www.g20-g8.com

www.elysee.fr

G20 FRANCE 2011

NEW WORLD
NEW IDEAS

CANNES SUMMIT

3-4 NOVEMBER 2011

PRESS KIT

CONTENTS

WHAT EXACTLY IS THE G20 ?

1. WHY THE G20 ?

■ **The G20 of Heads of State and Government was created at the end of 2008, on the initiative of France and Europe**, to provide a coordinated and concerted response to the most serious economic and financial crisis since World War II. At the pioneering Washington Summit in November 2008, the Heads of State and Government agreed on an extraordinary plan of action to prevent the financial system and the global economy from collapsing.

■ **The G20 has become the number one forum for economic policy coordination. Since the end of 2008, it has met on a regular basis**: in London in April 2009, Pittsburgh in September 2009, Toronto in June 2010 and in Seoul in November 2010. It will meet for the sixth time on 3 and 4 November 2011 in Cannes. The G20 has become the premier forum for economic and financial cooperation, ensuring strong global growth with more stable and sustainable foundations.

2. WHO ARE ITS MEMBERS ?

■ **The main emerging and developed economies:** the G20 countries account for 85 percent of global output and two thirds of the world's population. Its members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, the United States and the European Union. Spain is a permanent guest. This year, the French Presidency has invited the United Arab Emirates, Ethiopia, Singapore and the African Union Presidency.

■ **With the support of international financial organizations and institutions:** to carry out its work, the G20 draws on the expertise of the International Monetary Fund (IMF), the World Bank, the United Nations (UN), the Organisation for Economic Cooperation and Development (OECD), the International Labour Organization (ILO), the World Trade Organization (WTO), and the Financial Stability Board (FSB).

3. HOW DOES THE G20 WORK ?

■ The G20 operates with an **annually rotating chair**. Each year, a member country is given responsibility for organizing the Summit of Heads of State and Government and ensuring that the preparatory negotiations for the Summit progress as necessary during the year.

■ **Ministerial meetings** are held throughout the year to lay the groundwork for the Leaders' Summit. The finance ministers and central bank governors met four times in 2011 (in February, April, September and October). The French G20 Presidency also held a meeting with agriculture ministers in Paris on 23 June, finance and development ministers in Washington DC on 23 September and labour and employment ministers in Paris on 26 and 27 September.

■ The Summit is also prepared by "**Sherpas**", the name given to the personal representatives of the Heads of State and Government.

FRANCE'S EXPECTATIONS FOR THE CANNES SUMMIT

The G20 Heads of State and Government will meet in Cannes on 3 and 4 November at a time when the global economy is facing sovereign debt crises, upheavals on the financial markets and renewed uncertainty regarding the strength of the global economy.

In Cannes, the G20 countries must show their determination to (i) act to stimulate economic growth and (ii) better regulate globalization.

1. ACTING TO STIMULATE ECONOMIC GROWTH

The coordination of economic policies, which has been at the heart of G20 action since its creation, is vital in order to provide an effective response to the unprecedented crisis which the world has been dealing with since 2008 and to return to strong, sustainable and balanced growth.

The Cannes Summit must allow the G20 to show that it can meet its responsibilities and live up to the expectations of its citizens.

To do this, **the most specific and concrete commitments as possible must be obtained from G20 Members:**

- **To address immediate vulnerabilities in the short term** by adopting coordinated economic policies to **support the economic recovery** and **consolidate public finances**, while taking into account each member's specific situation and room for manoeuvre;

- To take all measures necessary to **preserve stable financing of the economy;**

- **To implement structural reforms to stimulate job and growth potential.** Furthermore, efforts can be made to make foreign exchange regimes more flexible in countries with relatively inflexible exchange rates, but also as regards rebalancing global demand by stimulating private consumption in countries which have current account surpluses.

The G20 must also reiterate its commitment to:

- **Resisting protectionism;**
- **Encouraging the development of the poorest countries.**

2. REGULATING GLOBALIZATION

Providing support for the major upheavals in the global economy and the resulting imbalances is at the core of our agenda for 2011. It is thus essential that in Cannes we demonstrate our readiness and ability to make progress towards:

- **A stronger international monetary system which is more representative of the global economy**; by reducing the volatility and long-standing misalignment of currencies, by encouraging stable capital flows in the interests of growth and by supporting the development of emerging countries;

- **A better-regulated financial sector, in order to strengthen the protection of citizens and the real economy against risks.** To do this, it is important to ensure that the G20's decisions as regards the banking sector are correctly implemented, but also to better regulate non-banking entities and activities which can also cause systemic risk ("shadow banking")

- **Raising moral standards of capitalism through shared norms** to be effectively applied on a global scale in order to **fight corruption, money laundering and tax havens;**

- **Food security** via a sustainable increase in global agricultural production **and more transparent, better-regulated commodity markets;**

- **A more equal distribution of global growth** by fostering development in the poorest countries, in particular by supporting **infrastructure development** and establishing **innovative means of financing;**

- **Better awareness of the social dimension of globalization to support employment and protect the most vulnerable people;**

- **More effective and legitimate global governance.**

TACKLING THE ECONOMIC CRISIS

The increased tensions and substantial risk of deterioration in the global economy require decisive action in order to restore confidence, financial stability and growth.

