Senator George Mitchell who will forever hold a place in history for his work on the Northern Ireland Peace Process. It is fitting that Queen's should now establish an Institute which will carry the echoes of his achievements.

## ENSURING THE SAFETY OF WHAT WE EAT

**Institute for Global Food Security**

If there is one thing of common concern to us all, it is the food we eat. Is it safe? Is it everything it should be?

The new Institute for Global Food Security at Queen's is a hub of research and learning that is of truly international significance. A team with unrivalled expertise is being assembled to focus on major research themes: human nutrition and disease; climate change; crop science, animal and plant health; food safety and food integrity.

They are led by Professor Chris Elliott, one of the world's foremost authorities on food security. Among his roles is that of chief scientific advisor on food safety to a United Nations agency. Other key research figures include Professor Aaron Maule, a world authority on parasites and animal health; Dr Yun Yun Gong, a leading researcher on food, nutrition and animal health; and Professor John Dalton, an expert on infectious disease, who has joined Queen's from McGill University in Canada.

The predicted rise in the world's population over the next 40 years is two billion. The global food supply will have to increase by 70 per cent in order to feed everyone. And with that demand come many challenges.

At the Institute we are engaged in the creation of a Food Fortress – ensuring that everything we import to this country is of the highest standards and that all the food we sell, whether locally, nationally or internationally, is equally safe, nutritious and authentic.

Professor Chris Elliott, who leads the Institute for Global Food Security

Northern Ireland's First Financial Trading Room at Queen's University

## NEW HORIZONS IN CYBERSPACE

**The Institute of Electronics, Communications and Information Technology (ECIT)**

At the place where the Titanic was built, a new engineering flagship is rapidly making Queen's a world leader in this vital field. Directed by Professor John McCanny, ECIT provides a vital stimulus to the growth of Northern Ireland's burgeoning knowledge-based economy. It is the hub for a home-grown Silicon Valley here in Belfast.

The Institute brings together international researchers, who specialise in digital communications, high frequency electronics, speech, image and vision systems and has established a network of global industrial and university collaborations and connections.

It is also the home of the Centre for Secure Information Technologies (CSIT), which is now recognised as a UK academic centre of excellence. CSIT links with industry, academia and government to combat emerging cyber threats. It also hosts the annual World Cyber Security Research Summit.

In April, Queen's signed a major new strategic agreement linking CSIT and InfoSys which will see the establishment of a new lab to combat cyber crime and promote online safety, working towards a more secure digital world.

## THE BEST AND THE BRIGHTEST

**William J Clinton Leadership Institute**

This is the engine-room powering Northern Ireland's economic recovery and development. It is a proving-ground for new leaders where academics and industry figures collaborate to deliver exceptional education in world-class facilities.

Around 80 of Northern Ireland's top 100 companies have Queen's graduates in senior management positions. Our Leadership Institute, led by its director Anne Clydesdale, provides further opportunities to develop the leaders and managers of the future.

A select group of companies across Northern Ireland has become a Founders' Club to support the initiative, recognising the vital role that Queen's and the Institute will play to ensure a sustainable and competitive economy.

Businesses across the island of Ireland benefit from the Institute's bespoke programmes aimed at equipping emerging and experienced leaders with a better understanding of the challenges facing their organisations so that they may thrive in today's difficult economic climate. The Institute creates robust partnerships with business, industry and the public sector locally and internationally.

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Queen's University Belfast

# Water: smart questions get better answers

## When examining the evolving issue of water scarcity, it is vital not only to look for answers, but also to know which questions to ask

*By* Loïc Fauchon, honorary president, World Water Council; and president, Trans-Sahara Without Borders

What answers can humanity bring to the questions on water? How can it face the ever growing difficulties it encounters over its usage? Contrary to some popular thinking, it is men and women, their presence and their activities that are at the origin of these difficulties. The growing number of humans puts the planet under increasing pressure from fast-growing urbanisation along rivers and in coastal areas, rising living standards that bring with them an ever-growing demand for food production, and the use of chemicals on farms and in factories, and the pollution they generate.

One should not raise the argument of climate or natural changes to bail humans out of their responsibilities. They alone contribute to this situation, knowingly and unknowingly. The first duty of political authorities is to be fully aware of and acknowledge this responsibility before taking action.

Citizens need to be informed and guided. And to give better answers, first the right questions must be asked. There are a few key questions with corresponding answers that relate as much as possible to concrete and sustainable solutions guaranteed by the political community's commitment.

### Population concentrations

How can we avoid the imbalance that has grown between population concentration and the presence of usable freshwater reserves?

This is the key question when it comes to water resources. On a global scale, water is not present in the places where humans need it. Moreover, the concentration of people living in cities, along rivers or in coastal areas affects the quality of the water there.

Apart from the global demographic policy that humanity will sooner or later have to address, there is another pressing issue for G8 leaders to address. This is the population distribution on Earth, given the availability of space and water on the one hand and the needs of agricultural and industrial production on the other. Nearly two-thirds of the globe's terrestrial area is totally or practically uninhabited. How long can humanity afford this luxury?

This leads to another clear and simple question, one raised by Ban Ki-moon when he came into office as secretary general of the United Nations: what measures should be taken to reduce the tolls of death and injury and the economic damage caused by water-related disasters? The answer is complex. But an answer is nevertheless necessary in light of the severity of repeated floods, exceptional hurricanes and unexpected tsunamis. Whatever the importance and the rapidity of change, the answer here again lies in the location and behaviour of humans.

Protecting people against such disasters boils down to harmonising land-planning policies and local protection regulations for urban planning and construction. The majority of countries still have a long way to go in that regard, whether because of a lack of financial means, of political will, or of a proper legislative and regulatory arsenal.

Then comes the question of the high media profile of a right to water. Should one advocate and implement a specific right to access to water and sanitation? Is the right to a decent life and free disposal of natural resources sufficient to guarantee everyone access to this essential resource, sufficient for their needs in both quality and quantity?

The answer is probably. Not because the scope of the right to water is much broader than that of water as an essential need, but rather because the right to water is both individual and collective: it concerns the person as well as the community. This is why it is highly symbolic that this right be inserted in the constitution or founding text of each state, later to be adjusted on a legal, administrative and regulatory basis, down to local government level. It is the duty of political leaders to support the campaign launched by the World Water Council for the insertion of the right to water in national constitutions, because fewer than 50 states have made such a provision. It is time to give substance and strength to this right.

It is impossible to consider the issue of water separately from that of energy. The right to one cannot be considered as distinct from the right to the other. For billions of people, disposing of water every day means having access to an existing and cheap energy resource, and equally,

Access to clean drinking water is fundamental to economic development and the eradication of poverty; without it, progress cannot be made in other areas

AP/PA

***For billions of people, disposing of water every day means having access to an existing and cheap energy resource, and equally, water and energy are required to engage development***

water and energy are required to engage on the way to development. Guaranteeing these resources means improving access to healthcare through the mitigation of all waterborne diseases, the facilitation of food and consumer goods production, and access to new information technologies.

Where can the money be found to provide for the enormous investments that are required for free access to water and, especially, sanitation? Policymakers must adopt a rigorous, courageous and transparent position on this overarching theme. Access to water is anything but free. It must be truly and sustainably set as a priority in public policy as well as in family budgets. It must be said loudly, be understood and accepted, that 'water pays for water' – although in reality water does not pay for anything. People should pay for water as they pay for any public service. That is a fact for the future. Paid-for water means rightfully guaranteed water at the best and fairest cost.

### Post-2015 goals for water

Political leaders of all levels, from the members of the G8 to the city councillors of the smallest municipalities, should know that nothing will come out of all this talk if they do not manage to include water in the post-2015 Millennium Development Goals, now being discussed at the UN.

The peaceful battle over water will take time. It will only be won if the battle stops being waged by men. It is our duty to make room for youth and women in this battle: together they know the paramount importance water holds for the survival of humanity. ■

# Aqualogy: committed to the global water challenges

An Ice Pigging truck

An operations control center in Collblanc, Barcelona, Spain

The United Nations (UN) has declared 2013 as the International Year of Water Cooperation in line with the Millennium Development Goals, which mainly affect access to water and sanitation. The UN is asking governments and organizations to combine their efforts to give hope to more than 1 billion people, whose health is at risk due to lack of good-quality water. There are sufficient reserves on the planet for the population, but they are distributed unequally and an enormous amount is wasted due to bad management and pollution. The UN estimates that by 2015, 1.8 billion people will be living in regions affected by absolute water scarcity. It is therefore essential and urgent to apply, on a global scale, the scientific discoveries and the new technologies that have been shown to be effective for saving water and for sustainable management of water. Humanity's great challenge in this century is to preserve, and guarantee for the future, access to the most essential resource for life.

**Humanity's great challenge in this century is to preserve, and guarantee for the future, access to the most essential resource for life**

Aqualogy, the integrated water solutions global brand, contributes the appropriate solutions to confront this major challenge. Aqualogy is the result of organizing and making available the accumulated knowledge to respond to the challenges of society. It moreover highlights the leadership in innovation in the world of water and the knowledge acquired in the continuous day-to-day service provided to people, helping to improve their quality of life.

Aqualogy is capable of providing solutions tailored to each location. Its local roots allow it to extract experiences that can then be applied and improved in other geographical areas. Efficient knowledge management is a priority.

Aqualogy offers around 20 integrated solutions that bring together about 100 products and services to a large spectrum of clients including leading industries with sustainable development as a driver. For example, one of its innovative technologies is Ice Pigging, which allows water supply tanks and pipes to be maintained and cleaned by injecting ice, with recognized results in Europe, Latin America, Japan and the United States. Another example is the METRESA system, for the optimization of investments in sewerage networks. METRESA helps to determine the network sections that need to be renewed, at the right time, with the minimum investment and before breakages and damage to the surroundings occur.

Aqualogy has shared its experience and applied knowledge in countries such as Chile, Colombia and Algeria, with different business-management models. While Chile is based on a privatization model, Colombia represents the administrative concession with a joint venture, and Algeria involves delegated management of water and sewerage. Moreover, in a country such as the United States, considered from the "first world", many of its hydraulic installations are obsolete and therefore require efficient solutions.

Aqualogy's global model of action is based on three pillars: talent, knowledge and sustainable management. This last concept means carrying out an activity that lasts in time, and being committed to excellence, the value of innovation and environmental responsibility, among other aspects by allowing ongoing dialogue with stakeholders. Sustainable development becomes a strategic component to confront the challenges in the water sector and enable us to progress efficiently.

AQUALOGY
Where water lives

www.aqualogy.net

2013 - INTERNATIONAL YEAR OF WATER COOPERATION

Aqualogy, integrated water solutions for sustainable development

AQUALOGY
Where water lives

# Working to achieve food and nutrition security

## National, regional and international alliances are working towards a model for effective collaboration to combat a dynamic issue: hunger and malnutrition

*By* Marie-Christine Laporte, Alliance Against Hunger and Malnutrition

The notion that partnerships and collaboration can strengthen a given initiative is a simple and reasonable concept to believe in. There is power in numbers.

When this concept is applied to a broad and dynamic issue such as food and nutrition security, however, the implications and the challenges of building these partnerships and collaborative efforts become that much greater. Forging those partnerships is not an impossible task, but it is one that must become quite flexible and intricate.

The newly revised strategic framework being implemented under the leadership of José Graziano da Silva, director-general of the Food and Agriculture Organization (FAO), is a testament to the heightened awareness of the necessity of collaboration and partnership on an international level.

At a meeting held by FAO's governing council on 26 April 2013, two new strategies aimed at strengthening FAO's partnerships with civil society organisations and the private sector were approved. Graziano da Silva stated at the meeting: "We have repeated many times that it is possible to end hunger only if we work together. These strategies show that we are committed to working with partnerships."

The awareness that such collaborative efforts are needed is an important element in the success of platforms such as the Alliance Against Hunger and Malnutrition (AAHM). It is based on the notion that unity makes strength.

### Origins of the alliance

The first incarnation of the AAHM, the International Alliance Against Hunger (IAAH), was created on World Food Day in 2003, in response to the endorsement of then German President Johannes Rau in a speech delivered on World Food Day in 2001. Rau had stressed the importance of building a global alliance to strengthen political will in the fight against hunger and poverty.

In 2003, the three Rome-based United Nations agencies – FAO, the World Food Programme (WFP) and the International Fund for Agricultural Development (IFAD) – and Bioversity International united to launch the IAAH, inviting all countries and organisations involved in fighting hunger to join forces.

The aim of the IAAH was to bring together UN agencies and civil society organisations to work together to advocate for faster progress towards achievement of the 'World Food Summit: five years later' target, the related Millennium Development Goals (MDGs) and the ultimate goal of eradicating hunger. It was born out of recognition that the slow progress towards hunger eradication was principally a matter of lack of political will, both internationally and nationally.

***By joining forces and pooling the expertise of individual members, national alliances can increase their visibility and impact***

### The early years

Like many great issues facing humanity today, food and nutrition security is vast in scope and fluid. Populations of those hungry and impoverished are rising.

For seven years, the IAAH grew and adapted to the ever changing, and often politically sensitive, climate surrounding food and nutrition security. At many phases this concept faced challenges, preventing it from taking shape and adapting to the innumerable issues at local, national and regional levels. But challenges can be surpassed when there is commitment.

In 2009, change was in the air. The energy around the alliance was renewed due to a number of factors, one being changes within the Committee on World Food Security (CFS) that signified an important opportunity.

One year prior, at the 34th session of CFS in October 2008, member countries agreed to reform the CFS so that it could play its vital role in food security and nutrition, including international coordination. In turn, the FAO Council considered "the CFS reform to be crucial to the governance of world food security, with a view toward exploring synergies with the emerging Global Partnership for Agriculture, Food Security and Nutrition". The alliance was validated as a mechanism that needed to be reinvested in, in order to achieve these aims.

### Fighting malnutrition

By 2010, an international consultation, held at FAO in Rome, gathered the founding agencies of the alliance, as well as the existing national alliances, and changed the name of the IAAH to the Alliance Against Hunger and Malnutrition in order to reflect the importance not just of fighting hunger, but also of fighting malnutrition.

The structure of the AAHM was thus arranged so as to maximise its strength. An advisory group of representatives from the founding agencies and international non-governmental and civil society organisations assist the secretariat, which is based at FAO in Rome. There is a rotating chair, currently from WFP. The main role of the secretariat is to deliberate on AAHM strategies in support of food and nutrition security within international agendas. Through this guidance, the secretariat works at the international level, ensuring overall communication and coordination among the national and regional alliances. To date, there are more than 60 national alliances worldwide.

Today, a national alliance is defined as a network of organisations, institutions, non-governmental organisations, government, private-sector members and food banks that work within a specific country to combat

IFAD/NANA KOFI ACQUAH

How food initiatives play out at the regional, national and local levels is challenging and requires more than a one-size-fits-all solution

hunger and malnutrition, which includes the recovery of food that may be wasted. The goal of national alliances is to share experiences and information, build political will, and draw up strategies and concrete initiatives.

By joining forces and pooling the expertise of individual members, national alliances can increase their visibility and impact and generate consensus among different stakeholders regarding the necessary means and strategies to achieve food and nutrition security in a specific country context, pooling the expertise of individual members.

National alliances within a particular region face similar challenges. For this reason, many alliances in various parts of the world have joined together to form regional alliances. These regional networks provide an opportunity for concerted action, joint initiatives and projects – so that alliances can work for their regions or for their individual countries or even partner with other regional mechanisms outside the AAHM.

These alliances are diverse in their structure and functioning, but all of them are committed to promoting initiatives and policies to fight hunger and malnutrition. This is achieved through different approaches, including policy advocacy on food and nutrition security at national, regional and global levels; accountability and implementing partners' initiatives; bilateral partnerships between alliances (which are also known as 'twinning arrangements'); combined efforts to mobilise resources; North-South and South-South cooperation; and support for the establishment of food banks.

## Partnerships and possibilities

As the AAHM has grown and strengthened in the past 10 years, so has its ability to partner with global mechanisms and initiatives in need of an established network of interested stakeholders. The AAHM continues to foster collaborations with other UN initiatives such as SAVE FOOD, the Right to Food, Food for the Cities, Scaling Up Nutrition and REACH. Moreover, its partners include the Federation of European Food Banks, More and Better, Oxfam and Action Aid. This is the true strength of the alliance: the ability to use its work in order to enhance, rather than replicate, the work of others.

The number of consortiums, networks, alliances and partnerships that have grown in recent years is inspiring. How these initiatives play out at the regional, national and local levels is challenging and requires more than a one-size-fits-all solution.

The AAHM recognises that the make-up of each individual national, sub-regional and regional alliance is often quite different in structure, form and agenda. All elements are designed and implemented by an alliance's focal points and its members who truly understand what is happening in their own countries.

After a boom of growth over the past three years and considerable restructuring of the alliance towards building sustainable efforts, the successes are clear.

Alliances promote dialogue and partnership between civil society members and their government. The government of Morocco, for instance, has offered the Moroccan National Alliance office space within its ministries, while the National Alliance of Jordan is being sponsored and endorsed by Her Royal Highness Princess Basma Bint Talal. At times, national alliances have been vehicles for global mechanisms that require a committed network of people in the field to implement projects. For example, the CFS asked the national alliances of Sierra Leone and Nigeria to act as instruments for country-level implementation of food and nutrition security initiatives. In areas of protracted crisis, alliances also have come together to offer contributions to help those in need, such as the case with the Regional Alliance Against Hunger and Malnutrition for Francophone Africa and the National Alliance of Somalia, which helped deliver 60 tons of maize and beans to the Sahel. While the activities of each alliance may vary, each AAHM member shares the belief that every step taken in the fight against hunger and malnutrition, however large or small, is a victory.

To create such a platform requires unity and collaboration. But it also requires an understanding that to achieve such success is akin to walking on a bridge that is in the process of being built. It is a precarious state to be in, but if the pillars of similar efforts continue to grow and support this overall concept of collaboration, all will reach the desired goals successfully.

During the last session of the Committee on World Food Security, the FAO's Graziano da Silva said: "As we renew and increase our commitment to reach the Millennium Development Goal for hunger reduction, let's look beyond it, towards the total eradication of hunger because, when it comes to hunger, the only acceptable number is 'zero'."

The task at hand is immense, but the world must take steps together in order to translate those words into action. ■

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let's be friends.


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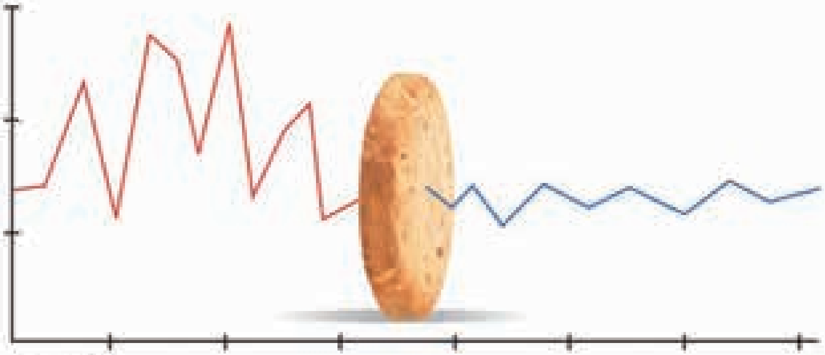
## Managing diabetes is easy!

*People with diabetes get advice all the time, on what they can or cannot eat. There are increasing noise levels around diabetes, yet awareness around making the right lifestyle choices is low. Small changes in everyday lifestyles can help people take better control of their diabetes and their lives. A good balance of the right food choices, along with regular exercise and prescribed medications, can help them feel better and stay healthier.*



CLINICALLY PROVEN

**Blood Sugar Levels**

to manage blood sugar by slowing glucose absorption

## Feeling low during the day

*It is recommended that people with diabetes should eat frequently in smaller portions. If they go more than four or five hours between meals, a mid morning or an evening snack is advisable in order to keep their blood sugar stable.*

## But just 'sugar-free' is not enough!

*People with diabetes need a snack rich in fibers and complex carbohydrates, while being lower in fat. The right combination of soluble and insoluble fibers in their eating choices can delay glucose absorption and help prevent extreme swings in blood sugar levels.*

## New NutriChoice Diabetic Friendly Essentials

*India's first range of diabetic friendly snacks that manage blood sugar levels. Specially created with oats and ragi and clinically proven to manage extreme swings in blood sugar levels, they make a great snacking choice for the 'every 2-hour eating need' of people with diabetes. Each snacking portion of NutriChoice Diabetic Friendly Essentials is carefully packed to provide just the right amount of calories along with other healthy nutrients.*

## How does NutriChoice Diabetic Friendly Essentials work?

*The NutriChoice Diabetic Friendly Essentials range is specially created to suit the special lifestyle and nutrition needs of people with diabetes. They are created without any added sugar to reduce overall sugar intake and have 'Zero cholesterol' and 'Zero Trans fat'. What's more, every offering is created with special dietary fibers and complex carbohydrates that are known to manage extreme swings in blood sugar levels and help people feel satisfied and active for longer.*

Now that's what you call 'Smart Nutrition'!

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# Hunger, malnutrition and the G8

## A safe and sufficient diet for the global population is obtainable. The responsibility for achieving this rests with world leaders, business and civil society

*By* Jay Naidoo, chair, Global Alliance for Improved Nutrition

Each year the G8 leaders meet to reflect on the state of the world and the political and economic challenges ahead. While the G8's relative economic dominance is falling, with the seismic shift of economic power to the east and south, it still accounts for almost half of the world's economic production. If the G8 takes action, it can be a powerhouse for global change.

Global hunger and malnutrition form the backdrop to this year's G8 summit. The decision by UK prime minister David Cameron, the G8 chair, to host a summit on hunger and malnutrition in London on 8 June, just prior to the leaders' gathering in Lough Erne, is welcome evidence of the UK's political commitment to tackling this issue of global hunger. The UK's increasing commitment to providing development assistance, which is rising to meet the United Nations' 0.7 per cent target despite the country's own economic recession, is also to be commended.

The choice of Northern Ireland as the location for this year's G8 summit is laden with symbolism. It illustrates the capacity of good political leadership to fix even the most intractable problems – in this case, decades of political strife and violence. Furthermore, the history and identity of Ireland have been shaped by hunger, notably the Great Famine in the 19th century, which decimated the population and resulted in the wave of emigration that redefined Ireland's social, economic and political history.

### New leadership against hunger

Today, world hunger remains perhaps the most direct and visible expression of a failing global system. The UN estimates that 870 million people go hungry every day, but malnutrition is an even bigger problem. At least 170 million children are physically and mentally stunted due to malnutrition. If a diet lacks the right nutrients, vitamins and minerals for normal healthy growth during early life, such as iron, zinc, vitamin A, iodine and folate, a child can never achieve health, education or economic potential. That child is more likely to be sick, more likely to die of illnesses and less likely to rise out of poverty. This is 'hidden hunger', a scourge affecting some two billion people who lack the necessary access to a varied diet and fortified foods. Solving hidden hunger is one part of addressing poor nutrition and one of the pressing development issues today.

### Solutions to hidden hunger

Many solutions to hidden hunger are affordable. Yet malnutrition is linked to losses of as much as 11 per cent of a country's gross domestic product. There is wide international consensus that the greatest opportunity for a lifelong impact on survival and development is good nutrition during the 1,000-day window between conception and a child's second birthday. The human and the economic logic for change is overwhelming.

The G8 took important steps towards global food and nutrition security in 2012, by establishing the New Alliance for Food Security and Nutrition. This partnership among African governments, G8 members and the private sector brings people together to accelerate investments in agriculture to improve productivity, livelihoods and food security for smallholder farmers. Nonetheless, global hunger and malnutrition remain a running sore that affects half the world's people. Malnutrition is not a technocratic problem: it is a political challenge and requires a shift in thinking and priorities. With all eyes on G8 2013, now is the time for its members to be bold. There should be incentives to look beyond yield quantities and look towards improving the nutrition outcomes delivered by agriculture programmes from production to consumption, engaging those along the food value chain to conquer this global scourge.

The world needs closer linkages among livelihoods, national investment strategies and the empowerment of communities. Many undernourished come from the rural farm sector. So agriculture offers a huge opportunity to improve nutrition and tackle poverty, for both producers and consumers.

The Marketplace for Nutritious Foods (MNF) is an innovative country programme launched by the Global Alliance for Improved Nutrition (GAIN) in Africa. It focuses on increasing nutrition-related investments along the agriculture value chain. It operates via an investment arm of government, business and experts and a competitive business accelerator that provides business planning, technical assistance and financing to local entrepreneurs (especially women), small and medium enterprises (SMEs), and smallholder cooperatives. It brings together governments, non-profits, donors and investors to support the production of affordable, diversified and nutritious foods. The MNF is being piloted with USAID support in Kenya, Mozambique and Tanzania. GAIN aims to extend this to nine countries by the end of 2013.

Such initiatives signal that the global community is moving in the right direction. This is the spirit behind the Scaling Up Nutrition (SUN) Movement, based on the rationale that the global challenge of malnutrition is too great for any group or sector to solve alone. It aspires to unite governments, civil society, the UN, donors, businesses and researchers "in a collective effort to improve nutrition" through prioritisation, policymaking, collaborations on programs, empowerment and investments.

The SUN Movement focuses on interventions that science has found to be effective, including support for breastfeeding, fortification of foods, micronutrient supplementation and treatment of severe malnutrition. It also goes beyond traditional approaches to address a wide range of impacts on today's dysfunctional global food economy.

***The choice of Northern Ireland as the location for this year's G8 summit is laden with symbolism. Ireland is a nation whose history and identity have been shaped by hunger***

PA ARCHIVE/PA

The 1,000-day window between conception and a child's second birthday has the greatest impact on his or her long-term health and development

For example, the SUN Movement seeks to catalyse the agriculture sector to improve access to affordable nutritious food and to reduce the risk of infection and disease by providing clean water and improving sanitation. This will help children fulfil their potential in education and employment, empower women and support resilience.

### The nutritional value of food

The SUN Movement recognises that the challenge of global food and nutrition security extends far beyond how much food is produced or better agricultural productivity. This is part of the solution. But in the past 30 years, the world has produced more food per person than ever before in history – 17 per cent more calories per person, despite a massive growth in population. Yet there is a burgeoning malnutrition crisis.

This means that the world must produce not just more food, but also better, cheaper and more nutritious food that is accessible, especially for women and children. It requires focusing on the real economic actors that shape the food system – pressing the food companies that produce the foods that people rely on, particularly in cities, to do better.

Multinational companies are trendsetters, and they enjoy unparalleled power to shape consumption and markets, to bring new technologies and to innovate. GAIN's Access to Nutrition Index (ATNI) evaluates the top global food and beverage manufacturers on their policies, practices and performance, related to both obesity and undernutrition. ATNI points out that the weakest areas of performance are in tackling undernutrition, and the poorest scoring is on labelling and marketing practices. Change will come only when top corporate leadership is engaged in the process of setting new priorities and building them into core business and governance oversight mechanisms.

However, multinational food companies probably account for less than 20 per cent of the global food industry (valued at over $4 trillion). The largest part of the private sector includes the farmers – often women who head households – and local manufacturers, individual entrepreneurs and companies that form the agriculture and food production chain from the farm to the consumer. There is great potential if one focuses on listening to their needs and shaping interventions with them.

A fundamental goal of the G8 should be to strengthen the investment in food security and nutrition and thus to ensure that the world uses agriculture as the starting point for a secure, nutrient-based diet. This means investment in small- and large-scale farmers and, moving up the value chain, traders and the local structures behind production, distribution and marketing as well as larger national and global companies.

### Reshaping agricultural systems

With eyes now on the G8 Lough Erne Summit, its members should increase investment in a way that truly reshapes food systems based on human needs, reaching those at the base of the agricultural production system and ensuring that SUN builds partnerships between producers and consumers to improve the livelihoods and food security of the planet's poorest people.

It is up to all those in government, in business and in civil society, to take practical steps to eliminate hunger and malnutrition. The world has the means to ensure that everyone has a safe and sufficient diet. Achieving this simple goal surely represents one of today's biggest unmet challenges. ■

# Copenhagen Consensus 2012

## Solving the World's Challenges

What are the best ways of advancing global welfare (especially in developing countries)? Should US$75 billion be available over a 4-year period?

- HUNGER & MALNUTRITION
- ARMED CONFLICT
- CHRONIC DISEASE
- EDUCATION
- INFECTIOUS DISEASE
- POPULATION GROWTH
- BIODIVERSITY
- CLIMATE CHANGE
- NATURAL DISASTERS
- WATER & SANITATION

"One of the most compelling investments – to get nutrients to the world's undernourished"

*Vernon Smith, Nobel Laureate Economist*

**TOTAL: US$75 BILLION OVER FOUR YEARS**

$100 PER CHILD

- Micronutrient provision
- Complementary foods
- Treatment for worms | diarrhea
- Behavior change programs

**#2 | Best Investment Copenhagen Consensus 2004:**
–> Providing micronutrients

**#1 | Best Investment Copenhagen Consensus 2008:**
–> Micronutrient supplements for children (vitamin A, zinc)

# TOP INVESTMENT PRIORITIES

**#1** Best Investment

| | Amount allocated per year in $US Bill. Dollars |
|---|---|
| BUNDLED MICRONUTRIENT INTERVENTION TO FIGHT HUNGER & IMPROVE EDUCATION | 3.0 |
| MALARIA COMBINATION TREATMENT | 0.3 |
| CHILDHOOD IMMUNIZATION | 1.0 |
| DEWORMING | 0.3 |
| TB TREATMENT | 1.5 |
| R&D TO INCREASE YIELD ENHANCEMENTS | 2.0 |
| EFFECTIVE EARLY WARNING SYSTEMS | 1.0 |
| SURGICAL CAPACITY | 3.0 |
| HEPATITIS B IMMUNIZATION | 0.12 |
| LOW-COST DRUGS FOR ACUTE HEART ATTACKS | 0.2 |
| SALT REDUCTION CAMPAIGN | 1.0 |
| SOLAR RADIATION MANAGEMENT | 1.0 |
| CONDITIONAL CASH TRANSFERS | 1.0 |
| HIV VACCINE R&D | 0.1 |
| INFORMATION CAMPAIGN ON SCHOOL BENEFITS | 1.34 |
| BOREHOLE AND HAND-PUMP INTERVENTIONS | 1.89 |

Chronic undernutrition in developing countries

-36%

LEADS TO

Improved health, schooling & productivity

EQUALS

$1 SPENT

$30 PAY OFF

VITAMINS IN MOTION

sightandlife

*Sight and Life* is a humanitarian nutrition think tank of DSM

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# Advancing the Africa-G8 partnership: towards an AIDS-free generation

## Significant progress has been made in the fight against AIDS in Africa. It is now important for leaders to work towards sustaining this trajectory

*By* Dr Ibrahim Assane Mayaki, chief executive officer, New Partnership for Africa's Development Agency and Michel Sidibé, executive director, Joint United Nations Programme on HIV/AIDS

The recent celebration of the 50th anniversary of the African Union (AU) was a historic opportunity to reflect on Africa's dramatic progress and its rapidly evolving relationship with its external partners. Nowhere is this progress more evident than in the AIDS response, which is recognised as being one of the greatest achievements of global health and cooperation between Africa and the G8 members.

Just a decade ago, there was widespread fear that the HIV epidemic would undermine Africa's development trajectory. Today, however, hope abounds in the African AIDS response, which has delivered remarkable results. With a 25 per cent reduction in new HIV infections since 2001, the epidemic in Africa has been halted and reversed – and the Millennium Development Goal Six for HIV has thus been achieved. Progress in the AIDS response coincides with unprecedented development and economic growth on the continent. As revealed in the recently adopted AU accountability report, the visionary Africa-G8 partnership has been central to this progress – strengthening health systems, enhancing productivity and delivering significant improvements in the quality of life. Such progress should inspire yet bolder ambition and determination to end AIDS.

### Mutual accountability pledges

The partnership on AIDS between Africa and the G8 has been built through a series of concrete, time-bound pledges of mutual accountability. In 2001, African leaders declared AIDS an emergency on the continent, calling for a comprehensive strategy designed to mobilise all sectors of society and pledging 15 per cent of public spending for health. In the same year, the G8 announced the launch of the Global Fund to Fight AIDS, Tuberculosis and Malaria. In 2005, the AU adopted the Gaborone Declaration, calling for the achievement of universal access to treatment and care and the full use of flexibility contained in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to remove constraints on access to treatment. A year later, at the G8 summit in St Petersburg, the G8 committed to intensify cooperation on infectious diseases, with a focus on HIV, tuberculosis and malaria. Together, these represent a series of bold commitments to halt and reverse the AIDS epidemic on the African continent.

> ***With a 25 per cent reduction in new HIV infections since 2001, the epidemic in Africa has been halted and reversed***

The *African Union accountability report on Africa-G8 partnership commitments: Delivering results toward ending AIDS, tuberculosis and malaria in Africa* highlights the success of the G8 in collectively fulfilling its major commitments on AIDS and health in Africa. The G8 provided 78 per cent of the funding for the Global Fund from 2001 to 2009, and met its commitment to generate $60 billion in health assistance to Africa – a historic achievement that has saved millions of lives.

Due in great part to the Africa-G8 partnership, the number of people with HIV in Africa receiving life-saving antiretroviral treatment increased from less than one million in 2005 to over seven million people in 2012. As a result, AIDS-related deaths across the continent decreased by 32 per cent from 2005 to 2011. Africa is also making unprecedented progress towards an AIDS-free generation: new HIV infections among children declined by one-quarter between 2009 and 2011. Progress has created economies of scale, which have driven the annual price for first-line antiretroviral drugs in Africa down from over $10,000 per person per year, as it was in 2000, to less than $116 for the lowest-cost, first-line regimen today.

### Leveraging progress for broader goals

In order to sustain these gains in the long term, the attention of the AU and the G8 should increasingly focus on how to leverage progress in AIDS for Africa's broader health and development goals. In 2012, the AU endorsed its Roadmap on Shared Responsibility and Global Solidarity for AIDS, Tuberculosis and Malaria Response in Africa, which promotes African-owned solutions, particularly regarding diversified financing, access to medicines and enhanced governance. In line with the roadmap, African countries are taking up the call for greater domestic spending. Investments in the AIDS response by African governments increased by more than 150 per cent over the last five years, reducing dependence on funding from the G8 and other partners. In South Africa alone, public spending increased fivefold since 2006 – reaching $1.9 billion per year in 2012, making it the world's second largest domestic investor in AIDS. International support, however, still accounts for more than half of all HIV-related spending in 26 of the 33 African countries most heavily affected by AIDS. With health investments from traditional partners waning, African countries must continue to scale up domestic investments, diversify funding sources and ensuring resources are strategically invested.

While historic gains have been made, challenges remain as the world approaches 2015, the target date for the Millennium Development Goals (MDGs), and begins to debate the next global development agenda. Increasingly, robust African leadership should usher in reinvigorated global solidarity and commitments on the part of the G8 – this represents the grand political bargain for more secure, sustainable development in the post-2015 era.

AP/PA

Progress on the large-scale detection and treatment of HIV in Africa has resulted in a sizeable reduction in AIDS-related deaths, partly as a result of the G8's work

The recent financial crisis, however, has resulted in sharp reductions by some donors in international health and development. Urgent steps are required in order to improve the predictability and reliability of essential funding for AIDS, health and development initiatives on the African continent.

The G8, along with other donors, should make new, concrete commitments to support the implementation of the AU's Roadmap on Shared Responsibility and Global Solidarity and also to ensure the success of the Global Fund's fourth replenishment, which aims to secure $15 billion for the next three years – the majority of which will be dedicated to defeat AIDS, tuberculosis and malaria in Africa. The AU and the G8 should also consider conducting a joint mutual accountability review of their commitments up to 2015, under the auspices of the AU's AIDS Watch Africa, and consider expanding its partnerships to include the BRICS countries, as well as the broader G20.

Finally, African heads of state and government should advance their calls to the AU and the G8 to use their collective influence to ensure that the post-2015 development agenda maintains a priority focus on AIDS, tuberculosis and malaria in order to sustain and accelerate progress. The international community has embarked on a historic quest towards the eventual end of the AIDS epidemic. Thanks to the unprecedented cooperation between Africa and the G8 on AIDS and health, an AIDS-free generation in Africa is feasible, but only through continued global solidarity.

Now is the time for the G8 to reinvigorate this leadership initiative by embarking on a renewed set of commitments that are designed to support African efforts to bring an end to AIDS on the continent. ■

# The Democratic Republic of Congo: investing in child development

The Democratic Republic of Congo (DRC) is the second-largest country in Africa with an estimated population of 71 million. More than two thirds live in poverty. Decades of continued armed conflicts have weakened the social sector – including health. In spite of these challenges, the country has made encouraging progress to reduce mortality among children and women.

## Progress towards achieving the Millennium Development Goals

**MDG 1: Eradicate extreme poverty and hunger** Between 2001 and 2010, the prevalence of underweight among children fewer than 5 years decreased from 31 per cent to 24 per cent, and the prevalence of acute malnutrition decreased from 16 per cent to 11 per cent. However, the prevalence of chronic malnutrition has remained very high and stagnant at 43 per cent. Today, more than 2 million children are affected by acute malnutrition and more than 6 million children are stunted.

**MDG 4: Reduce child mortality** Over the past decade, child mortality fell from 213 to 158 deaths per 1,000 live births. At this rate, DRC will not reach the MDG 4 target by 2015. The country remains the world's third-largest contributor to child mortality, following India and Nigeria.

**MDG 5: Improve maternal health**
Between 2000 and 2010, maternal mortality decreased from 930 to 540 deaths per 100,000 live births. However, without a concerted effort, the country will not reach the target set for 2015.

**MDG 6: Combat HIV/AIDS, malaria and other diseases** The HIV epidemic in DRC is generalized. In 2008, HIV prevalence was estimated at three per cent in the general population and 3.7 per cent among pregnant women. In 2011, respective figures were at 2.6 per cent and 3.5 per cent among pregnant women attending antenatal care facilities.

## Causes of slow progress towards achieving the MDGs

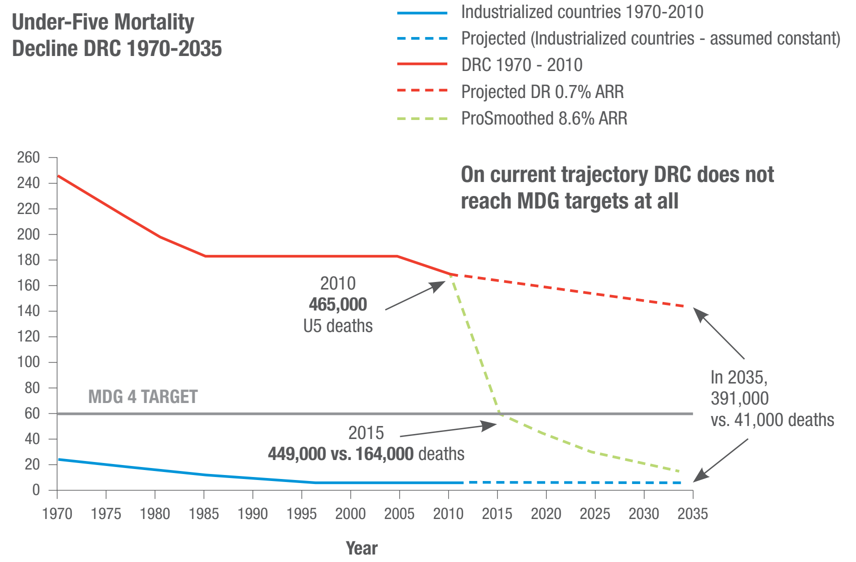
There are several factors within the health system and bottlenecks that limit access to quality health services for women and children:

- frequent stock outs of essential commodities and drugs;
- limited availability of trained and motivated health personnel;
- financial barriers to access services;
- geographical barriers in certain areas of the country; and
- overall low quality of healthcare.

## Opportunities

- High coverage of antenatal consultations (first visit) – 87 per cent.
- High coverage of births attended by a skilled personnel – 74 per cent.
- High coverage of the first dose of the Pentavalent vaccine (Diphtheria, Pertussis, Tetanus, Haemophilus B, Hepatitis B) – 85 per cent.
- Fivefold increase in the use of ready-to-use therapeutic foods to treat severe acute malnutrition between 2008 and 2012.
- Existence of community-based approaches implemented to scale, such as the Healthy Villages programme.

DEATHS PER THOUSAND LIVE BIRTH




## Implementation strategies in the health sector

The Government has developed a strategy for the provision of family kits containing essential drugs, nutritional supplements and other basic commodities. To reduce household financial barriers to access healthcare and to improve motivation of health personnel, the approach also incorporates a voucher system. Furthermore, this approach will ensure a win-win, as it will piggyback on high-coverage interventions such as antenatal care and immunization to facilitate rapid scaling-up of the family kits. In turn, this will trigger and increase in coverage these interventions. In hard-to-reach areas, the community-based approaches will improve access to health services.

## In nutrition

The treatment of acute malnutrition will be scaled up through the provision of ready-to-use therapeutic foods at community level. Prevention will be strengthened, particularly the implementation of multisectoral and coordinated interventions, by ensuring both direct nutrition-specific interventions (optimal infant and young child feeding) and broader multisectoral nutrition-sensitive interventions (water, sanitation and food security). In this regard, the DRC's commitment to global initiatives, such as Scaling Up Nutrition (SUN), will facilitate the mobilization of partners and resources for large-scale actions. To monitor progress, the government has developed a score card based on child survival indicators.

"A Promise Renewed" is a global initiative to align actions and mobilize more resources in favor of women and children's health. The intention is to reduce infant and child mortality, by 2035, to fewer than 20 deaths per 1,000 live births. The guiding principles of the initiative are: equity, national leadership, multisectoral action, efficiency and mutual accountability.

In response to high child and maternal mortality rates, the Government of DRC, in line with this global initiative, has committed, since June 2012, to accelerate progress towards MDGs 1, 4, 5 and 6. More specifically, this commitment will:

- increase the coverage of high-impact interventions against the main child-killer diseases (Malaria, Acute Respiratory Infections, Diarrhea and Severe Acute Malnutrition);
- increase the coverage and quality of antenatal care to reduce the incidence of low birth weight, prematurity and prevent neonatal and maternal tetanus, mother-to-child HIV transmission, and pregnancy complications (such as Hypertension, Malaria, Anemia, Bleeding);
- increase the coverage and quality of skilled attendance at birth in health facilities to reduce complications related to bleeding, infection and eclampsia for mothers, as well as hypothermia, asphyxia and neonatal infection for newborns;
- increase the coverage and quality of routine immunization and introduce new high-impact vaccines to reduce child mortality.

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# A global summit must modernise governance for health

## With the backdrop of a changing political and economic world landscape, bold action is required to reform healthcare financing and governance

*By* Ilona Kickbusch, director, Global Health Programme at the Graduate Institute of International and Development Studies, and Stefan Germann, World Vision International

There is an urgent need for bold, visionary action to modernise global governance for health. It must be driven by a double engine: the production of global public goods for health and a commitment to global solidarity to support the health of the most vulnerable based on a human rights framework. The Bretton Woods world order established almost 70 years ago is over: political and economic power has shifted and an opportunity for change now presents itself.

The leaders of the G8 and G20 have a vital role to play in providing catalytic leadership that will accelerate governance reforms for global health, for reasons of health security, economic development and fairness. They will need to reach far beyond the established international health institutions and still support the organisations of the United Nations in their reform efforts. The G8 and G20 should adopt a global public goods approach and initiate a health financing summit designed to establish financing mechanisms for the provision of global public goods for health, strengthen the global policymaking and rule-setting role of the World Health Organization (WHO) and establish a mechanism to monitor global health efforts independently.

Global public goods for health are goods with benefits that extend to all countries, people and generations. These goods include reliable surveillance and information systems, research and knowledge development, the production of standards and norms, the crafting of international agreements, support to countries in establishing sustainable health systems, the response to outbreaks, the eradication of disease and special programmes to support the most vulnerable.

While G8 and G20 leadership in global economic reforms is well recognised, the growing overlap between the economic agenda and the global health agenda is not yet accepted in all its implications. Yet the links are clear. The global market of health goods and services is estimated at $6.5 trillion, and is growing rapidly, with revenues in the global generics market hitting an estimated $162 billion in 2011, growing by 9.3 per cent throughout the year. A single global epidemic can wipe out the economic gains made in the last decade in many emerging economies: one model estimated that the short-term global cost of lost economic activity due to severe acute respiratory syndrome (SARS) was approximately $80 billion. The World Economic Forum (WEF) estimates the cumulative output loss related to the non-communicable diseases (NCDs) over the next 20 years will represent approximately four per cent of annual global gross domestic product (GDP). As much as 50 per cent of Asia's economic growth between 1965 and 1990 has been attributed to reduced infant and child mortality, reduced fertility rates and improved nutrition and reproductive health. Indeed, India's GDP would be five per cent higher if malnutrition were addressed.

***The current vacuum in global health governance can have a detrimental impact on the human security and well-being of all seven billion citizens of the world***

Thus global health has moved far beyond the Organisation for Economic Co-operation and Development and development policies in general. Its economic impact is so large that G8 and G20 leadership on governance for global health is needed now for three reasons: it requires major financial investments at global and national levels to ensure health security, access to healthcare and safety of products; lack of such investment can endanger economic growth and political stability; and good economics is a means of creating the enabling environment for the well-being of all global citizens, and supports overall social development efforts and promotes peace. The current vacuum in global health governance can have a detrimental impact on the human security and well-being of all seven billion citizens of the world, and can have considerable negative economic impacts at all levels of governance.

### A vacuum in health governance

Two recent occurrences have underlined this: the outbreak of the H7N9 influenza virus and the remaining gap to reach the Millennium Development Goals (MDGs) on health. The first points to the urgent need for a dependable system of health security with reliable funding at global and national levels for surveillance, monitoring and response, as laid out in the International Health Regulations adopted in 2003. Their full implementation had to be postponed yet again in 2012 because many countries did not have the resources to fulfil their commitments.

Today, 1,000 days before their 2015 deadline, it has become clear that the health and nutrition MDG targets will not be reached. While a range of countries and private donors have stepped up to finance global health initiatives, and these have saved millions of lives, this has been neither sufficient nor sustainable. Traditional donor funding for health has levelled off. Moreover, the inequities that prevent the most vulnerable people from accessing the healthcare they require must be tackled, for example, by removing financial barriers and providing social health protection.