1. DETERIORATION OF THE GLOBAL ECONOMIC SITUATION

- **Growth forecasts revised downwards for 2011 and 2012.** Between April and September 2011, the IMF reduced its growth forecasts for the global economy from 4.4% to 4% for 2011 (from 2.4% to 1.6% for advanced economies and 6.5% to 6.4% for emerging and developing countries), and from 4.5% to 4% for 2012 (from 2.6% to 1.9% for advanced economies and 6.5% to 6.1% for emerging and developing countries).

- **Sovereign debt crisis:** From August, the economic slowdown damaged confidence in the sovereign debts of several of the most economically-advanced countries, especially in Europe, causing much turmoil on the financial markets (increased interest rates on the debts of the most vulnerable countries and reduced stock prices).

- **Continued macroeconomic imbalances among G20 countries:** between 1998 and 2007, total deficits and surpluses of G20 countries rose from $580 billion (2.3 % of G20 GDP) to $2.5 trillion (5.6 % of G20 GDP). As a proportion of global wealth, balance of payment imbalances have thus doubled in ten years. These imbalances fuelled the 2008-2009 crisis and have not changed since, thus weakening global growth.

2. THE WORK OF THE G20 IN 2011

Through the **Framework for Strong, Sustainable and Balanced Growth,** the G20's macroeconomic policy surveillance and coordination tool, **the French Presidency has made strengthening macroeconomic policy cooperation its priority.**

In 2011, G20 countries agreed upon a tool to measure global imbalances, the «**guidelines**» for identifying major imbalances and their causes. Each country committed to adapting its economic policies in order to rebalance global growth and make it stronger and more solid. There were several stages in this work:

■ **The creation of a method for identifying excessive imbalances** (February). Agreement on a **set of indicators** allowing us to focus on major and persistent imbalances which require measures to be taken: Debt and public deficits, the savings rate, private debt and external imbalances stemming from the trade balance, net flows of income from investments and remittances, while taking full account of exchange rates and budgetary and monetary policies.

■ Based on indicative guidelines used to assess each of these indicators, the **identification of the seven economies that contribute most significantly to persistently large imbalances** (April).

■ Based in particular on the work of the IMF, the **analysis of the source of these imbalances and how they can be addressed** in light of the weakened economic situation (September).

■ **Commitment to adopt an ambitious action plan to stimulate growth,** including both collective and country-specific commitments. Agreement on assessing the progress achieved in implementing the commitments made in Seoul (October).

3. ISSUES OF THE CANNES SUMMIT

The Cannes Summit will be centred around the adoption of an action plan which will allow us to tackle the current crisis while ensuring strong, sustainable and balanced future growth. This involves:

■ **Addressing immediate vulnerabilities:**

- Adoption by European countries of a set of measures to overcome the eurozone crisis;
- Tailored support for recovery (American growth support plan, rebuilding measures in Japan, etc.);
- Appropriate monetary policies to maintain price stability and support the recovery.

■ **Strengthening the foundations of and tackling imbalances:**
- Adoption of credible debt-reduction strategies, tailored to the situation of each country;
- Measures to promote domestic consumption in countries with current account surpluses;
- Measures to strengthen competitiveness and increase domestic savings in countries with current account deficits;
- In all countries, structural reforms to strengthen potential growth and employment.

■ **Resist protectionism:** Given that the Doha Development Round of trade negotiations launched in 2001 has now stalled and fears of a resurgence of protectionism are emerging, the G20 must:
- Confirm that it rejects protectionism, in line with the commitments made in the Washington Summit in 2008;
- Discuss how to redirect trade negotiations towards realistic objectives and a better awareness of development.
- Strengthening the international trade system.

REFORMING THE INTERNATIONAL MONETARY SYSTEM (IMS)

1. WHY REFORM THE IMS?

The term «international monetary system» (IMS) is used to describe the mechanisms and institutions that structure international monetary exchanges, as well as foreign exchange systems. .

The global economy is experiencing profound change, in particular the rise of the emerging countries. The current IMS does not yet reflect this new situation, which has created a number of problems.