Both the G8 and G20 must, as a priority, address those global public goods for health. Failure to do so would endanger the economic development that could lift millions out of poverty. But in contrast to the G8's approach at Gleneagles in 2005, this should not primarily focus on mobilising development


ALAMY

The World Health Organization has a key role to play in advancing global policymaking and rule setting

assistance and charity funds. Instead, leaders must act first to establish an integrated system of international financing mechanisms to address the under-provision of global public goods for health and solidarity initiatives for global health. These would be defined by a reliable income stream, managed through multi-stakeholder governance, and subject to independent monitoring. Such a model must involve contributions from all countries benefitting from global public goods. The airline tax currently used by UNITAD to fund antiretroviral drugs is a model to consider expanding to finance a broader set of global public health goods. Such a financial transaction levy would easily, sustainably provide the necessary financial resources.

Financial provision must work alongside policy implementation. A strong system for global policymaking and rule setting is needed in global health. This means a radical reform and strengthening of the WHO and its constitutional functions of rule making, coordination and oversight, and supporting the organisation's ongoing reform process.

A further action for G8 and G20 leaders is to establish an independent monitoring mechanism for global health efforts. World health is probably the only area in the global public goods arena with no such independent body to monitor collective efforts.

As a first step, G8 and G20 leaders, together with the UN secretary-general, the president of the World Bank and the director general of the WHO, should call for a multi-stakeholder summit on global health financing. It would include all states, key financing institutions such as the Bretton Woods institutions, the new BRICS development bank, other regional development banks, economic actors with regional and club identities such as the European Union, global philanthropists, international health and development nongovernmental organisations, and major companies aligned with the UN Global Compact as responsible global citizens. It would further include civil society. Political deliberations on the global health system need to become more inclusive and fair. The outcomes of this summit would be taken to the UN General Assembly to be debated and accepted by all country leaders and, ideally, would form part of the new post-2015 global agenda. The current, fragile, economic recovery is not likely to be sustainable unless global public goods for health are comprehensively addressed through renewed and strong multi-stakeholder governance for global health fit for the 21st century. ■

# Safeguarding oil security

## Although the International Energy Agency has been in existence for nearly 40 years, recent changes in the global energy economy have required it to adapt

*By* Maria van der Hoeven, executive director, International Energy Agency

Energy security has been the primary mission of the International Energy Agency (IEA) since its founding in 1974. Indeed, the agency was created to provide a framework for IEA countries to defend their interests as oil consumers. While that mission has since diversified, oil remains the dominant energy source globally, and oil supply security remains a core responsibility of the IEA. Yet over almost 40 years, how the IEA addresses that responsibility has developed considerably. A wide view of energy and oil security is particularly important given significant shifts in the oil market – in rapidly growing emerging market demand and new supply patterns all along the value chain.

Energy security is defined as a country's ability to obtain uninterrupted availability of its main energy sources at an affordable price. In the short term, energy security is the ability of an energy system to react promptly to sudden changes in supply and demand, maintaining availability, affordability, accessibility and quality of energy. Long-term energy security is linked to making timely investments so that the future supply of affordable energy supports economic development and environmental goals.

Traditionally, the IEA emphasises mitigating the risks and effects of energy supply disruptions, particularly within oil markets. Coordinating the use of emergency oil stocks in the event of disruption is one well-known tool. Risks of disruption can be reduced by analysis to boost transparency in global oil markets, active participation in the producer-consumer dialogue with the Organization of the Petroleum Exporting Countries and other major producers, and efforts to improve statistical openness, timeliness and accuracy through the Joint Organisations Data Initiative. At the same time, the IEA's toolkit includes demand restraint and fuel-switching measures. Another characteristic is resilience – the ability of energy systems to mitigate or withstand disruptions. Regular emergency response reviews of IEA members report on systemic strengths and vulnerabilities of national energy security policies, procedures and infrastructure. The IEA's Model of Short-Term Energy Security measures risk and resilience factors for comparison across countries and across fuels.

Yet major changes in the global energy economy have also required conceptions of oil security and energy security to adapt. When the IEA was created, the oil market was based on long-term contracts and stable relationships between suppliers and refiners. That has changed with the globalisation of oil markets, the importance of the spot market and the development of high-speed information flows. Concerns about supply security of other fuels such as gas and electricity and the interplay among fuel markets have broadened the focus. Indeed, the IEA defines energy security to include long-term concerns, including creating the conditions for sufficient investment and promoting energy access to boost living standards and economic development. It also recognises the linkage between sustainability and energy security as two sides of a coin. Low-carbon technologies help to reduce import dependence and diversify the fuel mix, and recent IEA discussions have highlighted the adverse impact of climate change on energy infrastructures. The very nature of the energy security debate has changed.

Perhaps the most significant change is a shift in the global energy map, specifically the global oil map. The members of the Organisation for Economic Co-operation and Development (OECD) accounted for more than three-quarters of oil consumption in 1974, but will soon account for less than half. The economic rise of emerging markets such as China and India signals a global economic rebalancing, including within energy markets. IEA analysis shows growing non-OECD demand, particularly in China, to continue over time. Meanwhile, oil demand in Europe and the United States is stagnating or falling.

That reality is driving IEA efforts to engage with key partners in many areas, particularly regarding oil security. For several years, the IEA has supported countries such as China, India, the Association of South East Asian Nations and others in their efforts to improve emergency response measures and even build their own emergency oil stocks. That has included technical support, those countries' participation in regular IEA emergency response exercises (EREs), and unique EREs in Thailand and India. The IEA is now developing a framework for cooperation with non-members in the event of a disruption.

But the shift of the oil map does not just mean the rise of Asian demand. The IEA's forecast of the oil market reveals a medium-term future marked by uncertainty, uneven supply and demand changes, and the potential for technological game changers. That kind of volatility means a very different oil security environment, which requires both broad engagement and nimble response.

Despite volatility in both supply and demand, there remain continuing market tightness and consistently high prices thanks to a number of contradictory forces at play. The economic recovery is stagnating. OECD countries suffer from persistent debt concerns, and there are signs that growth, even in China, is slowing. On the supply side, continued political upheaval in the Middle East and North Africa disrupts crude exports from several countries. Unplanned maintenance and technical disruptions at mature fields reached record highs in 2012, rekindling concerns about decline rates in ageing plays. These factors contribute to a new 'reality of risk' in the oil market.

> ***Despite volatility in both supply and demand, there remain continuing market tightness and consistently high prices thanks to a number of contradictory forces at play***

Yet there is good news on the production side. Despite events in the Middle East, the region has also had success stories. Saudi


REUTERS

Most new demand for oil comes from Asia. China is the world's second largest consumer of oil and has the leading vehicle market

production has surged to 30-year highs. Iraq is also breaking production records. An October 2012 IEA report highlighted Iraq's potential going forward. North American production is surpassing expectations, as high prices and new technologies have unlocked light, tight resources long thought impossible to tap economically. The IEA's 2012 *World Energy Outlook* predicted that the US could become the largest oil producer by 2017.

Combined with increased efficiency, the IEA expects this overall picture to yield less tight markets over the medium term. While that is generally good for supply security and lessens the impact of disruptions, it is no reason for complacency. In the US, any talk about prospects for energy independence leaving room for disengagement from global markets or certain regions should be discouraged. Indeed, the IEA projects the US to continue to import more than a quarter of its oil by 2035. But, in any case, the oil market is global, and no matter its provenance, oil prices and availability remain intricately tied to events and availability elsewhere – emphasising the need for cooperative oil security policy. Moreover, while supply may be growing globally, supply and demand growth are exceptionally uneven.

Most of the new supply is expected from the Americas, and most of the new demand from Asia, the Middle East and the former Soviet Union. These twin changes have consequences for the midstream and downstream sectors, often overlooked, but critical links in the supply chain. International crude trade volumes are forecast to dip, while product trade will likely grow in volume and scope amidst resurgent refining capacity expansion in Asia and the Middle East – and reducing capacity in the OECD. Those changing trade and product import patterns affect disruption risks, and also the paradigm for emergency oil stock-holding when it comes to crude/product balances.

The IEA thus recognises that international oil security governance and emergency response procedures must react in a timely and decisive manner. The IEA regularly reviews the assessment procedures for collective action in response to a substantial physical supply disruption. The important element in defining 'substantial' is to analyse the potential economic impact against the backdrop of the current market. There is no one-size-fits-all response, nor is there a specific size of disruption above which the IEA will act. It is important to understand the changing geographical dynamics of the oil market, seasonal supply and demand fluctuations, refinery demand patterns, crude and product quality breakdowns, spare capacity figures and timely commercial stock data.

The IEA's responsibility to safeguard oil supply security has been evolving alongside major changes in the global oil economy – particularly a major, ongoing redrawing of the global oil map. As this evolution continues, so changes the nature of the IEA's mission. A broader concept of energy and oil security means focusing on resilience and long-term challenges as well as response. When that response is necessary, it must be quick and decisive. Safeguarding oil security requires global cooperation more than ever. ■

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# Africa's energy future: managing legal risks and supporting new opportunities

Africa's importance to global energy security is undeniable. With a 10% and 8% share of the globe's proven oil and gas reserves and potentially vast unknown reserves, Africa is fast developing into a major geostrategic powerhouse.

The "scramble" for African resources has had a dramatic impact on the continent's fortunes. Although hydrocarbon reserves have long been the mainstay of Angola, Libya and Nigeria's economies, an influx of foreign direct investment (FDI) in recent years has provided a larger number of nations with new opportunities. An estimated USD 31 billion in FDI flowed into Africa in 2012 and 50 of the continent's 55 countries are now either producing or exploring for oil. This investment is coming from BRICS countries such as China and India but also from mature markets such as Australia.

## Regulations, regulations, regulations

Compliance regimes are becoming increasingly wide-ranging, complex and stringent. International companies are particularly vulnerable when operating in unfamiliar or challenging jurisdictions. This vulnerability is particularly acute when appointing local agents, working through third parties, entering into joint ventures or undertaking acquisitions. Equally, ever-present and far-reaching governance legislation, both local and international in scope (such as the FCPA, Dodd-Frank, China's new Anti-Corruption Law, the Saudi Arabian Anti-Corruption Law and the UK Bribery Act) can impact on a global scale, particularly when the consequential fraud and civil litigation follows suit. Combined with these international regulations, events in the Gulf of Mexico and elsewhere have highlighted how a uniform approach to HSE compliance and incident response is now an absolute necessity.

## Political stability and infrastructure

During the past two years, the Arab Spring has caused partial or complete regime changes and other political instability continues in areas such as Somalia and DRC. This uncertainty is challenging for the international investor and countries trying to take advantage of their own resources. Investors need to consider a wide range of issues, with nearly 300 attacks in 2012 alone. Will a new regime honour existing contracts? Will new legislations change the commercial balance of existing arrangements? Can investors plan for the future when new legal regimes are uncertain and changing? Governments can terminate agreements without cause. Whilst any ensuing, and potentially expensive, litigation can be fought out before the International Centre for Settlement of Investment Disputes (ICSID), enforcing awards in the midst of volatility can be difficult to near impossible.

This year several world leaders have identified their concern regarding the potential terror threat spreading across the African continent. Although there have been recent positive developments in areas, such as East Africa and Somalia, ongoing issues such as piracy remain. In Central and North Africa, the terror threat appears to be growing. The recent kidnapping of oil workers in Algeria is a demonstration of how previously stable environments can change overnight.

In volatile world markets, any interruption in supply can have a major impact on energy prices creating sudden spikes. Price volatility is particularly damaging at a time when much of the global economy is under duress. Security in price and supply are key and the shockwaves sent out by a disruption to supply and increasing operating costs, on areas such as security and insurance, can turn a project from viable to unviable.

A sound infrastructure enables investors to access resources. Over the next 10 years, it is estimated that Africa will need USD 50 billion of infrastructure investment in power, roads, rail and ports. Infrastructure projects are often large, complex and long term, involving challenging geographic and geological conditions. High levels of economic uncertainty and unclear cost recovery mean participants need to factor these issues into their negotiations and contracts to ensure their risk exposure is identified and appropriately balanced.

## Whose assets are they?

In recent years there has been a growing trend in some markets towards direct expropriation or nationalisation of natural resources. Whilst this particular risk may be partially offset by agreements to arbitrate disputes in an international forum, this remedy again depends on the actual enforceability of awards, making investment treaty planning a critical part of a comprehensive risk strategy - whether used as leverage in the event of a dispute or as a basis for a dispute process.

## The drive for transparency

In a world where a revolution can be organised and communicated through mobile phones, most energy organisations are aware of the consequences of any perceived lack of transparency. Reputational risk, negative publicity and stories that live forever on the web can damage or destroy shareholder value as well as reputations. On the ground, pressure for a fairer approach to oil revenue distribution is fuelling the calls for greater transparency. The Extractive Industries Transparency Initiative (EITI) - a coalition of governments, companies, civil groups, investors and international organisations - has agreed a set of international guidelines which are now supported by 70 of the world's largest oil, gas and mining companies with 18 countries now considered EITI compliant.

## New resource extraction legislation

In September 2012, the European Parliament approved legislation for an amendment to the European Union's (EU) Accounting and Transparency Directive 2004/109/EC to provide that both public and private energy and mining firms declare and publish payments made to governments and government officials in the countries in which they operate. The draft law, echoing the so-called "resource extraction" rule in the Securities Exchange Act which was adopted by the US Securities and Exchange Commission (SEC) in 2012, provides that payments over €80,000 must be reported to regulatory authorities regardless of the disclosure laws in the country where the payment was made. The details of this legislation are still to be agreed and a number of energy companies may argue that project-by-project reporting is expensive to implement and may damage competitiveness. However, country-specific provisions may contribute to the solution as an increasing number of countries ring-fence oil revenues and use them in social and environmental projects. In 2011, Ghana enacted the Petroleum Revenue Management Act 2011 stipulating that 30% of its oil revenues are to be ring-fenced in a separate fund that will be distributed to develop its infrastructure and social welfare..

# A new agenda for action

## Natural and social capital is not accounted for on balance sheets of businesses; however, measuring these costs would promote corporate sustainability

*By* Peter Bakker, president, World Business Council for Sustainable Development

Transformative progress towards sustainable development demands a multi-stakeholder approach. This is something the world has known for some time, so why is progress so slow? Simply put, it is the sheer scale and complexity of the challenges that prevents any single group or institution from being able implement decisive solutions. Progress is possible and sought after, but will remain out of reach until the international community, multilateral institutions, national governments, academia, civil society and, of course, business work together, developing systemic action plans that are designed to address systemic crises.

The World Business Council for Sustainable Development (WBCSD) believes that the innovative capacity, management skills and financial resources of business can lead these different groups towards the achievement of sustainable development improvements and goals. Traditionally, business has focused on providing goods and services that meet customer demands and can be sold at competitive prices, in a profitable way, while adhering to regulation. However, in a resource- and carbon-constrained world, where, despite 30 years of international effort, the environment is under increasing pressure and access to energy, clean water and food is still an issue for very many, this traditional role for business is no longer fit for purpose.

In 2010, WBCSD produced a document called *Vision 2050*. This significant publication was the first time that a business organisation had plainly stated that the way business was being conducted globally was no longer sustainable – a radical transformation of almost everything it does is needed. There can be no more 'business as usual'.

Regardless of any ethical or altruistic desire for businesses to contribute to efforts to address these challenges, there are companies that understand that the world around them is changing. The systems that they currently rely on to create and support their markets might not be around forever. They must act in order to survive: as providers of goods and services, as communities of employees and as the generators of investment returns.

Many global companies have been embedding sustainability into their core business strategies. Going beyond social investment, corporate social responsibility or philanthropy, they are fully integrating sustainability into the operations and the decision-making processes of their businesses. Companies that begin to take a longer-term view of how they do business often find a bounty of opportunities, from improving their operations and profitability to understanding the needs of customers and employees. WBCSD and its members work to demonstrate, in a collaborative and significant way, that sustainability considerations help to make businesses better.

Along with its members, which are some 200 of the world's largest and most forward-thinking companies, WBCSD develops solutions that aim to address four key elements of sustainable development:

1. Ensuring future economic development and technological progress are socially inclusive and equitable;
2. Bringing industrial and social processes back in line with, and then maintaining, an environmentally safe operating space for humanity, respecting the boundaries of key earth systems;
3. Improving the governance of all institutions, public and private, and, importantly, including sustainability factors in risk-management frameworks and corporate reporting;
4. Incentivising and supporting sustainable economic development through effective public policies.

*Vision 2050* sets out long-term goals and pathways towards a global society that can operate sustainably – supporting nine billion people to live well, within the planet's limits.

However, long-term targets have proved to be inappropriate in a world that is chronically obsessed with short-term ones. Just as

Good practices are needed from businesses in a carbon-constrained world where the environment is subjected to increasing pressure

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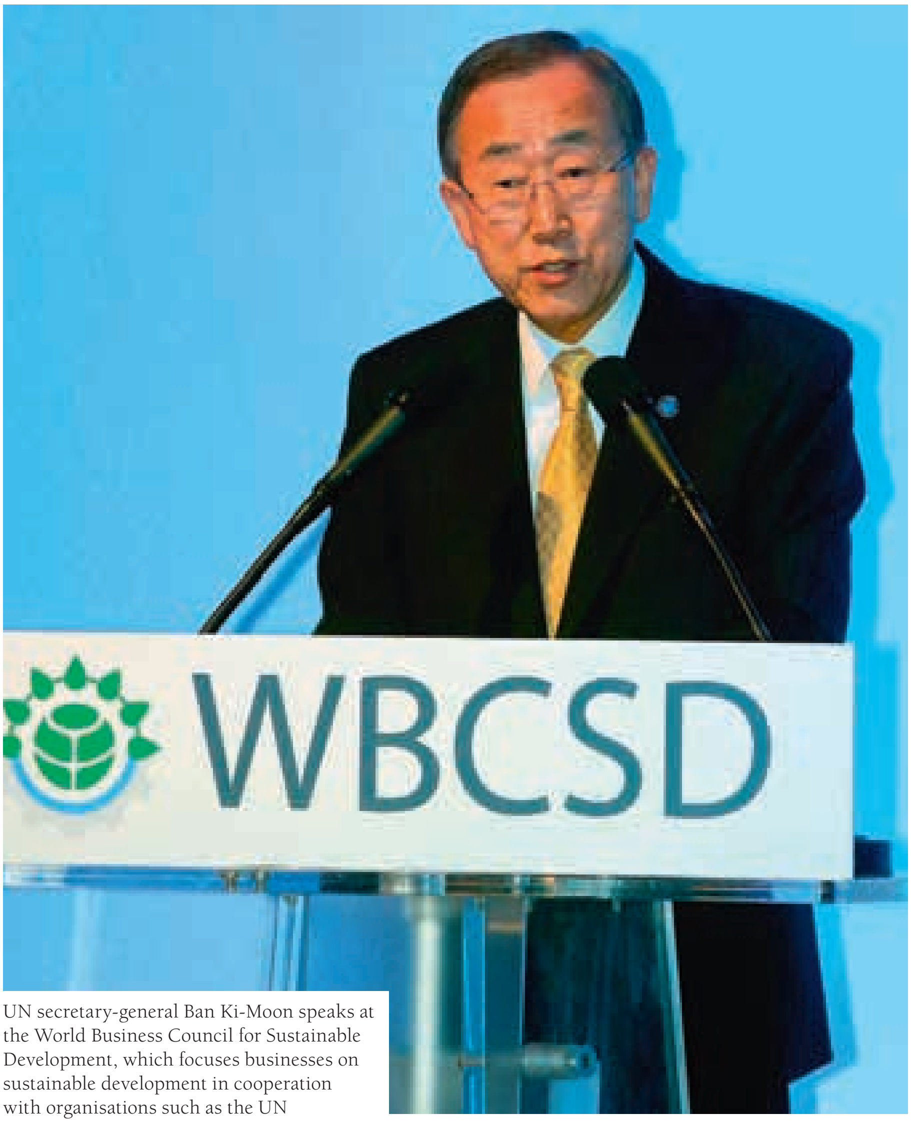


UN secretary-general Ban Ki-Moon speaks at the World Business Council for Sustainable Development, which focuses businesses on sustainable development in cooperation with organisations such as the UN

governments struggle to identify meaningful waypoints en route to achieving emissions reductions targets, companies find it difficult to radically transform the way in which they do business while at the same time meeting their existing customer demands and shareholder expectations.

WBCSD is adapting the goals and pathways to *Vision 2050*, working with the scientific community to identify absolute priorities for action ('must-haves') and then focusing on the areas in which business can act in the short term to contribute towards improvements on these must-haves. This project is called Action 2020. While radical transformation is addressed in *Vision 2050*, Action 2020 is about setting an agenda that has actionable priorities.

WBCSD's advice to G8 leaders has not changed since it last contributed to this publication in 2011: governments must partner with business and provide incentives and market certainty for sustainability measures. While forward-thinking, progressive businesses are already making provisions for a future that they see is inevitable, large-scale adoption of sustainability strategies will require government action. Even businesses that are willing to take a longer-term view must be able to predict the rates of return at some point, no matter how far into the future. This demands strong national and international frameworks that provide companies with the necessary stability. Thus governments must be equally committed to incorporating sustainability into regulations and incentives, as well as into their own management and procurement decisions.

***Only by working together will businesses and policymakers be able to scale up the extent of sustainable development measures that businesses embed in their strategies***

There is considerable room for improvement here, particularly within economically stressed Europe and North America. At some point, G8 governments will need to look beyond the short-term demands of voters and take a long-term view of what is in these voters' best interests, regardless of how unpopular any resulting measures might be. Only by working together will businesses and policymakers be able to scale up the extent and impact of sustainable development measures that businesses embed in their strategies through to 2020.

**Supporting companies in reporting**

This year, G8 leaders will prioritise trade, tax and transparency. Supporting companies to report their activities more transparently and more accurately should be added to the agenda items. WBCSD is working with other international organisations to develop the way in which businesses measure their performance. Currently, only financial capital is measured and managed. However, all businesses benefit in some way from natural services or resources that the planet provides (such as fresh water, nutrient flows, clean air) and social services that individuals, communities and countries provide.

This natural and social 'capital' is ignored in the way business discloses company performance. Considered 'externalities', it is neither measured nor managed. If companies had to count the environmental and social costs or benefits deriving from their activities on their balance sheets, some of the most damaging business practices assumed to be unavoidable today would become commercially unviable – alternatives would be found. Improved, transparent measurement and reporting of environmental and social impacts would make more sustainable, less resource-intensive business models the commercially smart option.

**Environmental and social transparency**

While discussing more transparent trade and taxation regulations, G8 leaders would do well to consider how to ensure a more transparent approach to the regulation of environmental and social liabilities on a global scale. The integrated reporting framework provides a great basis for just such an approach.

Through its work programme and also through cooperation with international processes such as the United Nations Sustainable Development Goals, WBCSD is striving to develop action plans for business that are quantified, actionable and time-bound. It hopes that the G8 leaders can support close collaboration between business, governments, civil society and academia to address these universal challenges and help business to achieve the greatest positive impact from the sustainability opportunities that are available to us all, right now. ■

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# G8 Research Group

In the rapidly globalizing world of the 21st century, the Group of Eight major market democracies serves as an effective centre of comprehensive global governance. G8 members – the United States, Japan, Germany, Britain, France, Italy, Canada and Russia, plus the European Union – contain many of the world's critical capabilities and are committed to democratic values. At its annual summit and through a growing web of G8-centred institutions at the ministerial, official and multi-stakeholder levels, the G8 does much to meet global challenges, especially in the fields of economics, development and security.

The G8 Research Group is a global network of scholars, students and professionals in the academic, research, media, business, non-governmental, governmental and intergovernmental communities who follow the work of the G8 and related institutions, such as the G7. The group's mission is to serve as the world's leading independent source of information, analysis and research on the G8. Founded in 1987, it is managed from Trinity College and the Munk School of Global Affairs at the University of Toronto. Its Professional Advisory Council members, Special Advisors and participating researchers span the world. Through the G8 Research Group, Trinity's John W. Graham Library has become the global repository of G7/8 documents, transcripts, audiotapes, media coverage, interviews, studies, essays, memorabilia and artifacts.

## The G8 Information Centre at www.g8.utoronto.ca

The online G8 Information Centre (www.g8.utoronto.ca) contains the world's most comprehensive and authoritative collection of information and analysis on the G8. The G8 Research Group assembles, verifies and posts documents from the meetings leading up to and at each summit, the available official documentation of all past summits and ministerial meetings (in several G8 languages), scholarly writings and policy analyses, research studies, scholarship information, links to related sites and the "briefing books" for each summit published by Newsdesk. It contains the annual reports on G8 members' compliance with their summit commitments, produced by the G8 Research Group and its partner at the National Research University Higher School of Economics in Moscow.

## Books on the G8 and Related Issues from Ashgate Publishing

***The European Union in the G8***
Marina Larionova, ed.

***Securing the Global Economy***
Andreas Freytag, John Kirton, Razeen Sally & Paolo Savona, eds.

***Global Financial Crisis***
Paolo Savona, John Kirtona & Chiara Oldani, eds.

***Global Energy Governance in a Multipolar World***
Dries Lesage, Thijs Van de Graaf & Kirsten Westphal

***Innovation in Global Health Governance***
Andrew F. Cooper & John Kirton, eds.

***G8 against Transnational Organized Crime***
Amandine Scherrer

***Making Global Economic Governance Effective***
John Kirton, Marina Larionova & Paolo Savona, eds.

***The G8 System and the G20***
Peter I. Hajnal

***The New Economic Diplomacy***
Nicholas Bayne and Stephen Woolcock

***New Perspectives on Global Governance***
Michele Fratianni, John Kirton, Alan Rugman & Paolo Savona, eds.

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# The Arctic game

Climate change is improving the accessibility of resources hidden under ice floes and new trading routes are being opened. However, many question marks remain over the environmental risks and huge costs involved.

The Arctic Circle is the new frontier of energy supply. Of this, experts are convinced. But there is no escaping the difficulties inherent in exploiting the enormous reserves hidden under the polar ice cap.

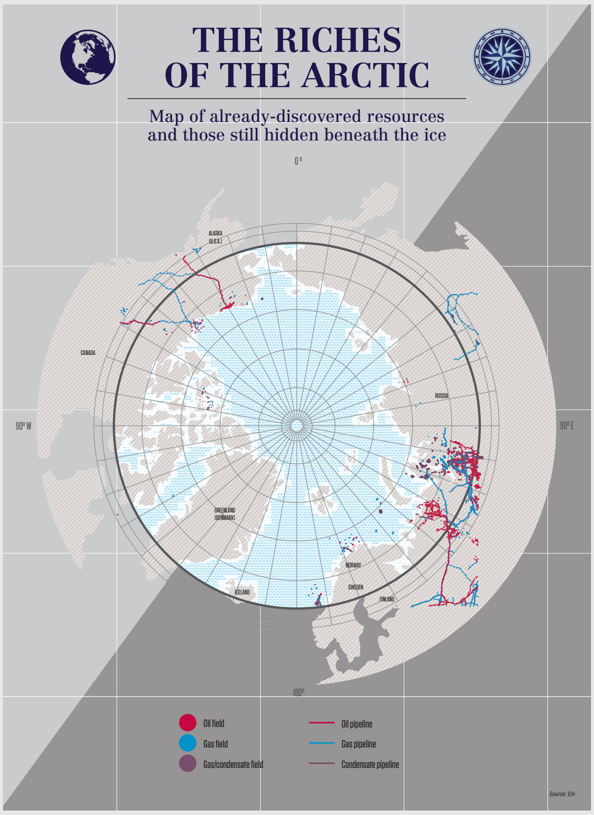
The potential of the region and the risks faced by those who set out to capture it are the focus of this 21st issue of *Oil*, Eni's quarterly magazine focusing entirely on the energy sector and its universe.

Estimates of oil and gas reserves in the area are, in themselves, sufficient explanation for the renewed interest in the Arctic. The gradual melting of the polar ice cap seems to be opening up opportunities to exploit natural resources that were out of reach until now.

The outcomes, in terms of energy and economic policy, could be revolutionary: complex geopolitical shifts, new international organizations and new inter-country blocs – especially among oil-producing countries; full energy self-sufficiency for the US and Russia, propelled to the summit of oil and gas production league tables by Siberian Arctic reserves; new, abundant reserves of raw materials to meet the world's energy needs; and new trading routes open for an ever-increasing part of the year, halving the distance between northern Europe, north-eastern Asia and the north-west coast of the US.

Yet there are some deep concerns and a great many uncertainties. Above all, there is the risk of environmental repercussions in the polar region – one of the most sensitive areas in terms of global natural balances.

There are also fears of ramifications for the 4 million inhabitants of the zone, who would likely face serious threats (especially in health terms), and the problems that research and development operations are likely to encounter in conditions that will remain extreme, despite the rising temperatures. Colossal investments and massive technological outlay will therefore be necessary, and it is unclear up to what point this would be sensible and sustainable.





This 21st issue addressed the potential of the Arctic region, and the associated risks, ramifications and repurcussions of renewed interest in exploration here

Moreover, all of these issues do not even take account of the legal complications and tangled relationships between the Arctic countries, which have hitherto remained hidden due to the lack of interest in the Arctic's frozen expanses, but must surely be unleashed by the region's sudden rise to prominence.

How can one get one's bearings in the face of so many complex problems, that are often completely incompatible? This is precisely what we have tried to address in this issue – which is entirely dedicated to the "Arctic question" – and with *Oil*'s trademark style: without pre-formed agendas or prejudices, and tackling the issue from multiple angles.

The result is an extraordinarily rich and diverse collection of writing, which analyzes the potential benefits and pitfalls of energy extraction from the Arctic, the attitudes of the most affected countries, the relevant economic, legal and technological considerations, and the impact of production on the market and the world.

It is our hope that this issue will form a useful handbook to what will, without doubt, become one of the major topics in international energy policy in the years to come.

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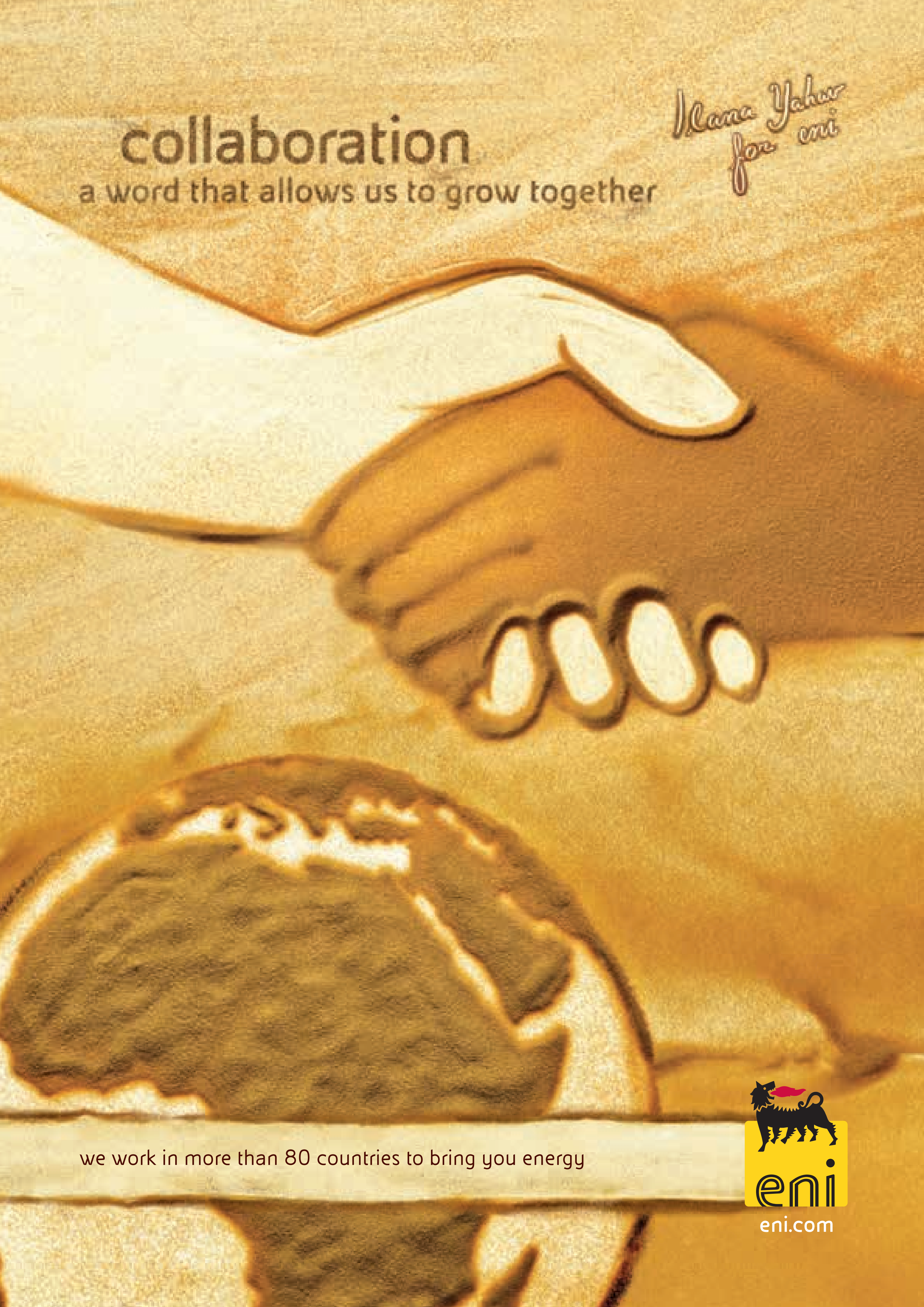
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# Growth and the oil market

## Political and economic stability will be key to ensuring that oil supply is sufficient to meet the demands of a growing world market

*By* Abdalla Salem El-Badri, secretary general,
Organization of the Petroleum Exporting Countries

Has the oil market been well supplied? Yes, it has. Can it be expected to continue to be well supplied as the world returns to strong and sustainable economic growth? Yes, it can. And are there sufficient resources to meet growth in demand in the coming years? Yes, there are.

In 2012, the oil market saw ample supply, with crude stocks in member countries of the Organisation for Economic Co-operation and Development (OECD) above their five-year average, and with spare capacity at healthy levels among the members of the Organization of the Petroleum Exporting Countries (OPEC). If one looks ahead to the near term, one can expect there to be more than enough supply to meet expected demand.

From OPEC's perspective, its members are continuing to invest in order to maintain and expand supply capacities. The latest list of upstream projects shows that members are undertaking or planning 116 projects between 2012 and 2016, corresponding to estimated investments of about $270 billion. Given current assumptions and projections in OPEC's *World Oil Outlook* (WOO) 2012 Reference Case, as well as natural decline rates in existing fields, it is estimated that OPEC's total liquids capacity will rise by five million barrels a day (mb/d) over this period. However, investment decisions and future plans will be influenced by a number of factors, including the global economy, international policies and changing prices.

### Meeting demand growth

In the longer term, global oil demand in OPEC's *WOO* increases by more than 20 mb/d between 2010 and 2035, eventually reaching over 107 mb/d by the end of this period. In the recent past, some have questioned whether this long-term demand growth can be met. There are very few doubters today.

The industry continues to push the boundaries in terms of what can be found and what can be recovered, and recent estimates of ultimately recoverable resources continue to rise. Of course, peak oil supply will arrive one day. It is a non-renewable resource after all. But at present, this day is being pushed further and further into the future.

Three questions can be answered with simple and affirmative answers, but when one looks to the future this only tells a part of the story. Forecasts are what they say they are. No one can exactly predict the future, because there are a wide variety of issues and uncertainties that may have an impact on how the oil industry evolves. The question that needs to be asked is: what will the industry require if it is to turn available resources into delivered supply? The key answer is stability, for both producers and consumers.

***For producers, it is critical to have a better understanding of demand-side developments, particularly policies that discriminate against oil***

A central facet of this is energy security, which should be viewed as a full circle. Security of demand is just as important to producers as security of supply is to consumers. For producers, it is critical to have a better understanding of demand-side developments, particularly policies that discriminate against oil. If not, it can lead to investment uncertainty and, in turn, future market instability. To put it simply: producers do not want to waste precious financial resources on infrastructure that might not be needed. At the same time, however, if timely and adequate investments are not made, then future consumer needs might not be met.

Thus it is important that both consumers and producers actively participate in the Joint Organisations Data Initiative (JODI) to

Oil capacity remains at healthy levels among members of the Organization of the Petroleum Exporting Countries

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In parts of the developing world, such as rural Brazil, firewood remains the only available source of energy

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enhance the transparency, quality, timeliness and flows of oil market data from both the demand and supply perspectives.

Another key element is the price. Of course, it is important to have a price that suits producers and consumers – a price that supports both industry investments and economic growth. But just as important is price stability. Extreme price volatility is not conducive to a well-functioning market, and has a detrimental effect on both the producers and consumers.

Over the past six or seven years, extreme price fluctuations have been accompanied by massive inflows and outflows of investments. For example, in the middle of 2008, the total open interest contracts on the New York Mercantile Exchange (NYMEX) surpassed three million contracts per day. This was 35 times the size of actual daily oil demand, and it was in that year that crude prices reached a peak of $147 per barrel in the summer, before sinking to a low of $30 by the end of the year, with the price of crude fluctuating by as much as $16 per barrel in one day. This cannot be justified by fundamentals alone.

In 2012, the NYMEX combined with InterContinental Exchange (ICE) exceeded four million contracts, or more than 40 times greater than actual daily oil demand. Price volatility was nothing like 2008, but there was a price swing of between 20 and 30 per cent during the year, despite the market showing a healthy balance between supply and demand.

It is crucial that the industry continues to tackle the issue of excessive speculation as well as that of extreme price volatility.

Stability will be paramount in confronting such global challenges as energy poverty. With about 2.4 billion people lacking access to modern energy for cooking and heating and around 1.4 billion people living without electricity, it is essential that the world looks to help everyone have access to affordable modern energy services. Alleviating energy poverty is a priority for the OPEC Fund for International Development, which has allocated substantial resources to tackling this global challenge. But the urgent and critical attention of world leaders, such as those of the G8, will be needed to alleviate this blight on humankind in the years and decades ahead.

This is obviously not an exhaustive list of the industry's challenges, with others such as climate change and the environment and the shortage of human resources also high on the agenda. However, it does provide some insight to the G8 of a number of the central issues facing not only the oil industry, but the world in general. So while the market is well supplied – and is expected to remain so in the coming years – and there are more than enough resources to meet expected future demand, there remains work to be done to ensure the stability needed to ensure a sustainable energy future for all.

It means the search is on for a committed, cooperative and coordinated approach among all stakeholders to fostering market stability in the both the short and long terms. This is something OPEC places much value on. ■

# From outcome to implementation: fast-tracking Rio+20

## Following the Rio+20 Conference on Sustainable Development, there is a sense of optimism among those committed to the green agenda

*By* Achim Steiner, United Nations under-secretary general and executive director, United Nations Environment Programme

Given the unsustainable path that today's world is on, and the increasingly sobering warnings of science, it would be easy for communities, cities, countries and companies to lose heart. They should not.

Over the last year, a number of small but potentially significant steps have been taken that collectively could translate into a big step in the right direction. Such is the nature of politics and human psychology that slow, steady progress can easily be overlooked.

The trigger has been in many ways the Rio+20 Conference on Sustainable Development convened in Brazil in June 2012 and the post-Rio+20 follow-up, which is breaking new records in the multilateral quest to implement the sustainable development agenda. Almost imperceptibly to some, the debate and also the appetite for action have shifted. We no longer have to convince sceptical governments or populations of the need to change. Instead, the focus is on the policies, initiatives and mechanisms that can achieve change now and over the long haul.

Rio+20 may have taken place in the same halls where the historic Rio Earth Summit was held in 1992, but its aim was very different. It was not to generate more treaties, but to focus on ways of implementing existing ones and the sustainable development agenda. The audience was also different. Many more cities were represented by senior mayors; judges, auditor generals, CEOs and other business representatives were among those present.

If you are a poor farmer in Peru or a waste-picker in Ouagadougou, the outcomes of Rio+20 must seem remote and far away. Yet if countries, companies, cities and communities can move forward on the positive elements of the summit's outcome, it may assist in one day realising the The Future We Want – the title of the outcome document adopted at Rio+20.

So why is there a sense of cautious optimism that a shift has taken place? First, leaders representing more than 190 countries embraced the green economy in the context of sustainable development and poverty eradication as one important way to shift societies into a new and more resource-efficient, job-generating gear. Countries agreed that such a social transition could make a real difference when supported by policies that encourage decent employment, social welfare and inclusion, and have as a priority the maintenance of the planet's ecosystems, from forests to freshwaters.

At the 27th session of the Governing Council of the United Nations Environment Programme (UNEP) in February 2013, four UN agencies – UNEP, the International Labour Organization (ILO), the United Nations Industrial Development Organization (UNIDO) and the United Nations Institute for Training and Research (UNITAR) – announced that, under the Partnership for Action on a Green Economy, they will assist 30 countries to make that transition while generating new jobs and skills, promoting clean technologies, and reducing environmental risks and poverty.

The decision to evolve the Millennium Development Goals (MDGs) into sustainable development goals as part of the post-2015 agenda could also prove significant.

Rio+20 addressed growing concern that the concept of gross domestic product may have outlived its usefulness in a world where natural resource scarcity, pollution and social exclusion are also becoming measures of whether a country's wealth is going up or running down. It requested that the UN Statistical Commission work with other UN bodies and organisations to identify new approaches for gauging progress that draw on a wider range of assessment criteria.

Another potentially significant step forward was the adoption of the 10-Year Framework of Programmes on Sustainable Consumption and Production, with UNEP requested to host the secretariat. It covers several sectors such as tourism and agri-food, government procurement and lifestyles, and in many ways dovetails with the green economy pathways and programmes.

### Reducing food waste

In support of this, UNEP with the UN's Food and Agriculture Organization has recently launched the 'Think.Eat.Save. Reduce Your Foodprint' campaign, an initiative aimed at reducing by one-third the food that is lost or wasted – 40 million tonnes in the US alone.

During Rio+20, more than 30 governments and institutions – including Brazil, Denmark, Switzerland and UNEP – announced the new international Sustainable Public Procurement Initiative (SPPI), which is aimed at scaling up the amount of public spending flowing into goods and services that promote a country's social, environmental and economic policies.

A student adds her contribution to the Tree of Life at the Rio+20 United Nations Conference on Sustainable Development in Rio de Janeiro, Brazil in June 2012

ALAMY

***There is a new and more sustainable wind blowing, and this bodes well for the world's seven billion people***

Studies have indicated that sustainable public procurement, which represents between 15 per cent and 25 per cent of GDP, offers a tremendous opportunity for environmentally friendly innovation and sustainability.

The Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES), a new international science-policy platform on biodiversity and ecosystems, has also been set up to assist governments and citizens to better understand the state, trends and challenges facing the natural world and humanity in the 21st century. In January, more than 500 delegates from 105 countries attended the plenary IPBES session in Bonn, Germany.

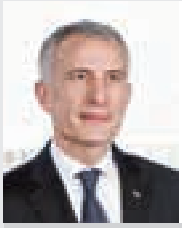
In March 2013, the triennial World's Wildlife Conference closed with robust measures adopted to protect precious timber and marine species from over-exploitation. Some 170 governments have turned to the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) to ensure the legal, sustainable and traceable trade of their precious timber and forest products, with CITES unanimously bringing hundreds of new timber species under its controls, along with a number of tortoises and turtles and a wide range of other plant and animal species. Five shark species and manta rays were also brought under CITES controls. In January, governments also finalised a new legally binding global agreement on reducing releases and emissions of the notorious heavy metal mercury.

Reform of some of the institutions charged with assisting these evolutions also registered on the Rio+20 Richter scale. The decision to strengthen and upgrade UNEP, including with universal membership, was among the reforms endorsed by the UN General Assembly in late 2012. It is also paving the way to more stable and predictable funding of the institution via the regular budget of the United Nations. Brazil, China and Russia are just three of the countries unilaterally stepping up voluntary support. UNEP's governing council has been renamed as the UN Environment Assembly, in what is an important signal of a new determination.

Independently, these measures and pathways are important. There is a new and more sustainable wind blowing, and if carried over the long term, this bodes well for the world's seven billion people, a figure that will exceed nine billion by 2050.

Collectively, those measures and pathways could be even more profound, if not game changing. Rio+20 played a role in focusing and concentrating minds on The Future We Want. The challenge now, 20 years after the Rio Earth Summit of 1992 and 40 years after the first UN Conference on the Human Environment, is keeping up the momentum. ■

# SNCF: delivering sustainable mobility for all



**Guillaume Pepy**
**Chairman,**
**SNCF**

For SNCF, corporate responsibility is central to everything we do, an integral part of our approach to running our business and rail operations.

We deliver mobility around the globe and our mission is to address the needs of the passengers, the transport and logistics operators, and the many different authorities with whom we interact on a daily basis. And, more than ever, the expectations of these stakeholders reflect many of the most important challenges facing the world today: managing energy change; generating economic growth; building communities; and reinventing our transport systems.

Of course, these are huge challenges for all of us, not just SNCF. But at SNCF, we are fully committed to using our expertise to help tackle them, meeting these challenges with transparency and enthusiasm and embracing the many opportunities they present.

Because as we see it, every change, whether economic or technological, is a chance to build a more effective and sustainable rail system for the 10 million customers SNCF serves across the world each day. A system that creates value for transport and logistics operators and provides growth opportunities for our employees. And a system that generates economic growth that benefits local communities wherever SNCF operates.

Ultimately, this is what makes SNCF credible and what makes our business meaningful.

## Our commitment to sustainable mobility

Rail accounts for 10 per cent of passengers and freight transported in France, but generates only one per cent of the country's $CO^2$ emissions. By their very nature, and as a result of the density of the rail network, trains are the backbone of sustainable mobility. Faced with today's economic crises and environmental imperatives, there is an urgent need to extend the concept of sustainable mobility to door-to-door and end-to-end transport.

To meet the high expectations of our stakeholders around the world, SNCF is experimenting, innovating and exploring a range of alternative forms of mobility and eco-friendly options. As fuel prices rise and lifestyles change, these are initiatives that will benefit society as a whole.

### KEY GOALS

ACCESSIBLE STATIONS
By 2015, 100 per cent of our stations will be accessible to the disabled.

BICYCLE SERVICES
By the end of 2013, we will have 1,800 stations offering bicycle services.

$CO^2$ EMISSIONS
By 2020, more than 1 million tonnes of $CO^2$ will be saved thanks to rail motorways and multimodal transport.

## FOUR COMMITMENTS:

### 1. IMPROVING ACCESS FOR ALL PASSENGERS

Prices, complexity and disabilities are all factors that could create a "mobility gap". At SNCF, we are committed to finding mobility solutions that work for everyone.

• **Making pricing more flexible and understandable**

We are simplifying fares, reducing the number of fares offered for the same journey by 30 per cent, and are now allowed to set prices based on demand. We are giving passengers increased access to low fares and making it easier for them to compare prices. In early 2013, SNCF launched the world's first low price, high-speed rail service, Ouigo, which offers fares starting from just €10 to travel between southeast France and Lyon or Paris.