- **Increased volatility of exchange rates:** This volatility creates uncertainty for households and companies when making economic decisions, as shown by recent euro-dollar exchange rate trends (in June 2010, 1 euro was worth US$1.19; a year later, in May 2011, it was worth $1.48) or those of the Brazilian real which increased by 30% against the US dollar between January 2009 and July 2011, and has now once again fallen by almost 15% since July.

- **Accelerated inflows and outflows of capital:** The instability of capital flows encourages liquidity crises, which have serious repercussions for the entire economic and social fabric. The emerging countries are hardest hit by this phenomenon, and have had to deal with 44 sudden stops of capital inflow since 1990.

- **The risk of a "currency war":** Against this monetary instability, there is growing temptation to adopt non-cooperative economic and exchange rate policies which penalize the global economy.

- **Persistent macroeconomic imbalances:** The current international monetary system does not allow the spontaneous reduction of these imbalances, which weaken global growth.

Undertaking IMS reform will allow us to support the development of emerging countries, reduce the volatility and long-standing misalignment of currencies and encourage capital flows for growth.

2. IDEAS FOR REFORM BY THE FRENCH PRESIDENCY OF THE G20

The seminar organized by France and China in Nanjing in March 2011 allowed us to determine the current problems in the IMS and to set out discussion topics on which the G20 finance ministers and central bank governors have focused throughout 2011. The mission entrusted to Germany and Mexico by the French Presidency of the G20 led Chancellor Merkel to organize a follow-up seminar in Berlin in October 2011 to complete the work.

Consensus is now emerging on the need to carry out IMS reform in the following areas:

- **Set a reference framework to better manage capital flows:** imposing limits on the movement of capital may be justifiable provided that they are supplementary to sound macroeconomic policies and that they are applied when capital flows are particularly high and volatile. They must not be used to postpone adjustment measures when they are necessary. They must be subject to regular assessment. Finally, the countries whose economic policies influence the scope or destination of the capital flows must take account of that in their policymaking.

- **Develop local-currency bond markets to reduce countries' external vulnerability.**

- **Establish principles for cooperation between the IMF and regional financial agreements** with a view to strengthening both crisis prevention and resolution efforts. Knowledge of local economic realities must be combined with the IMF's monitoring capacities. In times of crisis, the lending conditions set out by the regional arrangements and the IMF must be coherent, while providing the IMF with preferred creditor status.

- **Improve the IMF's surveillance of its Member States' economies and economic policies:** in 2011, for the first time, the IMF assessed the impact which the policies of each of the major economies (China, Japan, United Kingdom, United States, eurozone) had on the rest of the world. These studies, entitled "Spillover Reports" supplement the IMF's standard analyses. This mechanism of monitoring interdependences must be strengthened and put on a permanent footing.

■ **Support the internationalization of major currencies.** One of the key issues of discussion in the G20 is the addition of new currencies into to the SDR basket so that it accurately reflects the weight of the various currencies in the international system.

■ **Strengthen global financial safety nets:** in a world with deep financial integration and where capital is extremely mobile, even countries with sound macroeconomic policies can feel the repercussions effects of financial upheavals in the global markets. The tools at the disposal of the international financial community, in particular the IMF, must be supplemented to meet the possible liquidity needs of such countries.

STRENGTHENING FINANCIAL REGULATION

1. WHY STRENGTHEN FINANCIAL REGULATION?

The crisis was triggered by a build-up of risks in the financial sector which escaped the scrutiny of supervisors because of numerous weaknesses in our regulatory systems:

- **Whole swathes of the financial sector were not covered,** including shadow banking, rating agencies and hedge funds. Certain financial products, such as over the counter (OTC) exchanges of financial derivatives, which represented the largest volumes on the markets, escaped from any form of oversight. There was no regulation of financial sector remuneration, which was a factor in excessive risk-taking.

- **Incomplete regulation:** banking activities were subject to Basel II regulations, which were not fully integrated into national regulatory frameworks when the crisis broke in 2007-2008. Our supervisory mechanisms did not have specific tools to combat systemic risk, i.e. the phenomena of contagion in the financial sector.

- **The rules were applied too unequally:** a large number of countries refused to exchange the information needed for the fight against tax fraud ("tax havens") or to adopt the standards needed to combat money laundering and the financing of terrorism. No international body had responsibility for coordinating the action of the different national and international regulators.

2. OBJECTIVES OF THE FRENCH PRESIDENCY OF THE G20

At the G20 Summit in Washington in November 2008, the Heads of State and Government committed to ensuring that all markets, actors and financial products be subject to appropriate regulation and oversight. The challenges today are:

- **Monitoring reforms more strictly.** The G20 has already adopted, since 2008, very decisive reforms of the financial sector, such as new capital and liquidity reserve rules for banks, regulation of over the counter derivative exchanges, rules on remuneration and the reduction of regulatory dependence on the rating agencies. There are risks that these reforms will not be enacted everywhere at the same rate and with the same rigour. The G20 must decide to provide itself with enhanced oversight mechanisms through the Financial Stability Board.