• **Listening to the disabled**

SNCF maintains a continuous dialogue with associations for the disabled, and over the past 10 years we have invested €500 million to make our stations and trains more accessible.

Accès Plus, our free service for disabled travellers, celebrated its fifth anniversary in early 2012 and is now available in 259 stations.

• **Delivering real-time information**

We are creating new ways of providing information. For example, our new regional trains are equipped with information hotspots – screens streaming information on destinations, station stops and on-board services. And in the new Montbéliard TGV station, we are experimenting with a multimodal screen displaying bus connections.

• **Leveraging mobile Internet for greater accessibility**

Our website sncf.com is accessible from any smartphone. Passengers can download our popular mobile app, SNCF Direct, to find their closest station, see how to get there, and view a list of services and shops. Users can track their journey in real time, receive updates as soon as a platform is assigned or a delay is announced, and listen to service updates every 15 minutes on SNCF La Radio.

## KEY FIGURES

SNCF at a glance
**€33.8** billion revenue
nearly **25 per cent** of revenue from international markets
**250,000** employees in 120 countries


**2. INCREASING ECO-FRIENDLY, DOOR-TO-DOOR MOBILITY**

Truly sustainable mobility is not just about optimising station-to-station rail travel. To meet passengers' door-to-door travel needs, different modes of transport are being examined, from public transport to shared solutions.

• **Helping regions make the right decisions**

We are eager to share our expertise with local authorities. That's why we use SimCO2, an ecomobility simulator for regional multimodal networks that can assess energy consumption for every type of transport, as well as the $CO^2$ impact of new transport proposals.

• **Promoting "active" transport and intermodality**

Cycling is fast becoming an important link in the public transport network, with nearly 25,000 bicycle parking spaces at our stations, 150 recommended bike rental sources close to our stations, and 16 stations with protected bicycle shelters.

• **Sharing more, consuming less**

Nearly 80 per cent of cars driven in France are occupied by only one person. To encourage drivers to share their cars, SNCF offers a dedicated site for carpooling to and from 400 stations, complete with reserved parking spaces.

**3. DEVELOPING A TRAVEL OFFER FOR BUSINESSES AND THEIR EMPLOYEES**

Business travel, including commuting, affects a company's costs, environmental footprint and the quality of life of its employees. At SNCF, we're experimenting with business travel plans for companies at our own sites and offering our expertise to clients.

• **Testing ecomobility in-house**

Our Grenoble and Chambéry sites are testing a car-sharing service for business travel that gives employees access to 50 diesel vehicles through the Cité Lib car-sharing service. In Paris, we've launched Kiwix, the first free electric bike-sharing service to be offered by a corporation in France, and its 350 members have already travelled a total of 25,000 km by bicycle.

• **Providing sustainable mobility solutions for professionals**

Many businesses need support as they move towards responsible mobility, and SNCF is providing this through SOMOBIL, a business travel programme that improves corporate mobility while cultivating a preference for public transport and active, eco-friendly modes of transport.

**4. EXPANDING ECO-FRIENDLY FREIGHT TRANSPORT**

The more that businesses focus on the carbon footprint of their products, the more important their transport choices become. SNCF is the first European rail operator to calculate $CO^2$ emissions generated by its traffic. The French State has pledged to invest €7 billion in eco-friendly freight transport.

• **Fighting road congestion**

In January 2012, we launched a new commercial freight service between Perpignan and Luxembourg, with a train 850 metres long carrying 2,400 tonnes of freight over a 1,000-kilometre route. The move is a first for SNCF and the only service of its kind in Europe.

• **Combining rail with inland waterways: a winning combination**

In February 2012, SNCF formed a partnership with Voies Navigables de France to raise the proportion of freight carried by rail and inland waterways.

• **Rethinking the last kilometre**

In June 2011, SNCF launched Distripolis, a new concept in urban freight transport based on the logistics of tomorrow's cities. Shipments are delivered to platforms on the outskirts of cities and then routed to urban, eco-friendly logistics bases close to commercial areas. By 2015, Distripolis will have reduced our $CO^2$ emissions by 85 per cent.

*Photo credits: Patrick Messina, William Daniels, Sylvain Bardin, Photothèque Geodis.*

**SNCF's Communication Department**
**www.sncf.com**

# Supporting Arab countries in the Deauville Partnership

## By opening their markets to the Arab states that are currently in the throes of transition, G8 members can play a valuable role in the region's development

*By* Bessma Momani, Balsillie School of International Affairs

The Deauville Partnership was initiated by the G8 members at the Deauville Summit on 26-27 May 2011 to connect its developed economies with the Arab countries undergoing the political and economic transition to good governance and inclusive economic growth.

The Deauville Partnership envisioned the development of economic cooperation to assist Arab governments undergoing rapid social and political transitions. The International Monetary Fund (IMF) and the World Bank were further tasked with assessing the region in order to help G8 members formulate coordinated economic policies with an expanded list of partner countries: Egypt, Tunisia, Libya, Jordan and Morocco. These international financial institutions concluded that there were regional and domestic economic opportunities to be seized upon with good governance, coordinated economic and foreign donor policies, and stronger intra-regional economic integration and coordination. To sustain economic progress and political development, G8 leaders must recognise the inherent fragility of the political transition in Arab countries, a result of their economic fragility, and must formulate policy in accordance with the recommendations from the IMF and World Bank studies.

There is overwhelming acceptance of the fact that non-inclusive economic growth leading to socio-economic and then political frustration is a key part of the puzzle in searching for determinants of the Arab Spring. The Arab Spring started in countries that had economic growth and were lead economic reformers. Tunisia, Egypt, Libya and even Syria were successfully liberalising their economies. But the revolutions hit these same countries where economic growth did not reach citizens at a pace that met the rising expectations of their people and where the demographic group hit hardest by unemployment and underemployment were the educated, interconnected and middle-class youth. Simply put, the Arab people demanded inclusive economic growth that would allow them to achieve their latent economic and human potential. The G8 leaders at Lough Erne can support the Arab people through increased investment, coordinated foreign aid programmes and the opening of G8 economic markets for the Deauville partners.

Transition countries in the Arab world need to create labour-intensive jobs in order to meet the political and economic demands of their youth, augment the technical and post-secondary education sector to better prepare Arab youth for the global knowledge economy and invest in the infrastructural development projects that are required to meet the challenges of urbanisation. Those challenges include building better public and private transportation systems, expanding affordable housing, creating more integrated healthcare systems, and ensuring food security through a modernised agricultural sector, distribution links and upgraded sewage systems. Many respected studies, particularly those produced by the IMF and World Bank, as well as the United Nations *Arab Human Development Report*, reiterate these points.

Members of the G8 and the companies operating from those countries have the global comparative advantage in skills, resources and capital to act as vital investors and partners in supporting the economic development of the Deauville partnership members. To assist the transition countries, G8 leaders need to encourage their private investors to initiate or participate in private-public partnerships that can provide Arab countries with the technological know-how and innovation in short supply in the region's production value chains, energy facilities and infrastructural development.

By opening their markets and consumers to Arab goods and services, G8 members can help increase the productive capacity, economies of scale and capital accumulation in the region. Existing intra-regional or bilateral trade agreements between G8 members and many of the Deauville partners must be deepened, strengthened and expanded to other Arab countries. The United States already has bilateral free trade agreements with Jordan and Morocco. These could be expanded to include Egypt and Libya, for example, and to further promote integration among these partners by permitting each country to share the rules of origin in exporting to the large US market.

***The G8 leaders can support the Arab people through increased investment, coordinated foreign aid programmes and the opening of G8 economic markets for the Deauville partners***

Canada's free trade agreement with Jordan and the one that will soon be reached with Morocco could similarly be extended to other Arab countries while coordinating with the US free-trade agreement, making them strategic partners of the North American Free Trade Agreement. The Gulf Cooperation Council (GCC), a strong and liquid economic market, could further strengthen trade ties, improve and facilitate Arab labour mobility to the GCC, and enhance its foreign direct investment into productive sectors that have a key objective to spur inclusive economic growth. Turkey, as a leading economic powerhouse in the region, should be encouraged to participate in and coordinate with G8 efforts to promote increased economic integration with Deauville partners.

The European Union's Neighbourhood Policy with a number of transition countries could be deepened with the ratification and implementation of the Deep and


In 2011, the foreign ministers of the Deauville Partnership agreed upon a framework for economic and political aid to Arab governments that are making the transition to democracy

REUTERS

Comprehensive Free Trade Areas proposal. The Arab countries that are currently in transition would benefit from G8 members taking positive steps to expand and deepen existing arrangements in order to deliver increased trade and investment.

The political awakening of the Deauville partners should also provide an important lesson for G8 countries interested in investing in and coordinating donor programmes in the Arab region. Popular demands for accountability and transparency of the public purse and international economic transitions involving Arab transition countries will require governments in the region to adopt the best practices of good governance. This process of transition can be assisted by G8 countries insisting on transparent and accountable procurement proposals and by enforcing regulatory standards on labour and environmental protection.

A challenge for the G8 will be to ensure that members' companies and donor agencies are not complicit in the political trappings of the inefficiencies of Arab bureaucracies, and of currying favour with the capitalists of the region. These measures will ensure long-term and positive public diplomacy between the G8 and Deauville partners while meeting the needs and aspirations of the Arab people. There is an immense regional opportunity for inclusive economic growth with an educated and eager workforce. The G8 leaders can facilitate this opportunity with enhanced economic trade and investment ties and with support for best practices in the Arab world. ■

# The non-proliferation agenda: paths to two nuclear futures

## If North Korea and Iran are to take heed of pressure on nuclear disarmament, it is essential that G8 countries keep up their own reduction programmes

*By* David Shorr, The Stanley Foundation

As presidents Barack Obama and Vladimir Putin discuss a new round of United States-Russian nuclear arms cuts and work with their G8 counterparts and other leaders on the challenges from Iran and North Korea, the success or failure of these negotiating tracks will help determine the global nuclear future. The current near-term agenda on nuclear arms is especially consequential for the long-term outcome.

Obama hopes that progress on all fronts will move the world closer to the nuclear weapons-free vision famously outlined in his April 2009 Prague speech, on which he has staked part of his legacy. Yet even though the Prague speech was a landmark of US policy, it can also be considered a belated follow-through to the multilateral framework for nuclear arms that was put in place more than 40 years ago, in the form of the Non-Proliferation Treaty (NPT) on nuclear weapons. The bargain at the heart of the NPT called on the nuclear 'have-nots' to refrain from acquiring arsenals while 'haves' undertook to disarm.

The opposite trajectory – with an expanding club of nuclear powers – leads towards the world that the NPT was intended to prevent. While a nuclear-armed Iran and North Korea pose problems in themselves, they could also draw Saudi Arabia, Egypt, the Gulf states, South Korea and Japan into regional arms races in the Middle East and North-East Asia. The NPT thus helps one understand current diplomatic efforts, underlying stakes and interconnected issues.

Take the link between bilateral US-Russian arms agreements and efforts to thwart Iran and North Korea, for example. Despite the simplistic arguments from hard-line arms control sceptics, no one really thinks disarmament by the nuclear powers will inspire Tehran and Pyongyang to follow their virtuous example. Any chance of reaching a peaceful solution and avoiding armed conflict depends on marshalling political, economic and military pressure on the two defiant regimes. From their side, success for Iran and North Korea is a matter of deflecting pressure and clouding the issue of who is at fault. Thus reductions in the nuclear arsenals of the US and Russia would deprive Tehran and Pyongyang of any pretext and distraction. When the big nuclear powers pursue their NPT disarmament obligations in good faith, it helps to keep international focus squarely on Iran's uranium enrichment programme and North Korea's nuclear weapons tests. Otherwise, Washington is left to argue somewhat naively: 'do as I say, not as I do'.

> ***Reductions in the nuclear arsenals of the US and Russia would deprive Tehran and Pyongyang of any pretext and distraction***

In recent years, the united front that the Obama administration has forged with Russia, China and the western European powers has subjected Iran to a new level of economic and diplomatic pressure. Since the summer of 2012, tough new energy and financial sanctions have taken a heavy toll on Iranian oil and gas exports, mainstays of its economy. This international pressure is not an end in itself, but a means toward a diplomatic agreement to ensure that Iran's nuclear activities remain strictly civilian in nature. The best that can be said of the diplomatic process is that it is in a relatively serious and substantive phase, compared with earlier periods. Despite frequent inactivity and inflexibility, negotiators at the February and April 2013 talks in Almaty, Kazakhstan, at least probed possible compromises over restrictions on Iran's uranium enrichment in exchange for the easing of sanctions.

The sides are at a very difficult impasse, while the metaphorical ticking clock of Iran's enrichment operations brings it closer to having the makings of a bomb. Given the unlikelihood that the major elements of an agreement can be worked out in one fell swoop, the exchange of incremental measures involves highly sensitive bargaining. Since Iranian leaders suspect that the true aim of sanctions is to remove them from power, they demand significant relief from sanctions as the price of their cooperation. For their part, the outside powers that have worked so assiduously to build the sanctions regime are loath to begin dismantling it without proof of Tehran's seriousness. Moreover, the Iranian government has proven itself to be an unreliable negotiating partner, with the long-secret Fordow facility serving as a prominent, if subterranean, reminder. The Iranians are taking some key steps, however, to slow the ticking clock, including diluting some of their 20 per cent-enriched uranium to less worrisome levels of concentration.

In North Korea, the young and relatively new leader, Kim Jong-un, makes no pretence of cooperating. In February 2013, his regime detonated the country's third underground test of a nuclear weapon, just two months after firing a ballistic missile on the pretext of putting a commercial satellite into orbit. Both actions prompted rebukes from the UN Security Council, including expansion of the list of goods North Korea is prohibited from importing. Far from negotiating or weighing incentives to offer Pyongyang, outside powers have grown impatient with North Korean attempts to wheedle economic assistance through military provocations. The US response to the Kim regime's recent actions was to flex its own military muscle: despatching a B-2 stealth bomber and announcing plans for expanded missile defence. But the real bellwether of international reaction to North Korea, and the country with the greatest leverage against it, is China, its neighbour and economic sponsor. While China did cut financial links to a key North Korean bank and impose a

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An opening meeting of the High-Level Review Conference of the Parties to the Treaty on the Non-proliferation of Nuclear Weapons, which plays a significant role in maintaining peace

new level of tourism restrictions, Beijing's typical measured – sometimes strenuously even-handed – response reflects its primary concern with stability on the peninsula. Will Chinese leaders eventually change their assessment of how North Korea's actions affect stability?

Meanwhile, the US and Russia have entered into discussions about launching their next round of nuclear arms reductions, following the 2010 New START (Strategic Arms Reduction Treaty) agreement, lowering their strategic arsenals to 1,550 deployed warheads. The very fact that these discussions are taking place is significant; they are occurring amidst heightened bilateral tension and punitive steps concerning human rights. If this is indicative of major powers' ability to compartmentalise and cooperate on mutual interests in this arena despite other differences, that is a good sign indeed.

While lingering US-Russian differences over missile defence and shorter-range systems should not be dismissed (and stricter limits on non-deployed weapons pose their own difficulties), the New START follow-on will nudge the world towards a more optimistic nuclear future. Most significantly, it would probably be the last agreement covering just two of the five nuclear-armed signatories to the NPT. For most of the nuclear age, arms control was mainly a bilateral enterprise, because the vast majority of nuclear weapons was in American or Soviet hands. As the two powers cut their arsenals from peak levels in the tens of thousands to potentially mere hundreds, the NPT's disarmament obligation will gain new salience for China, France and the United Kingdom. Once all five reduced to minimal levels, attention would inevitably turn to India, Israel and Pakistan, all of which have remained outside the NPT.

Clearly, many of these issues are questions for another day, year or decade. But the current non-proliferation agenda offers glimpses of the world's nuclear future. One can only hope it ends up resembling what the NPT negotiators of the late 1960s intended. ■

# Strengthening security within East Asia

## East Asia faces a number of pressing security threats, both traditional and non-traditional, that warrant consideration by the G8 countries

***By*** David A Welch, CIGI chair of global security and director, Balsillie School of International Affairs

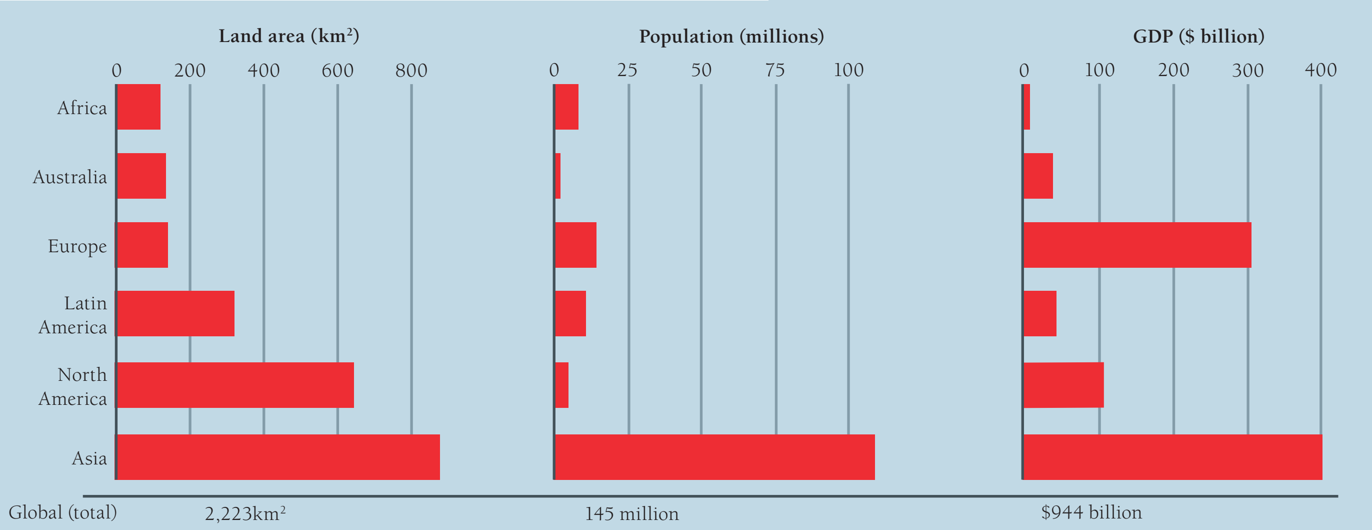
East Asia, broadly conceived, consists of three sub-regions: North-East Asia, East Asia narrowly conceived and South-East Asia. It is useful to think of them as a single region because these three sub-regions are tightly interconnected.

Geographically, China belongs to all three, Japan belongs to the first two and Taiwan belongs to the latter two. Geopolitically, East Asia broadly conceived is home to three of the world's most dangerous flashpoints: the Korean peninsula, the East China Sea and the South China Sea. Each of them implicates at least two nuclear-armed states. One of these nuclear-armed states, of course, is the United States, which, during the second Obama administration, is 'rebalancing' towards East Asia, where its network of bilateral security alliances and political commitments requires it to come to the defence of Japan, South Korea, Taiwan, the Philippines, Thailand and Australia if necessary. Furthermore, it is generally acknowledged that the United States would use force if necessary to keep open vital sea lines of communication, some of which pass through contested waters.

With the exception of North Korea, East Asian countries have a high degree of economic interdependence. This provides strong incentives to solve disputes peacefully – a fact that may help explain the hopeful sign that the region has not seen a major civil or interstate war for more than 20 years. Another cause for optimism is the fact that the region is served by a complex web of multilateral security organs, both formal and informal, which indicates strong regional interest in peaceful conflict resolution. But it is an open question whether East Asia's security architecture is up to the task of handling ongoing and future security challenges.

The most pressing issues in East Asia at the moment are traditional interstate conflicts, of which, of course, North Korea is the most worrisome. Historically an outlaw state, North Korea has recently evinced behaviour that is highly bizarre even by its own standards. Notwithstanding the abundant commentary and analysis that this behaviour has inspired, the world does not fully understand the internal political dynamics in Pyongyang, or even know for certain who at the end of the day is calling the shots. Without the capacity to assess motives and understand calculations, it is difficult to know whether the most appropriate response to North Korean provocations is reassurance, engagement, containment, deterrence, compulsion or regime change. The uncertainties here put a premium on crafting a united front; it would be challenging enough to manage a direct conflict with North Korea without simultaneously having to manage sharp disagreements among other key countries on how best to respond to it.

**Figure 1: Population, area and economy affected by a 1m sea-level rise**




*Source: Hugo Ahlenius, UNEP/GRID-Arendal, http://bit.ly/117XpTz*

**Figure 2: East Asian security governance organs**

| | Date(s) | Participating states | Issue scope | Security | | | |
|---|---|---|---|---|---|---|---|
| | | | | Mandate? | Focus | Ambition | Effectiveness |
| APEC | 1989– | 21 | Wide | Limited | Human security | Low | Low |
| ASEAN | 1967– | 10 | Wide | Balanced | Primarily traditional | Moderate | Moderate |
| ASEAN Regional Forum | 1994– | 27 | Narrow | High | Traditional | Moderate | Low |
| ASEAN Plus Three | 1996– | 13 | Moderate | Low | Non-traditional | Low | Low |
| Asia Cooperation Dialogue | 2002– | 32 | Moderate | Low | Unspecified | Low | Low |
| East Asia Summit | 2005– | 18 | Moderate | Limited | Primarily non-traditional | Moderate | Low |
| Shanghai Cooperation Organisation | 2001– | 6 | Narrow | Moderate | Primarily traditional | High | Low |
| Seoul Defence Dialogue | 2012 | 15 | Narrow | High | Primarily traditional | Moderate | Low |
| Six-Party Talks | 2000–2009 | 6 | Narrow | High | Primarily traditional | High | Low |
| United Nations | 1946– | 193 | Wide | Moderate | Primarily traditional | High | Moderate |
| United States–Japan alliance | 1951– | 2 | Narrow | Narrow | Traditional | High | High |

*Note: APEC = Asia-Pacific Economic Co-operation forum; ASEAN = Association of Southeast Asian Nations*

A less mystifying but still concerning development is the recently intensified dispute between Japan and China over the Senkaku/Diaoyu Islands – a conflict driven more by history and nationalism than by tangible material stakes. Heightened public engagement on both sides of the issue constrains the options of Tokyo and Beijing, and both spoilers and agents provocateurs increase the dangers consequent upon unintended escalation. Japan and Taiwan's conclusion of a fishing agreement is a recent positive development, however; both reducing the likelihood of incidents at sea and making it more difficult for Beijing to take a forward position on the issue (since Beijing officially considers the disputed islands to be a part of Taiwan). What are most needed at the moment if the region is to seek to resolve this particular issue are additional confidence-building measures and steps to encourage mediation, arbitration or adjudication.

## Longer-term threats

While traditional interstate security threats dominate the headlines today, down the road East Asia may well face several additional security challenges, both traditional and non-traditional. Among the former are simmering maritime and territorial disputes in the South China Sea. But two types of non-traditional security threats warrant greater attention than they are receiving now. The first is the danger of state collapse. North Korea is the most likely candidate here, and contingency planning for potentially massive refugee flows and emergency humanitarian aid delivery is well advanced in all neighbouring countries. But possibly even more troublesome is the danger of upheaval in China itself. The legitimacy of the Communist Party of China currently depends upon very high and ultimately unsustainable economic growth rates. When these growth rates begin to fall dramatically, or if any number of economic, ethnic, demographic, regional, urban-rural or ideological cleavages generate challenges that the centre cannot manage, there is a significant danger of violent upheaval, which the regime may seek to externalise. While analysts are now beginning to focus on this particular problem and explore potential scenarios, to date little thought has been given to contingency plans.

**_With the exception of North Korea, East Asian countries have a high degree of economic interdependence. This provides strong incentives to solve disputes peacefully_**

The second under-studied long-term threat is climate-related humanitarian catastrophe. As Figure 1 shows, East Asia is particularly vulnerable to rising sea levels, desertification, sandstorms and dust storms, disruptions of seasonal rains, salinisation of river deltas, extreme weather events and other climate change-induced sources of inundation, drought, famine and energy disruption. Such things pose dire threats to human security; they are sources of death, disease and mass migration and can even undermine the ability to govern states themselves. Of all continents, Asia is by far the most exposed.

Security in East Asia at the moment is provided by a proverbial 'alphabet soup' of organisations, forums, summits and dialogues at the Track 1, Track 2 and Track 1-1/2 levels, as Figure 2 shows. These are all disproportionately concerned with traditional interstate security threats, and generally underperform, often because of consensus requirements that promote inertia.

## What can the G8 do?

While the G8 does not have a specific East Asian focus, and while it is at risk of being perceived in the region as overly Atlanticist, it does have two advantages over many East Asian security governance organs: first, its record of compliance on security commitments is quite strong; and second, it is nimble enough that it can innovate and promote within a short time-frame. Accordingly, the G8 is in a relatively strong position compared with specifically East Asian security organs – and certainly compared with individual states – to put on the agenda of all key players and organs finding measures for enhancing transparency, confidence, communication and advance planning for the under-addressed (primarily longer-term, non-traditional) security threats. ■

# Taking on piracy together

## The number of attacks by Somali pirates has declined as a result of international action. The challenge now is to sustain this change

*By* Koji Sekimizu, secretary general, International Maritime Organization

Reports received by the International Maritime Organization (IMO) indicate that the number of attacks by Somalia-based pirates has decreased significantly, and the proportion of attacks that are successful has also decreased. This may be a result of several factors. These include action by navies to protect ships and disrupt pirate attacks, better situational awareness of where the threats are, better implementation by merchant ships of IMO guidance and best management practices, including the use of armed security personnel, in addition to action by the authorities ashore in Somalia. But how can this positive change be sustained and Somalia-based piracy returned to the pages of history?

IMO has been addressing piracy in its various forms since 1988. A key component of its strategy has been to foster the development of regional agreements. This has worked to considerable effect, most notably in the former piracy hot spot of the Straits of Malacca and Singapore and the South China Sea. Here joint action by IMO, Indonesia, Malaysia and Singapore plus the development of the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia (ReCAAP) – the first regional government-to-government agreement to promote and enhance cooperation against piracy and armed robbery, which was concluded in 2004 – have been most effective.

Many of the positive lessons learnt from the experience with ReCAAP are being harnessed in the Djibouti Code of Conduct, which was set up by IMO to develop regional capacity in order to counter piracy in the Gulf of Aden and the western Indian Ocean. It now extends to 20 signatory countries.

Signatories to the Djibouti Code of Conduct, which has been in effect since 29 January 2009, undertake to review their national legislation with a view to ensuring that there are laws in place to criminalise piracy and armed robbery against ships.

The signatories also agreed to cooperate in a variety of activities, which include investigation, arrest and prosecution; the interdiction and seizure of suspect ships and property; the rescue of ships and persons subject to piracy and the facilitation of proper care, treatment and repatriation of seafarers; and the conduct of shared operations, both among signatory states and with navies from countries outside of the region.

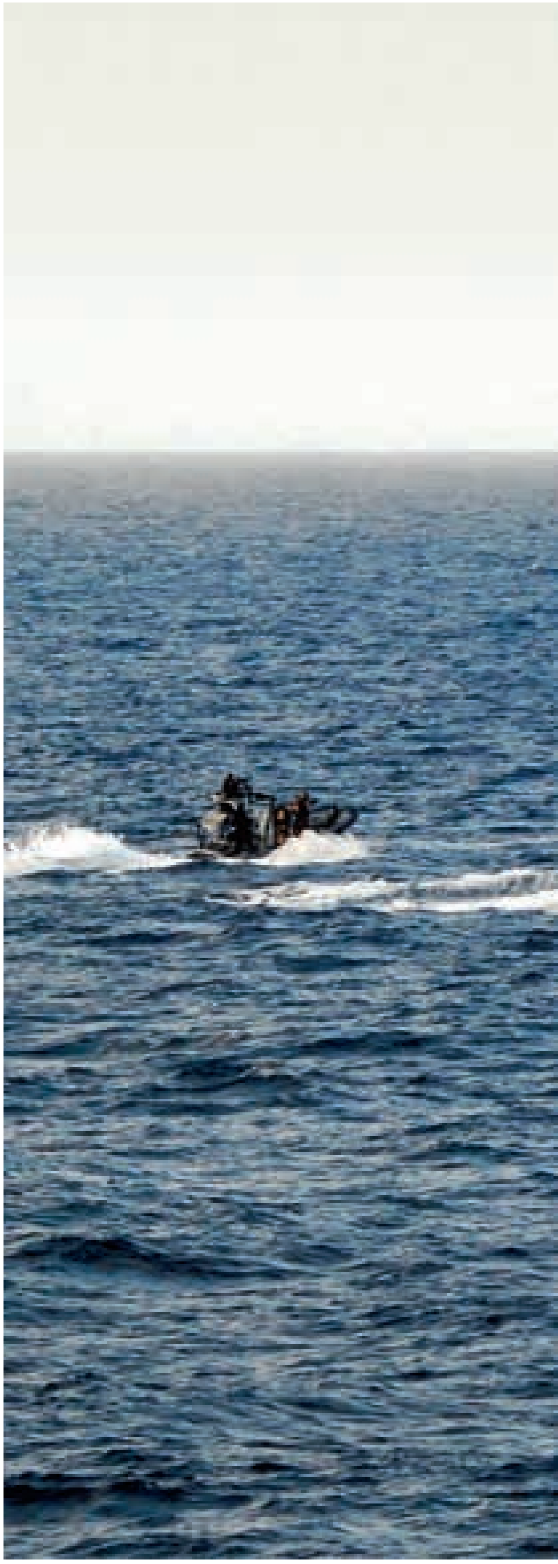
In addition, the code provides for information sharing. Three information-sharing centres have been established, in Dar es Salaam, Tanzania, in Mombasa, Kenya, and in Sana'a, Yemen. The establishment of a regional training centre in Djibouti, in partnership with the European Union, is another significant, tangible step towards creating regional capability designed to counteract pirate activities.

### Addressing the causes of piracy

Piracy is a symptom that can be treated, and its effects can be alleviated. However, real progress can only be made by addressing the cause, and that lies ashore, in Somalia. IMO recognises that only the solution of Somalia's problems ashore will lead to a lasting solution to the problem of piracy. IMO is therefore supporting the work of the United Nations Political Office for Somalia in implementing the National Security and Stabilization Plan, through active engagement with the government of Somalia and the regional authorities in areas within IMO's competence. This step will build on the work that has already been done by IMO through the Kampala Process, which aims at promoting internal coordination and information generation and sharing within Somalia.

Moreover, IMO is working actively with several other agencies on related initiatives. In 2012 it concluded five strategic partnerships with a number of UN agencies and the EU.

A range of activities is envisaged in this respect. For example, IMO will assist Somalia to ratify and implement the International Convention for the Safety of Life at Sea



Dutch navy vessels approach a hijacked boat off the coast of Somalia. Interventions such as this by national navies have helped to reduce attacks

AP/PA

# Atlantic Council

The Atlantic Council is a nonpartisan institution that promotes global security and prosperity. It brings together a uniquely influential network of North American and European leaders and their allies and partners who share a common interest in addressing international challenges.

The Council is home to ten programs and centers that work together to influence policy decisions and the public debate through programs, events, research, publications, Congressional testimony, and media outreach:

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- *Adrienne Arsht Latin America Center*
- *Brent Scowcroft Center on International Security*
- *Energy & Economic Program*
- *Global Business & Economics Program*
- *Rafik Hariri Center for the Middle East*
- *Dinu Patriciu Eurasia Center*
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(SOLAS) and incorporate its provisions into Somali legislation. SOLAS mandates compliance with the International Ship and Port Facility Security Code, which could provide a platform for the development of port security programmes and procedures to enable ports in Somalia to comply with international standards, thus promoting trade by sea and providing additional security to the World Food Programme and other humanitarian shipments.

Secure port areas could serve as a basis for the expansion of security-controlled zones in coastal areas, policed by land-based security forces. They could eventually link together to enable effective coastal monitoring.

Furthermore, IMO will assist Somalia in establishing national seafarer education, training and certification centres and will work with flag states and the shipping industry to encourage the recruitment of Somalis to work as seafarers on board merchant ships. In addition, in partnership with the Food and Agriculture Organization, IMO will help to develop a sustainable Somali fisheries sector. Key areas for IMO could include fishing vessel safety, support with general seamanship training, and assistance with the registration, monitoring and tracking of fishing vessels, thus improving maritime situational awareness and developing maritime law enforcement and, in particular, fishery protection capability. IMO has also pledged to assist in the implementation of a new code of conduct that concerns the prevention and repression of piracy, armed robbery against ships and illicit maritime activity in West and Central Africa. The code has been adopted at a ministerial meeting in Cotonou, Benin.

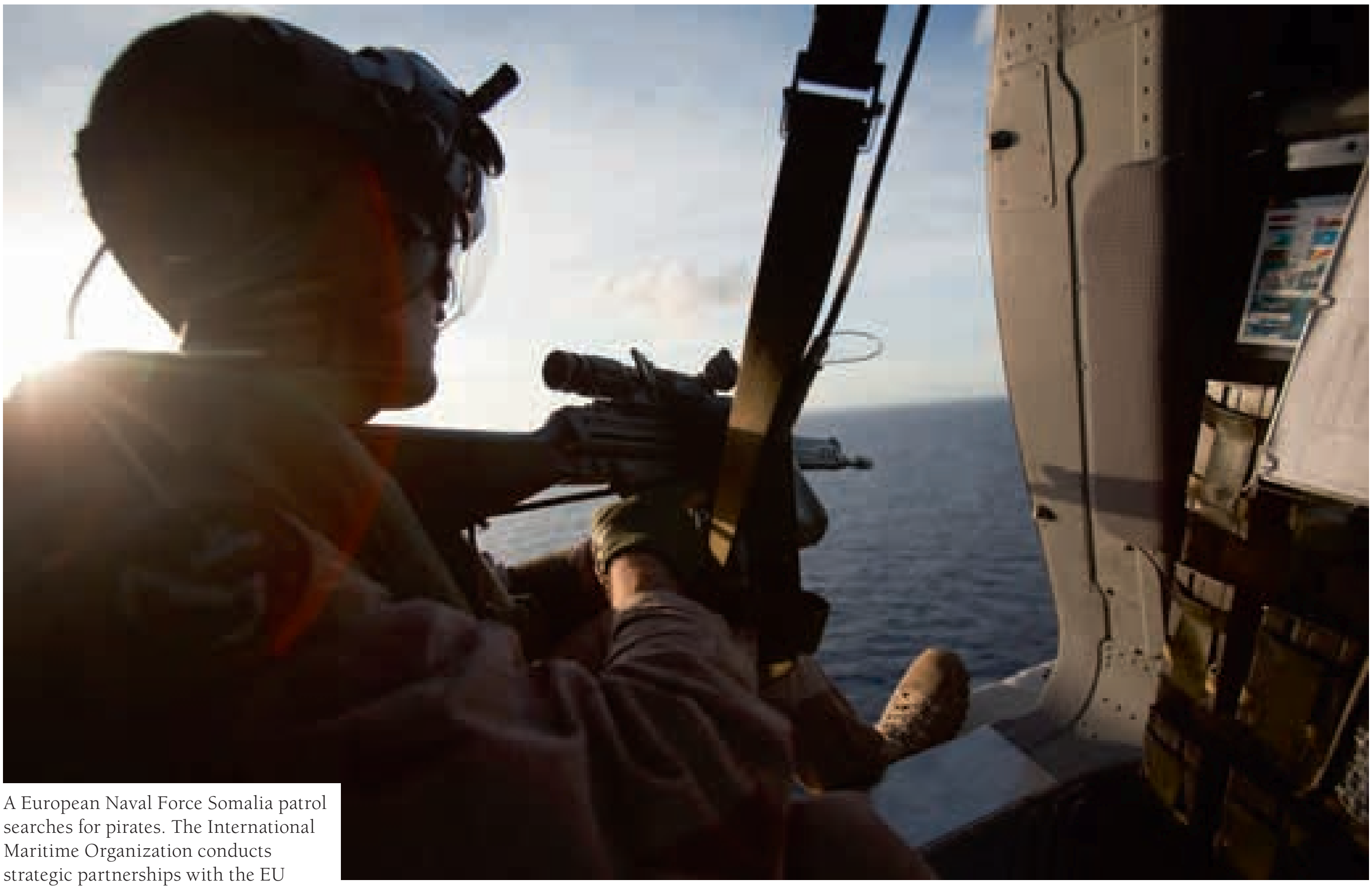
The code was developed by the Economic Community of West African States (ECOWAS) and the Economic Community of Central African States (ECCAS), pursuant to UN Security Council resolutions 2018 (2011) and 2039 (2012). They expressed concern about the threat that piracy and armed robbery at sea in the Gulf of Guinea pose to international navigation, security and the economic development of states in the region. These resolutions encouraged the states of ECOWAS, ECCAS and the Gulf of Guinea Commission to develop a comprehensive regional strategy and framework to counter piracy and armed robbery, including information sharing and operational coordination mechanisms in the region, and to build on existing initiatives, such as those under the auspices of IMO.

Signatories to the code intend to cooperate to the fullest possible extent in the prevention and repression of piracy and armed robbery against ships, transnational organised crime in the maritime domain, maritime terrorism, illegal, unreported and unregulated fishing, and other illegal activities at sea.

Together, the building of effective counter-piracy capacity and infrastructure in the affected regions, the development of proper legal and jurisdictional systems, the undermining of the pirate economy and its associated financial model, and help to develop viable, alternative sources of income for those who have been, or may be, tempted to turn to crime are all areas on which IMO in partnership with other UN agencies and development partners must continue to focus if piracy and armed robbery at sea are to be brought to an end. ■

***The International Maritime Organization will assist Somalia in establishing national seafarer education, training and certification centres and work with flag states and the shipping industry to encourage the recruitment of Somalis to work as seafarers on board merchant ships***

AP/PA



A European Naval Force Somalia patrol searches for pirates. The International Maritime Organization conducts strategic partnerships with the EU

# The G8's Counterterrorism Action Group: leaving takes leadership

## The G8's Counterterrorism Action Group may have been disbanded, but its members' commitment to countering global terrorism is still very much alive

*By* Alistair Millar, director, Center on Global Counterterrorism Cooperation, and non-resident senior fellow, George Washington University Homeland Security Policy Institute

When the G8 foreign ministers met in London on 10-11 April, they "reiterated their absolute condemnation of terrorism in all its forms and manifestations" and talked about the need for a multi-partner approach to counterterrorism, particularly when it comes to helping low-income countries to improve their own capacities to prevent and combat terrorism while at the same time promoting and protecting the rule of law and human rights. In doing so, the ministers made specific reference to efforts of the United Nations and its Security Council, as well as a new kid on the block – the Global Counterterrorism Forum (GCTF). The GCTF was established in 2010 by the United States and Turkey as an informal platform for 30 members from five continents (the G8 countries along with 21 others, plus the European Union) to focus attention on identifying and filling capacity gaps in the realm of advancing civilian counterterrorism.

The G8 foreign ministers' statement illustrates the most important function of the G8: its continued ability to bring high-level attention to pressing international issues. The statement also shows that the G8, by looking to the GCTF for help on counterterrorism issues, recognises that it is not able to provide counterterrorism capacity-building assistance without help from donors and partners who have more to offer than the G8.

In 2011, the G8 made the bold decision to suspend the activity of its Counterterrorism Action Group (CTAG), an initiative that it had created and launched with much fanfare in 2003. The G8 now recognises that a new constellation of actors can help the G8 stick to its comparative advantages and let a broader array of states get on with the day-to-day analytical and capacity-building work that will be able to turn the statements of eight world leaders into deeds.

In the period following the attacks of 9/11, the UN Security Council had called on member states to "assist each other" in implementing their legally binding commitments to counter terrorism under its newly adopted and sweeping Resolution 1373. It was clear that a coordinated approach among donors was needed to assist through preventing duplication and overlap in programme funding on counterterrorism and to fill broad capacity gaps (such as improving the safety and security of passengers on public transportation). With these concerns in mind, the G8 established CTAG at the 2003 Evian Summit to "prioritise and speed the delivery of counterterrorism training and assistance to countries with the will, but not the skill, to combat terror", as one US official said.

The CTAG members started by meeting three times a year "to share information on country needs, priorities for assistance, projects and programmes they have undertaken; to learn about work of regional counterterrorism training centres; and to learn more about technical assistance programs of international, regional and functional organisations and coordinate their work". While it can be argued that the CTAG got off to quite a good start in the early years of its existence – particularly by coordinating with the Financial Action Task Force to prevent overlap and provide financial support for tailored capacity-building programmes – within a few years it was clear that CTAG had failed to meet its own lofty expectations. As Peter Romaniuk has noted in *Multilateral Counter-Terrorism: The Global Politics of Cooperation and Contestation*, "just as the substantive focus of the G8's counter-terrorism pronouncements became broader, the capacity-building mission of the CTAG

***While it can be argued that the Counterterrorism Action Group got off to a good start, within a few years it was clear that the group had failed to meet its own lofty expectations***


Diplomats and foreign ministers gathered at the Global Counterterrorism Forum, which was created to fill capacity gaps in advancing civilian counterterrorism

AP/PA

began to wane". As a result, the amount of time devoted to the CTAG by member states was reduced as meetings became less frequent and the level of participation dropped to lower-level staff. The CTAG suffered from some systemic problems, including the lack of a permanent secretariat and the organisational and administrative burden placed on the CTAG chair delegation, which was also responsible for other more pressing tasks including serving as the chair of the Lyon-Roma group and the president of the G8.

When Canada took the role of chair of the G8 in 2010, it tried to breathe new life into the CTAG. Its leadership was praised in the G8 Leaders' Statement on Countering Terrorism at Muskoka for "bringing strategic focus to the groups' efforts through the preparation of a robust action plan on counterterrorism and organised crime". By that time, however, efforts were already well underway for the creation of the Global Counterterrorism Forum, which, according to the US counterterrorism ambassador at time, Daniel Benjamin, "grew out of the G8's Counterterrorism Action Group". Recognising that its work was now being done more effectively by a larger more focused group of actors within the Global Counterterrorism Forum, the G8 agreed to put the CTAG "on ice" at its last meeting Vienna in 2011.

The CTAG had attempted to be more inclusive and expanded its membership to include the European Commission, Switzerland, Australia, Spain and others, but all represented high-income countries with similar western-oriented views. With a more diverse group of states representing countries with Muslim majorities, which have personal experience with terrorism such as Indonesia, Pakistan, Saudi Arabia and Algeria, by contrast, the GCTF brings a broader range of views and orientation to the table than the CTAG ever did. The GCTF has also been more focused, combining three regional (West Africa, the Horn of Africa plus Yemen and South-East Asia) and two thematic goals (the promoting the rule of law while countering terrorism, and preventing violent extremism), raising over $150 million in financial commitments from members in its first two years. This has led to several initiatives that are designed to sustain commitment to counterterrorism capacity-building objectives over the long term, such as the recent establishment of an International Centre of Excellence on Countering Violent Extremism, in Abu Dhabi and efforts to get an international institute of justice and the rule of law established in North Africa underway.

With the proliferation of multilateral counterterrorism-related entities that have sprung up since 9/11 – including four Security Council committees, a monitoring team and an executive directorate, a Counterterrorism Implementation Task Force and a Terrorism Prevention Branch at the UN alone and many other dedicated units established within regional bodies across the globe – the G8 has made an extremely rare and rather bold move by removing the CTAG from its diary of future meetings. G8 leaders can continue bringing high-level attention to the ongoing need to prevent and combat terrorism in all its forms. G8 members can stay involved and actually add more value by being part of a more focused platform for counterterrorism capacity building within the GCTF.

It is quite easy to create a new bureaucratic entity. It has happened with regularity in the field of counterterrorism over the last decade. But it takes real courage and leadership to suspend the activities of a group like the CTAG. Other counterterrorism entities should follow the G8's lead and take stock of their effectiveness. If they are not achieving their goals efficiently, they should be brave enough to admit that the money they spend sustaining themselves would be better spent elsewhere. ■

# Developing a sustainable sports sector

Sport can unite communities and deliver hope and inspiration to millions of people, and it can also be a major driver of economic activity and growth. AT Kearney estimates the global market size of the sports sector to be about US$620 billion, and the sports industry plays an increasingly important role in the economic development of states, further to its positive social impact.

Each major sport type is surrounded by its own economic 'eco-system' comprising rights holders, clubs, sports management, sports medicine, stadia, media and advertising, support services, memorabilia and security and safety professionals, as well as providing cross-business pull-through for a variety of broader industry sectors such as tourism, hospitality and transportation.

Directed in a structured and coordinated manner through a coherent national economic development strategy, sport can be a powerful driver of economic development that also brings secondary benefits. It can encourage healthier populations, foster community spirit at local levels and help develop greater national identity at the state level.

There are three key ways in which sport can make a positive impact on developing economies:

**Social inclusion and cohesion:** sport can foster acceptance of all individuals irrespective of race, colour or creed, and is leveraged to help communities in conflict to realise the 'humanity' in the 'other' and to overcome prejudices and mutual hostility. Numerous initiatives are being pursued by organisations such as Right to Play, Kick-it-Out and Peace and Sport.

**Developing global partnerships:** Sport can play a role in attaining this Millennium Development Goal. Safe, secure, 'clean' sports events and sectors can help attract global partnerships. The public and private sectors should form coalitions to identify which sport sectors have the greatest national appeal, and where and how related commercial and industrial clusters could support these sport sectors so that they can contribute towards a vibrant, sustainable economic sector.

**Legacy:** deliberate and thoughtful strategies can achieve sustainable benefits to host countries that hold major sporting events such as the Olympics or World Football Championships.

## Addressing threats to sport

However, as a country's sports sector grows the infusion of big money in the form of asset (player and club) ownership, media rights, advertising and sponsorships can contribute in a negative as well as positive manner, as discussed in an article entitled *Corruption in Sport* in *The Economist* from April 2013. The sports sector is vulnerable to subversion by criminal groups for financial gain through betting fraud, as well as internal corruption. Addressing such threats to sport is rising up the international agenda, and in recent months there have been major conferences in New York, Singapore, Qatar, Brazil and most recently in Russia, where the issue of illegal betting and match-fixing have been identified as significant threats to not only the integrity of sport but to the legitimate economic value that sport contributes to nations.

Major international sporting events, such as the Olympics, present complex security and safety challenges and can impact on a host country's reputation, particularly should things go wrong. Therefore, safeguarding major sporting events is a consideration for both national economic and security policies. The fundamental challenge in this regard is to strike the appropriate balance between necessary security measures and the openness required by the sport event itself. The security must consider the enjoyment levels of the athletes and spectators, and avoid negative impacts on the investment confidence levels vital to any successful major sport event.

Security, safety and ensuring the integrity of sport are complex practices. As more nations take up the challenge of hosting the world's greatest sporting events the need to share knowledge and best practices and practical experiences is greater than ever.

Unfortunately, the knowledge accumulated through past events has until recently been left to dissipate to a large extent, obliging new hosts to reinvent the wheel in their approaches to security and safety.

**"Sport has the power to change the world."**

Nelson Mandela, Laureus World Sports Awards Ceremony, 2000

The International Centre for Sport Security (ICSS) is a not-for-profit organisation established three years ago with a mission to secure sport. Based in Doha, Qatar, the ICSS is working steadily to establish relationships with key stakeholder organisations such as event organisers, governments, bid committees, infrastructure owners, sport associations, leagues, clubs and host cities. One of the ICSS key initiatives is to assist countries to develop sustainable sports sectors. Through these relationships with its in-house team of sport security, safety and integrity experts, the ICSS has rapidly assimilated subject expertise, best practices and lessons learnt, and applies this collective body of knowledge to advise and support countries that seek to develop a sustainable sport sector and use sport as an economic stimulant.

Conventional wisdom holds that governments cannot create national wealth, but have a duty to rather create circumstances conducive to wealth generation, as written by Michael E Porter in *The Competitiveness of Nations.* However, in relation to sport, government has a more direct role to play due to its obligation to secure major sporting events held within its sovereign territory. Furthermore, host governments must not only safeguard the event, but actively plan for sustainability while creating a competitive environment to facilitate the growth of its sport security and integrity clusters and stimulate investment in the development of the sector.

## Driving reforms

As part of its objective to collate and purpose existing knowledge related to the sport sector, the ICSS is working on a mechanism that can help countries to diagnose their current sport-development status and evaluate how well they are implementing sport security and integrity-related initiatives, as a guide to reforms that could lead to major benefits in sustainable economic development, and the application of best practices in securing sport.

This mechanism can be imagined as similar to the World Economic Forum's Global Competitiveness Index, which evaluates participating countries' national competitiveness based on 10 macro- and 10 micro-financial indicators. As countries move up in the rankings, the more attractive they are to investors. A mechanism by which a country's sport-related economic, security, safety and integrity infrastructure and policies could be rapidly ascertained could be a powerful tool and incentive for governments to align their investments in major security assets with their economic development. Financial institutions could use the ranking system as an effective means to incentivise nations to voluntarily enlist in the process. Sports bodies could use the ranking mechanism to enhance the credibility and integrity of their host country awards, and commercial sponsors' involvement could help to improve their corporate social responsibility reputations.

During its most recent Expert Summit in Vienna in May 2013, which included sports economists and security experts from the international community, the economic working group identified a range of indicators that could form the basis of such an index. The ICSS is now working with a few selected cities on a pilot basis to assist them in developing a sustainable sports sector and thus evaluate and refine this diagnostic process so that the most appropriate indicators, metrics and quantitative and qualitative analysis can be refined and applied.

Safeguarding major international sporting events while maintaining a fun-filled experience and welcoming atmosphere that is attractive to sponsors, and using the economic legacy effectively, is a significant challenge that transcends the capacity of any single stakeholder, be it the host nation government, the major sporting entity, sponsors or media organisations. Safety and security measures, as well as sports integrity initiatives, are all required to maintain the attractiveness and credibility of sport in the eyes of the public at large. Lest we forget, spectators remain at the heart of this sector and keeping them safe and enabling them to enjoy the extravaganza and spectacle of a major sporting event is not only a worthy social objective, but when planned and structured in a responsible manner with the appropriate and aligned incentive base, can also improve the host country's overall national competitive position.

**Dr Shaun McCarthy is director for research at the ICSS and has worked for a major international consulting firm in the past where he specialised in national economic competitiveness and security sector reform. His current span of responsibility includes working with ICSS stakeholders and clients towards developing sustainable sporting sectors, and he is the editorial director of the *ICSS Journal*, a quarterly publication that focuses on sport security, safety and integrity and legacy issues.**

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# Working for women's security

## The recognition of sexual violence as a grave breach of the Geneva Conventions is the first step towards an enduring solution to the issue

**By** Julia Kulik, G8 Research Group

Understanding sexual violence in conflict and the instability that it breeds requires a parallel understanding of the complexities of conflict itself and the individuals involved. Rape and sexual violence are not just effects of war; they are weapons of war, used as a means to humiliate, torture and destroy. They are not new forms of violence but have been used for centuries. The most infamous examples from the 20th century include the 1937 Rape of Nanjing, the Bosnian War from 1992 to 1995, and the 1994 Rwandan genocide. Sexual violence in the history of conflict can be found all over the world, including the Democratic Republic of Congo, Liberia, Sudan, Haiti, Mexico, Burma, Iraq, Egypt and, most recently, Syria.

The impact of sexual violence is evident at the individual, community and national levels. Sexual violence disrupts the stability of peace and security at the international level. It leads to the spread of infectious diseases, social ostracisation, the breakdown of families and communities, and the perpetuation of violence and instability in already fragile states. Yet, despite the severity of the issue, the perpetrators of these crimes often go unpunished. Firstly, this is because of the shame associated with being a victim, particularly among certain religions and cultures. Secondly, it is because victims are often killed before they can testify, which is particularly true for male victims of these crimes. Lastly, it is because crimes of sexual violence are not commonly characterised as conventional issues of security. Preventing and responding to sexual violence can, therefore, make significant improvements to the well-being of individuals, social cohesion and international stability.

On 29 May 2012, British foreign secretary William Hague announced that the United Kingdom planned to launch an initiative to prevent sexual violence in conflict as part of its presidency of the G8. Hague acknowledged that tackling sexual violence is essential to preventing conflict, building peace worldwide and promoting development. The UK initiative has three components. The first is the establishment of a team of experts, including criminal lawyers, gender-based violence experts, investigators and social workers, that can be easily deployed to gather evidence and testimonies to support the prosecution process. The second is a push from the UK government to have other G8 members reach a consensus on an international protocol for the gathering of such evidence. The third component is the recognition by members that rape and sexual violence are considered to be "grave breaches" of the Geneva Conventions.

### Making progress

Subsequently, on 11 April 2013, when the G8 foreign ministers met in London in the lead-up to the 2013 G8 summit in Lough Erne, under the leadership of the UK they took significant initial steps to develop a system to prevent these crimes and protect those who are vulnerable. In the final statement that was also released in London on 11 April, the foreign ministers endorsed the Declaration on Preventing Sexual Violence in Conflict. They accomplished two things in that initial declaration: they committed to take practical measures to improve the prosecution process for trying the perpetrators of these crimes and they acknowledged the fundamental root causes of this issue.

Together, the G8 members pledged $36 million in funding to prevent sexual violence in conflict. Although it did not explicitly identify how that funding would be spent, the foreign ministers' declaration identified many areas in which it could be used. One of the areas agreed upon for improvement is the prosecution process. The foreign ministers recognised that improving the investigation and documentation of sexual violence is imperative for prevention, and they called for the establishment of an "international protocol on the investigation and documentation" of sexual violence. Ministers also called for the mobilisation of funding for health, psychosocial, legal and economic services in order to support the rehabilitation and reintegration of victims into their respective societies. The need for further funding was also emphasised for response efforts in the first phases of conflict

***By identifying sexual violence as a human rights issue and promoting the rights of women and children, the G8 has the potential to make progress in preventing these crimes***


UK foreign secretary William Hague and UN special envoy Angelina Jolie address a news conference during the G8 foreign ministers' meeting on 11 April. The assembled foreign ministers endorsed the Declaration on Preventing Sexual Violence in Conflict

and humanitarian emergencies. Additionally, and arguably more importantly, the foreign ministers acknowledged that sexual violence in conflict is deeply rooted in and perpetuated more broadly by human rights abuses and matters of inequality.

Therefore, it is essential to promote and protect the rights of women and children in order to prevent these crimes. The full and equal social and economic participation of women is a critical step in doing this. The full incorporation of women into the conflict prevention and resolution processes can help to advance peace and deepen democracy in all regions of the world.

Identifying sexual violence in conflict as a matter of international security and also as a priority issue for the G8 leaders when they meet for their summit in June in Lough Erne is a significant first step in the fight against impunity for these crimes. Acknowledging that rape and other serious forms of sexual violence constitute breaches of the Geneva Conventions can allow for intervention in sovereign states in order to protect victims from severe human rights abuses.

### A human rights issue

It is also very important for the G8 to continue to move away from the traditional single, siloed approach to these issues. By identifying sexual violence as a human rights issue and emphasising the importance of promoting and protecting the rights of women and children, as the foreign ministers did in their declaration, the G8 has the potential to make significant progress in preventing these crimes. It has the ability to give a voice to those who are particularly vulnerable, which will help in ending the stigmatisation of victims and in allowing for proper trials and prosecution of the perpetrators.

G8 foreign ministers, led by the UK's William Hague, need to ensure that the recommendations and funding pledged at their meeting in April and the substantial progress made by the United Nations on this issue are supported when their leaders meet at Lough Erne. The agenda for the summit, taking place on 17-18 June 2013, will be densely packed with issues related to trade, tax and transparency, with an additional focus on deepening democracy in the Middle East and North Africa. Therefore, preventing sexual violence must not get moved to the sidelines or be squeezed out. To do this, the foreign ministers must continue to make clear that preventing sexual violence is not a stand-alone issue. By addressing it as a matter of international peace and security, the G8 can foster peace and democratic development worldwide, which was one of the fundamental purposes of the group's creation. ■

# The 2013 G8 Lough Erne Summit: advancing G8 accountability

## The extent to which G8 members implement their policy commitments is a measure of the institution's legitimacy and relevance

*By* Ella Kokotsis and Caroline Bracht, G8 Research Group

Understanding and measuring how much and how well the G8 implements the commitments that it makes enhances its effectiveness and legitimacy as an international decision-making body in pursuit of its core values of open democracy, individual liberty and social advance.

The G8 Research Group, based at the University of Toronto, and the National Research University Higher School of Economics in Moscow have collaborated on numerous compliance reports since 2006 to measure the extent to which G8 members have implemented their priority commitments made across a wide range of issue areas at each G8 summit. The most recent compliance report, which assesses 17 of the 141 commitments made at the 2012 Camp David Summit, relies on publicly available information, and is distributed to a broad stakeholder community for feedback to ensure that the collection and assessment of data within it are comprehensive and accurate.

These analytical assessments have revealed that between 2008 and 2011, the overall compliance average for all G8 countries and the EU has remained fairly consistent. It moved from 74 per cent in 2008, up to 77 per cent in 2009, down slightly to 73 per cent in 2010, and rebounded to 77 per cent in 2011. The G8 has been noticeably successful at implementing its various security-related commitments, including those on a, terrorism, regional security and good governance. The implementation of commitments relating to global health and the environment have been disappointing in all three years, showing consistent negative compliance trends with only slight improvements. In 2011 the commitment with the worst compliance score was in the area of stolen assets. It can be expected, however, that compliance with commitments in this area will increase in the near future as it will be addressed at the 2013 Lough Erne Summit under the priority agenda of tax, transparency and trade. In terms of individual country performance, results have similarly varied across this time period, however Canada and the United Kingdom have regularly received high scores.

Practitioners, policymakers, members of the media and academics often question how far the G8 has come in instituting accountability mechanisms of its own to ensure transparency, enhance legitimacy and encourage leaders to implement their commitments. Although modest accountability reports were issued by the G8 in 2008 on anticorruption and food security, and again in 2009 on water, health and education, it was not until the 2010 Muskoka Summit that the G8 issued its first ever comprehensive accountability report on development. This type of clear and transparent reporting mechanism is instrumental in demonstrating the G8 members' collective commitment to strengthening the effectiveness of the group's actions and its public recognition that effective international leadership begins with promises being kept. Through systematic reporting on a wide range of development commitments, the *Muskoka Accountability Report: Assessing Action and Results against Development-Related Commitments* set a high standard for instituting an accountability mechanism strongly focused on encouraging G8 leaders to live up to the commitments to which they had agreed at the summit.

The G8's public reporting trend has since continued, with the leaders releasing the *Deauville Accountability Report: G8 Commitments on Health and Food Security – State of Delivery and Results* in France in 2011. Noting that the leaders "remain strongly committed to meeting [their] commitments and to tracking their implementation in a

World leaders gathered at Camp David during the 2012 G8 summit. The group has made significant progress in enhancing its own accountability

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# The G20 Research Group

The G20 Research Group is a global network of scholars, students and professionals in the academic, research, business, non-governmental and other communities who follow the work of the G20 leaders, finance ministers and central bank governors, and other G20 institutions. It is directed from Trinity College and the Munk School of Global Affairs at the University of Toronto, also the home of the G8 Research Group.

Our mission is to serve as the world's leading independent source of information and analysis on the G20. As **scholars**, we accurately describe, explain and interpret what the G20 and its members do. As **teachers and public educators**, we present to the global community and G20 governments the results of our research and information about the G20. As **citizens**, we foster transparency and accountability in G20 governance, including assessments of G20 members' compliance with their summit commitments and the connection between civil society and G20 governors. And as **professionals**, we offer policy advice about G20 governance, but do not engage in advocacy for or about the G20 or the issues it might address.

## The G20 Information Centre
## www.g20.utoronto.ca

The G20 Information Centre is a comprehensive permanent collection of information and analysis available online at no charge. It complements the G8 Information Centre, which houses publicly available archives on the G20 as well as the G7 and G8, and the BRICS Information Centre.

## Speakers Series

The G20 Research Group hosts a speakers series in its efforts to educate scholars and the public about the issues and agenda of the G20. Past speakers have included senior officials of the International Monetary Fund and the World Bank and scholars from Columbia University and elsewhere.

## Media Assistance

The G20 Research Group sends a field team to the G20 summits and other meetings when possible to assist the world's media on site and collect the documentation uniquely available there.

## Research and Publications

Among the material available on the G20 Information Centre is a document detailing the plans and prospects for the G20's agenda. The website also contains the regular reports on G20 members' compliance with their summit commitments, produced by the G20 Research Group and its partner at the National Research University Higher School of Economics in Moscow.

Working with Newsdesk Communications in the United Kingdom, the G20 Research Group also produced a special volume commemorating the tenth anniversary of the G20, *The G20 at Ten: Growth, Innovation, Inclusion*. It has an edition for every G20 summit since then, all available online as well as in print.

## Recent Books on the G20 from Ashgate Publishing's Global Finance Series

- ***G20 Governance for a Globalized World***, John Kirton (just released)
- ***The G20***, Peter I. Hajnal (forthcoming)

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Barack Obama and David Cameron during the Camp David Summit, which offered G8 leaders an opportunity to further their commitment to enhancing legitimacy

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fully transparent and consistent manner", the report tracked progress on a number of commitments, including those that arose from the 2010 Muskoka Initiative for Maternal, Newborn and Child Health and the 2009 L'Aquila Food Security Initiative.

The 2012 Camp David Summit offered the G8 leaders an opportunity to further their collective commitment to enhancing legitimacy and promoting transparency through the release of their *Camp David Accountability Report: Action, Approach and Results*. By focusing specifically on food security, agricultural markets, trade, nutrition and health, this report went one step beyond the Muskoka and Deauville accountability reports by adding two important reporting tools: a self-reported scorecard, intended to "catalogue indicators of progress in a specific focus area", and in-depth reporting tables, intended to "give a fuller picture of G8 members' agricultural development and food security initiatives". The Camp David report thus represents an important step forward in developing the G8's accountability framework, extending beyond strictly financial indicators to show how the G8 utilises aid effectiveness principles to increase the impact of its work.

With the G8 so heavily concentrated on the delivery of concrete results, the 2013 Lough Erne Summit offers an excellent opportunity to move the accountability agenda even further forward. To do so, however, several issues will need to be addressed by the Accountability Working Group (AWG) to ensure that the work done to date stays on track. First, consistent reporting methodologies need to be adopted year after year in order to allow for more rigorous assessments. This includes expanding the scope of the issue areas covered and formalising this process.

**_The Camp David report represents a step forward in the G8's accountability framework, extending beyond financial indicators to show how the G8 utilises aid effectiveness_**

Second, monitoring systems on the ground will need further enhancement, allowing for timely and reliable results-oriented reporting.

Third, to ensure successful on-the-ground delivery, the G8 must continue to rely on its partners among non-governmental organisations, civil society, foundations, international organisations including but not limited to the Organisation for Economic Co-operation and Development (OECD) and the World Bank, and the private sector. These partners can also support the realisation of an accurate accountability mechanism by reminding leaders that a low compliance score does not indicate failure but a chance to develop lessons learnt, disseminate best and worst practices, and promote ongoing dialogue on the most optimal work streams for cooperation and implementation.

The G8 has made significant progress in enhancing and formalising its own accountability mechanism. The key to further refining the accountability process will be to supplement the internal reporting structure with external third-party reporting in an effort to ensure the validity and integrity of the overall report. The 2013 Lough Erne Summit thus offers a key platform for the G8 leaders to further build on the foundation established at Muskoka in 2010 in the development of an accurate and comprehensive annual accountability report. ■

# Building the contribution of business through the B8

## The G8 and business community have the opportunity to start unlocking the large sums of money that lie on corporate balance sheets

*By* Sir Roger Carr, president, Confederation of British Industry

The United Kingdom's presidency of the G8 comes at a time of continuing economic uncertainty. While there are small signs of optimism across G8 economies, as a whole, growth remains low. On average, growth among the G8 members slipped from 2.5 per cent to two per cent following the financial crisis and since then it fell to 1.5 per cent in 2012. It may only rise to 1.6 per cent for 2013. At the same time, public debt remains high and many countries are employing unconventional monetary policies to try to get capital flowing and boost confidence in what are otherwise uncertain times. All this has been compounded by the eurozone crisis, with political as well as economic questions about what the future holds for those both inside and outside the camp. Yet this pattern is in stark contrast with the world's faster-growing markets. While muted by low growth in developed markets, growth rates of up to 6.9 per cent are likely across the BRIC countries of Brazil, Russia, India and China this year. Business is equally booming in other fast-growing markets, such as Turkey, Indonesia and Argentina.

### Crossing the three Ts

It is in this uncertain economic context that the Business Eight (B8) federations, representing businesses of all shapes and sizes from the G8 countries, will gather in May, led by the Confederation of British Industry (CBI), to contribute to the G8's discussions. The UK's prime minister and G8 host David Cameron set out his business agenda, on the 'three Ts' of trade, transparency and tax, in Davos earlier this year. The B8 aims to provide insight into those important issues.

International trade is critical and an area where the business community is keen to achieve progress. It is only through free and open global markets that real sustainable economic growth can be achieved. Further steps towards free trade agreements between the European Union and the United States and between the EU and Japan would be particular prizes. Transparency between businesses and governments across the G8 is a more exploratory issue, but one that could unlock growth if done in the right way. Tax is an issue on which the B8 must cooperate in order to build an international tax system fit for the global economy that all members operate in. The three Ts are therefore all vital and topical issues that the B8 will address under the broader banner of 'Delivering prosperity through private sector growth'.

### What price the private sector?

The role of the business community is to generate new sources of growth. B8 colleagues believe that real growth can only come from the private sector. However, businesses will continue to lack the confidence to invest as long as there is instability in the macroeconomic situation. Confidence does not come easily. But three important factors can instil more confidence in the business community: financial stability, banking reform and a more positive consumer mood.

On the first step, the private sector will have greater confidence in the economy if governments seek to repair public sector balance sheets. This is no mean feat at a time when austerity is hitting hard. But the UK's latest budget did manage to strike a careful balance between fiscal consolidation to reduce levels of public sector debt and a revenue-neutral package of measures intended to stimulate consumer spending and capital investment. As a result, the UK will have the lowest headline rate of corporation tax in the G20 by 2015 and, through public-sector savings, will be able to invest in housing and infrastructure projects that will generate growth without increasing its deficit.

London's new Crossrail development is set to be completed before 2020. It has become Europe's largest construction project, costing some £16 billion

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The second step is banking reform. The crisis started in the banking sector so it is vital that governments, financial institutions and the broader business community work together to reform the banking system. Doing so will help get money flowing back to businesses and consumers and get the economy back on track. Given that taxpayers' money was used to bail out the banks during the heat of the financial crisis, it is absolutely right to look to the banks to hold greater amounts of capital to insure against future credit crises. However, such capital rules need to be appropriate, because it is also banks – through their lending capacity – that will help the private sector invest for growth and get all back on the road to recovery.

Third, there is a need to boost consumer confidence and, in so doing, help create the economic conditions under which businesses will want to invest. While opportunities to fund fiscal stimulus are few and far between, the political leaders of the G8 do have an opportunity through their summit to build a sense of public optimism about what our shared economic futures hold.

***Given that taxpayers' money was used to bail out the banks, it is absolutely right to look to the banks to hold greater amounts of capital to insure against future crises***

All three steps are vital to improving the macroeconomic picture and boosting business confidence and spending. If things stay as they are, business will remain reluctant to make new investments, in what is a rational reaction to the credit crisis. But if G8 leaders and business get it right, they may start to unlock the significant sums that lie on corporate balance sheets in firms headquartered throughout the G8.

The G8 has an opportunity to address these critical challenges and deliver greater prosperity. The business community, led by the CBI and its B8 partners, looks forward to playing its part in the process. ■

# After 13 years, the Millennium Development Goals are still pertinent

## The Interfaith Leaders' Initiative has taken to print and social media in its campaign to urge G8 leaders to fulfil the Millennium Development Goals

*By* Karen Hamilton, general secretary, Canadian Council of Churches, and Charles Reed, director, international affairs, Church of England

On 5 April 2013, an Open Letter signed by 83 of the world's senior faith leaders was published by the British newspaper the *Financial Times* in its letters section. The Most Reverend and Right Honourable Justin Welby, Archbishop of Canterbury, representing the United Kingdom and 82 others from the G8 countries, jointly submitted the letter as a major part of the 2013 Interfaith Leaders' Initiative to challenge and inspire the G8.

Since 2005, when the G8 last met in the United Kingdom, there has been a faith leaders' summit taking place parallel to the G8 political leaders' summit every year. Those faith leaders' summits have taken place in every G8 country, and are now cycling back to the UK at the same time as the G8 political leaders' summit does. This year thus starts a second cycle of interfaith leaders' summits.

Although the form of the faith leaders' summits has differed from G8 country to G8 country, and while this year's event might be better called an 'initiative' than 'summit', there has been great consistency and persistency in the content of the consensus statements written and delivered to the political leaders. The message is always crafted in relationship to the priorities and themes of the political leaders of whichever country is hosting the G8 meeting. Yet in every faith leaders' statement since 2005, there has been a very strong emphasis on the Millennium Development Goals (MDGs), their importance and the need for them to be fulfilled for the sake of a just and sustainable life for the world's most vulnerable people. That focus continued with the 2013 Open Letter, the UK version of the interfaith leaders' statement, and has, in fact, been significantly strengthened.

In signing on to the Open Letter, the 83 senior faith leaders called attention to the fact that 5 April 2013 marked the start of the 1,000-day countdown to the target date for the completion of the MDGs. The relevant sentence reads: "Thirteen years on from the start of the millennium, the values and principles that drive these goals are as imperative as ever." The Open Letter points out that in some ways, development is working, that the number of people living in extreme poverty has been halved ahead of time and that 14,000 fewer children die each day today than in 1990. It goes on to say, however, that one in eight of the world's people still goes to bed hungry every night and that more than two million people die of malnutrition each year.

> ***In every faith leaders' statement since 2005, there has been a strong emphasis on the Millennium Development Goals, their importance and the need for them to be fulfilled for the sake of a just and sustainable life for the world's most vulnerable***

In remaining strongly consistent with previous interfaith leaders' statements and persistent in terms of the importance of the MDGs, the Open Letter also states that current conversations about what should replace the MDGs should not slacken any efforts in the remaining 900 or so days to fulfil the existing ones. The Open Letter stresses that the financial crisis should not be used as an excuse for forgetting our "collective responsibility to uphold human dignity and the common good at the global level". Given that the UK presidency of the G8 is focusing on tax, trade and transparency, it recommends that political leaders first "fulfil existing commitments to spend 0.7 per cent of national income on aid. Second, launch a G8 convention on tax transparency that commits signatory countries to preventing individuals and companies from hiding wealth so that it is untraceable. Third, press for greater financial transparency from governments of developing countries so that the citizens of these countries can hold their governments to account for the money they spend."

In calling for these actions, and in so doing bringing forward a consensus statement expressing the values of so many global faith leaders as well as referencing the priorities of the UK G8 presidency, the UK Interfaith Leaders' Initiative is acting with both consistency and persistency with past interfaith leaders' words and actions. It was also doing so in a creative and innovative way when it called for a global Twitter campaign on 5 April, designed to both promote and publicise the Open Letter itself and conduct general education about the MDGs.

The aim of the Twitter campaign was "to help raise awareness of the G8 religious leaders' letter and its central message, namely, that we have a moral responsibility to deliver on the MDGs and that the right decisions taken at the G8 Summit in June 2013 can accelerate that process". It is still too soon to know with any degree of precision the depth and spread of this Twitter action. What can be known, however, is that the threefold plan of the campaign – to spread the 'big picture' message that only 1,000 days remain to fufil the MDGs, to spread the message about the importance of fulfilling specific, individual MDGs and to do so using the hashtag #1000DaysToGo with a particular focus on reaching the leaders of the G8 members – was indeed promulgated far and wide. Tweeters of all faith traditions and all demographics, including youth and students, were actively engaged in this form of engagement. They all believed that: "Thirteen years on, the MDG values are as imperative as ever…" Now, there are only 1,000 days to go until the deadline. ■

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In signing their 2013 Open Letter to the G8, senior faith leaders aimed to ensure that momentum is not lost in improving the lives of those in developing countries

# Working with the countries of the G20, BRICS and United Nations

## The plurilateral relationship that exists between the BRICS countries is of particular interest in the context of the G8 and G20 groupings

*By* Andrew F Cooper, distinguished fellow, Balsillie School of International Affairs, and professor, Department of Political Science; director, Centre for Studies on Rapid Global Change, University of Waterloo

Examining the relationship among the G8, the G20 and the BRICS grouping of Brazil, Russia, India, China and South Africa brings into focus the central role of plurilateral summit institutions in contemporary global governance. The interplay among these top-tier, albeit self-selective, forums highlights the degree to which these overlapping clubs revolve around each other at the apex of global power. Of particular interest is the role of the G8 in the context of the G20 and BRICS.

Although there is an image of the G8 being replaced by a new concert of powers when the 2008 financial crisis hit, the dominant theme in the post-crisis period has been one of coexistence, combining the G20's work as a crisis committee with the staying power of the G8 and the elevated profile of the BRICS. While embedding a fragmentation in the global governance architecture, this dynamic highlights the instrumental comparative advantage and symbolic identity/associations that exist within each forum. The respective agendas of the G8 and G20 have taken different trajectories since the financial crisis. For the G20, there has been an expansion in both breadth and depth of issue-area coverage of the forum's agenda. Conversely, the G8's agenda has become increasingly refined.

In overall terms, the mode of engagement between the G8 and G20 has been defined by a pattern of coexistence when it comes to global governance. This pattern has been underscored by a general division of labour, with the G8 assuming a greater focus on security and political issues and the G20 focusing on global economic governance.

Although conceding status to the G20 on economic policy, the G8 has consolidated its position as a forum, or caucus, of the advanced industrial democracies within the global system, maintaining core values and organisational mandate as a group of like-minded countries in support of the liberal democratic norms. In identity terms, the G8 is the hallmark institution of the traditional, established international order. Unlike the G20, it privileges core security agenda items ranging from North Korea to Iran and Syria and embraces selective initiatives such as the push under the United Kingdom's leadership in 2013 to eliminate sexual violence in war.

As a forum with the embedded image as the club of the old establishment, the G8 possesses the institutional flexibility to venture and shape itself into policy arenas and institutional linkages unavailable to other forums. In some cases, this sense of like-mindedness allows a concerted drive for enhanced action via the United Nations. This approach comes out, for example, in the effort of the G8 to push a regime of tightened sanctions against North Korea through the UN Security Council.

> ***The BRICS members represent a caucus of the emerging economic powers in the global system***

In other cases, the G8's functional selection allows it to combine club and network diplomacy in an innovative manner much beyond the institutional limits of the G20 or the BRICS. The compelling illustration of this capacity comes out in partnership with the UN special representative on sexual violence in conflict, Zainab Bangura, in the UK-led drive to eradicate what UK foreign secretary, William Hague, described as "the slave trade of our generation". Akin to other forms of G8 niche diplomacy over the past few years, such as the Muskoka Initiative on Maternal, Newborn and Child Health at the 2010 Canada-hosted summit, or the 2012 Camp David Summit's initiative on food security, the 2013 initiative on sexual violence in conflict lends credibility to the effort by the allocation of resources ($36 million).

It also goes beyond the traditional confines of intergovernmental club diplomacy, towards an emphasis on the plurilateral dimensions of global governance, through both incorporation and consultation of non-state actors. Whereas the health and food initiatives had put the spotlight on the connection with private philanthropy (notably the Bill and Melinda Gates Foundation) and the private sector respectively, the initiative on sexual violence has highlighted the star power of celebrities. Legitimised by her status as a UN special ambassador for refugees, actor Angelina Jolie was mobilised by William Hague at the G8 foreign ministers' meeting at Lancaster House in early April 2013 and on a combined trip in March to the Democratic Republic of the Congo.

This amplification of networking plurilateralism was to compensate for its lack of united front in club diplomacy. On Syria, above all, delegates at the April ministerial meeting were unable to reach a consensus about assisting rebel forces, largely because of the position of Russia as a supporter of the Al Assad regime.

This type of club contention is by no means limited to the G8. The G20 has frequently clashed on economic policy, for example over tensions between the proponents of austerity and stimulus, as well as on bank regulation. Indeed, in comparative terms, the G8 arguably shows a greater functional adaptability to disagreements. The G20 concentrates on a narrower, more technically oriented agenda, and even getting issues such as currency and imbalances onto the agenda has been highly contested.

The BRICS members represent a caucus of the emerging economic powers in the global system. They have been successful in avoiding friction by downplaying issues on which there is divergence and policy competition, such as UN reform, and by playing up the core

G20 finance ministers and heads of central banks were addressed by Russian president Vladimir Putin in February. There has been an expansion of the breadth of issues addressed by the G20 since the financial crisis struck

AP/PA

values common among them: global economic governance reform, development, and the facilitation of deeper economic and financial ties among the BRICS members.

### A division of labour

Although these three summit institutions are on differing trajectories, there continues to be some overlap, particularly in areas such as development. Whereas initial assumptions and predictions lay in the expectation for a division of labour to emerge between the G8 and the G20, the division of labour on overlapping issues has not been clear-cut. The extent to which the G8 and G20 correspond on issues depends largely on the presiding chair of the institutions.

Aside from comparatively gauging the G8-G20-BRICS relationship in regards to substantive issues, the relationships among the forums are more ambiguous when placed in the light of inter-institutional dialogue. From the vantage point of the G20 as the focal point of these summit-level institutions, there has been minimal reference to the work of the G8 and no reference to date to the BRICS process. Conversely, both the G8 and BRICS have referred explicitly to the work and role of the G20 within global governance architecture.

Although the substance of the G8-BRICS relationship has remained dualistic and parallel in nature, the prospect for cooperation exists, notably in areas such as infrastructure development. The approval of the BRICS development bank at the 2013 Durban Summit illustrates the growing capacity of the BRICS to contribute towards concrete development and development financing.

A G8-BRICS dialogue on security governance is best achieved in this fashion, as security architectures comprise the agendas of both the G8 and BRICS as autonomous forums. Finding such focused areas of connection, collaboration and complementarity is crucial for enhancing efficient governance, while maintaining the understanding that the structure of collaboration and complementarity is variable in accordance with the particulars of the governance challenge at hand.

Taking into account the dual emergence of both the G20 and the BRICS summit process over the post-2008 period, a significant component of the global governance architecture is a process of adaptation at summit level, where the G8-G20-BRICS relationship will undergo an adjustment phase. A significant component of this dynamic will consist of a calibrating of each institution's agenda. Whether this process of adjustment will remain coexistent, evolving into a synergistic mode of governance, or disintegrate into conflict is an outcome that is critically relevant to the effectiveness of summit-level governance, but one that will take some time to evolve. ■

# Looking towards Russia's G8 presidency in 2014

## Russia's second G8 presidency will be informed by its experiences in 2006 and by its 2013 G20 lead. What can we expect its priorities to be in 2014?

*By* Marina Larionova, International Organisations Research Institute, National Research University Higher School of Economics

Approaching its second G8 presidency, Russia is in a unique position, as it holds the chair of the G20 for 2013, the G8 in 2014 and the BRICS grouping of Brazil, Russia, India, China and South Africa in 2015. The sequence of three presidencies presents a rare opportunity for coordination, reinforcement and division of labour in setting the agenda and defining presidency priorities across the three forums. Of key concern for 2014 are the principles that might guide the G8 presidency preparation, namely the priorities Russia will be able to put forward and its outreach strategy.

Russia's preparations for the 2014 Sochi Summit will be guided by four principles. The first is relevance to national priorities. The G8 agenda should contain opportunities for attaining Russia's goals of economic and social development, enhance its role in the global governance system, be meaningful to its citizens and ensure continuity with the priorities of the first G8 summit it hosted in 2006. The second principle is relevance to its G8 partners and the international community. This requires a consideration of current and emerging global governance challenges on the one hand, and continuity with the G8 mandate and former presidencies' priorities on the other. The third principle is a balance between the internal and external demands on the institution's capability and its role in the shifting global governance architecture, in the light of the comparative advantages of the G8, the G20 and the BRICS. The fourth principle is a pragmatic assessment of the viability of the decisions and mandates that could be agreed, their cost-effectiveness and the measurability of the outcomes.

The principles imply planning for a focused agenda with a maximum of three or four priorities. The G8 will necessarily deal with political and security issues that on average constitute about 20 per cent of G8 deliberation. The core of the political-security agenda would include nuclear non-proliferation, the fight against terrorism and drug trafficking, regional stability on the Korean peninsula, resolution of the Israeli-Palestinian peace process, and support for political and economic transitions in the Middle East and North Africa. Some room should be left to enable the G8 to deal with the emergencies that seem almost inevitably to occur on the eve of the summits, such as the ballistic missile launch by North Korea on 13 April 2012 or the rise of political tensions in Zimbabwe in the spring of 2011.

***Lifting barriers to investments in energy efficiency can unleash economic potential and realise huge gains for energy security, economic growth and the environment***

Economy and trade, although not the main pillars of the G8 since the G20 has taken over the task of coordinating economic policies, will still feature high on the agenda. Given the relevance for Russia and its G8 partners of fiscal consolidation and policies and measures that promote financing for investment, Russia may pursue these issues in the G8 forum, as well as on its G20 presidency agenda. On trade, the G8 will reiterate its commitment to refrain from protectionist measures, to protect investments, to reduce barriers to investment and trade, and to maintain open markets.

Energy security and efficiency, which on average amount to 10 per cent of G8 deliberations, and which were Russian priorities when it last held the G8 presidency in 2006, will be revisited, although there will be a new focus on green growth. In spite of the differences among partners that emerged in agreeing the principles on global energy security adopted by the G8 in St Petersburg in 2006, the G8 confirmed commitments on energy in 2007 at Heiligendamm, 2008 at Hokkaido, 2009 at L'Aquila and 2012 at Camp David. The summits in Muskoka in 2010 and Deauville in 2011 did not include energy on the agenda, nor does the United Kingdom's G8 in 2013 prioritise critical challenges facing the energy system. Meanwhile, the *World Economic Outlook 2012* (WEO) shows how lifting barriers to investments in energy efficiency can unleash economic potential and realise huge gains for energy security, economic growth and the environment. Discussion of policy principles that can turn the WEO's Efficient World Scenario into a reality is in the interests of Russia, its G8 partners and the global community. Russia should put it at the core of its G8 presidency agenda.

### Three pillars of development

Providing access to energy, quality education and healthcare to the world's poorest could become the three pillars of Russia's G8 development agenda. These goals will undoubtedly remain key in the cooperation on development after the 2015 deadline of the Millennium Development Goals (MDGs). By defining their collective position and agreeing on concrete long-term actions to ensure equality of access to these assets, G8 leaders would help promote an integrated policy approach to inclusive economic and social development. Thus the G8 would confirm its commitment to development assistance and reaffirm its development targets.

In defining its outreach strategy, Russia would build on its experience in both the G8 and G20 presidencies. Non-member countries likely to be invited include Kazakhstan (member of the EurAsEC Customs Union and the Commonwealth of Independent States) and Singapore (chair of the International Monetary and Financial Committee of the International Monetary Fund and chair of Global Governance Group). Ethiopia, which will hold the chair of the African Union in

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During Russia's second G8 presidency in 2014, President Vladimir Putin will be building on the experience of 2006 and his lead role in September's G20 summit

2014, may also be invited. An unprecedented outreach member might be Burma, which will chair the Association of Southeast Asian Nations in 2014. Chile or, less likely, Cuba – although it will host the 2014 leaders' meeting – may be invited to represent the Community of Latin American and Caribbean States. BRICS partners are less likely to come for the outreach meeting, as they have both their own forum and the G20 format, which brings together G8 and BRICS members.

## Engagement in civil society

Civil society will also be looking for constructive engagement at Sochi next year. The Civil 8 process was broadly supported by the Russian G8 presidency in 2006. It was deemed a success, even though the civil society recommendations to the G8 did not find a tangible reflection in the G8 summit documents. The civil process has come a long way since 2006 in terms of becoming self-organised and reaching out as an early and effective consultation mechanism with the G20 in 2013. Depending on how successful the Civil 20 turns out to be in getting its messages on equitable growth, the post-2015 MDGs, energy sustainability, employment and financial inclusion reflected in G20 documents, the Civil 8 will either seek to capitalise on the experience or begin to search for other instruments with which to reach out to G8 leaders.

The Business Eight (B8), which has not been very prominent in the dialogue with the G8 so far, may also wish to build on the experience of B20-G20 engagement, which forms a significant element of Russia's G20 outreach strategy. Much will depend on which priorities the Russian presidency will put forward for 2014. However, both promoting financing for investment and tackling the barriers to energy efficiency investment would constitute an agenda that would ignite productive dialogue between G8 and B8.

Although it is somewhat overshadowed by Russia's 2013 G20 presidency, Russia's G8 will remain a vital and viable global governance forum, with its unique mandate and distinct role. Russia is prepared to make a significant investment in both the G8 and in its partnership with the G20, and work with partners to steer the dialogue to ensure security, inclusive growth and development. ■

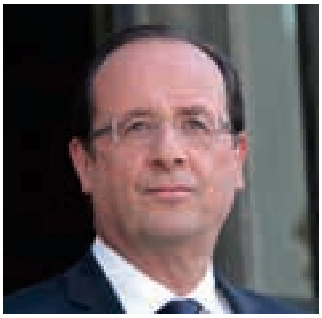

REX FEATURE

## Canada
### Stephen Harper

Stephen Harper was elected prime minister of Canada in January 2006 and was re-elected in October 2008 and again in May 2011. He was first elected as a member of parliament in 1993. He served as leader of the opposition for several years before becoming prime minister.

Born in Toronto, Ontario, on 30 April 1959, he studied at the University of Toronto and the University of Calgary, earning a master's degree in economics in 1991. He and his wife, Laureen, have two children. Harper has attended every G8 summit since the 2006 St Petersburg Summit. He hosted the 2010 Muskoka Summit. Canada is scheduled to host the G8 next in 2018.

***Sherpa:** Peter Boehm*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## France
### François Hollande

François Hollande was elected president of France on 6 May 2012. He was nominated on in October 2011 to be the Socialist Party candidate for the 2012 presidential election in France. He served as first secretary of the party from 1997 to 2008. He was the deputy of the National Assembly of France for Corrèze from 1988 to 1993 and is again since 1997, and was also the mayor of Tulle from 2001 to 2008. Hollande joined the Socialist Party in 1979, and was an economic advisor for François Mitterrand.

Born in Rouen on 12 August 1954, Hollande holds degrees from the École nationale d'administration (ENA), and the Institut d'Études Politiques de Paris (Sciences Po). His partner is Valérie Trierweiler, and he has four children with his previous partner, Ségolène Royal. Lough Erne is Hollande's second G8 summit. France is scheduled to host the G8 next in 2019.

***Sherpa:** Paul Jean-Ortiz*


ABACA/PA

## Germany
### Angela Merkel

Angela Merkel became chancellor of Germany in November 2005. Merkel was first elected to the Bundestag in 1990 and has held the cabinet portfolios for women and youth, environment, nature conservation and nuclear safety. Before she entered politics, Merkel worked as a researcher and physicist.

Merkel was born in Hamburg on 17 July 1956 and received her doctorate in physics from the University of Leipzig in 1978. She is married to Joachim Sauer and has no children. Merkel hosted the G8 summit in 2007 at Heiligendamm, and Lough Erne will be her eighth summit. Germany is scheduled to host the G8 in 2015.

***Sherpa:** Lars-Hendrik Röller*


AP/PA

## Italy
### Enrico Letta

Enrico Letta was elected prime minister of Italy on 28 April 2013, succeeding Mario Monti, who had held the position since November 2011. In 1998, Letta was appointed to the Cabinet as Minister of European Affairs under Prime Minister Massimo D'Alema and then, in 1999, Minister of Industry. He was subsequently elected to the Chamber of Deputies in 2001. In 2004, he left the Italian parliament and was elected a Member of the European Parliament for North East Italy. In 2006, he returned to Italy's Chamber of Deputies in order to become secretary to the Council of Ministers in the government of Romano Prodi. Letta helped found the Democratic Party in 2007 and was elected deputy secretary in the 2009 election.

Born in Pisa on 20 August 1966, Letta holds a PhD in international law from Sant'Anna School of Advanced Studies. He is married to Gianna Fregonara and they have three children. Lough Erne will be Letta's first G8 summit. Italy last hosted the G8 at L'Aquila in 2009 and is scheduled to host next in 2017.

***Sherpa:** Pasquale Terracciano*

## European Union


AP/PA

### Herman Van Rompuy

Herman Van Rompuy was elected the first full-time president of the European Council on 19 November 2010. He was previously prime minister of Belgium from 2008 to 2009. Before entering politics, Rompuy was a lecturer. Born in Etterbeek, Belgium, on 31 October 1947, he holds a bachelor's degree in philosophy and a master's degree in applied economics from Katholieke Universiteit Leuven. He is married to Geertrui Windels and has four children. Lough Erne is Van Rompuy's fourth summit.

AP/PA

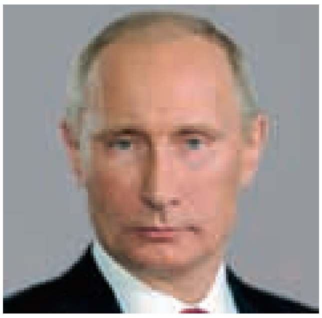
### Japan

## Shinzo Abe

Shinzo Abe was elected prime minister of Japan in a landslide election on 28 December 2012 and has been president of the Liberal Democratic Party (LDP) since 2006. He previously served as prime minister from September 2006 until his resignation in September 2007. Abe was elected to the first district of Yamaguchi Prefecture in 1993. In 1999, he became director of the Social Affairs Division and served in the cabinets of Yoshiro Mori and Junichiro Koizumi from 2000 to 2003, before being appointed LDP secretary general. In 2005, Abe was nominated Chief Cabinet Secretary in Junichiro Koizumi's Cabinet.

Born on 21 September 1954 in Nagato, Yamaguchi Prefecture, Abe studied political science at Seikei University and public policy at the University of Southern California's School of Public Policy. He is married to Akie. This will be Abe's second G8 summit, having attended the 2007 Heiligendamm Summit. Japan hosted the Toyako-Hokkaido Summit in 2008 and is scheduled to host next in 2016.

***Sherpa:** Koji Tsuruoka*



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### Russia

## Vladimir Putin

Vladimir Putin assumed the position of president of the Russian Federation for the second time on 7 May 2012. He succeeds Dmitri Medvedev, who had been president since 2008. Putin served as prime minister under Medvedev, having earlier been elected president in 2000 and re-elected in 2004 but being unable to seek a third term under the Russian constitution.

Putin became acting president on 31 December 1999 after Boris Yeltsin resigned. A member of the United Russia party since its establishment in 2001, he led the party from 2008 until April 2012. From 1998 to 1999, he was director of the Federal Security Service, the successor to the KGB, having worked for the KGB from 1975 to 1991. He was also first deputy chair of the St Petersburg city government and chair of its external relations committee, as well as secretary of the Russian Security Council.

Putin was born on 7 October 1952 in Leningrad, which is now St Petersburg, and graduated from the law faculty of Leningrad State University. He and his wife, Ludmila, have two daughters. Lough Erne will be Putin's 10th summit. He hosted the 2006 St Petersburg Summit and will host the summit in Sochi in 2014.

***Sherpa:** Alexey Kvasov*

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### United Kingdom

## David Cameron

David Cameron became prime minister of the United Kingdom of Great Britain and Northern Ireland in May 2010. He was first elected to parliament in 2001 as the representative for Witney, and has served as party leader since 2005. Before becoming a politician Cameron worked for the Conservative Research Department and served as a political strategist and advisor to the Conservative Party.

Born in London, England, on 9 October 1966, he received a bachelor's degree in philosophy, politics and economics at the University of Oxford. He is married to Samantha and has three children; a fourth child died in 2009. Lough Erne will be his third G8 summit and the first one he has hosted. The United Kingdom last hosted the G8 at Gleneagles in 2005.

***Sherpa:** Ivan Rogers*

THE WHITE HOUSE

### United States of America

## Barack Obama

Barack Obama was re-elected president of the United States in November 2012, having been elected for his first term as president in November 2008. In 2005, Obama was elected to the Senate, after previously working as a community organiser, a civil rights lawyer and a state legislator for Illinois.

He was born on 4 August 1961 in Honolulu, Hawaii, to a Kenyan father and an American mother. He received his bachelor's degree from Columbia University in 1983 and a law degree from Harvard University in 1991. He is married to Michelle and they have two children. Lough Erne is Obama's fourth summit. He hosted the 2012 summit at Camp David, and the United States is next scheduled to host the G8 in 2020.

***Sherpa:** Michael Froman*

REX FEATURE

## José Manuel Barroso

José Manuel Barroso became president of the European Commission in November 2004. Previously, he was prime minister of Portugal from 2002 to 2004. Before entering politics Barroso was an academic. He studied law at the University of Lisbon, holds a master's degree in economics and social sciences from the University of Geneva and received his doctorate from Georgetown University in 1998. He is married to Maria Margarida Pinto Ribeiro de Sousa Uva and has three children. He has attended every G8 summit since the 2005 Gleneagles Summit.

***Sherpa:***
*Didier Seeuws*

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