■ **Fighting against systemic risk and better oversight of systemic "too big to fail" institutions.** The G20 must agree on a framework of specific measures to reduce the risks posed by large financial institutions on the whole of the financial system when they run into difficulties. These measures include: enhanced oversight mechanisms, additional prudential requirements to cushion losses, and international crisis prevention and management standards to dismantle financial institutions regardless of their size without having to mobilize taxpayers' money.

■ **Enhancing regulation of the shadow banking system.** With stricter rules applicable to the banking sector, certain activities could be transferred to less regulated entities, such as funds and securitization vehicles. The G20 must agree on measures aimed at fighting against this transfer of risks by submitting all institutions with banking-type activities to equivalent rules.

■ **Enhancing market regulation.** The G20 must strengthen its rules regulating commodity derivative markets. It must also define the principles of regulating new market technology which, through the speed of the exchanges which it provides, can destabilize the financial system. Lastly, an international scheme to identify financial counterparties in order to better evaluate risk concentration in the financial system and detect abusive behaviour must be put in place.

■ **Evaluating the implementation of measures to fight "tax havens".** Since 2009, the action of the G20 against tax havens has borne fruit. More than 700 information exchange agreements have been signed. 14 billion euros of additional revenue has been collected in the context of the fight against tax havens. The Global Forum has performed evaluations of the legal framework of 59 countries and jurisdictions in the light of their commitments. The G20 will evaluate the implementation of the commitments to fighting tax evasion, money laundering and the financing of terrorism and to promote compliance with standards of cooperation and information exchange in prudential matters.

■ **Enhancing consumer protection.** The G20 must adopt shared principles to put the protection of household and business consumers of financial services at the heart of financial activities.

COMBATING EXCESSIVE COMMODITY PRICE VOLATILITY

1. HOW DOES IT AFFECT THE WORLD ECONOMY?

Commodities markets, chiefly those for oil and agricultural products, are marked by:

- **Strong tensions between supply and demand** linked to the coincidence of limited supply in the short term and constantly increasing global demand, particularly because of the growth of emerging economies.

- **Increased financialization:** commodity derivatives, which were originally hedging instruments against risk, have become investment instruments. They are traded in very high transaction volumes, sometimes disconnected from real commodity exchanges. Each year, the equivalent of 35 times the global annual production of oil, 16 times that of corn and 8 times that of wheat are exchanged on the derivative markets.

- **Exacerbated volatility:** for example, the price of oil went from $145 a barrel in the first half of 2008 to $36 a barrel in the second half of 2008. In April 2011, it climbed back to close to $126 a barrel before falling back to around $110. Similarly, grain price volatility has tripled compared to the 1990s.

The excessive volatility of commodity markets is a threat to global growth. Volatility is a risk for investors, which discourages investment and recruitment decisions. It also threatens **food security** in the most vulnerable countries, importers of agricultural products, as illustrated dramatically by the food crisis of 2007-2008 and the subsequent hunger rioting in Haiti, Senegal and Mozambique.

2. OBJECTIVES OF THE FRENCH PRESIDENCY OF THE G20

The French Presidency of the G20 is convinced that the Group, whose members are the major actors of the agricultural and oil markets (G20 countries consume 73% of world oil production and represent 54% of agricultural surfaces worldwide, 65% of arable land and 77% of world grain production in 2008), is the appropriate forum to deal with this problem. For this reason, it is determined to push forward the action of the G20 on four essential subjects, backed up by the Action Plan on Food Price Volatility and Agriculture, adopted during the Agriculture G20 on 23 June 2011.

- **Enhancing the regulation of financial commodity markets,** which represented $270 billion in the mid-2000s and which had grown to nearly $410 billion before the 2008 financial crisis. It is a matter of extending the regulatory framework adopted for other derivative markets to the commodity derivative markets.

- **Improving the transparency of the physical commodity markets** through putting into place the AMIS (Agriculture Market Information System) database to improve agricultural market information, particularly regarding stock levels and crop forecasts. The G20 also aims to make tangible improvements to the JODI-Oil database, managed by the International Energy Forum, in terms of its completeness and reliability, in addition to extending it to the gas sector.

- **Improving international cooperation regarding the prevention and management of agricultural crises,** through the creation of a Rapid Response Forum at the FAO (Food and Agriculture Organization of the United Nations), which will meet when there is an alert on the international agricultural markets.

- **Enhancing food assistance instruments,** particular through the creation of emergency humanitarian food reserves and the lifting of restrictions on exports for World Food Programme food aid purchases.

- **Enhancing instruments to protect the most vulnerable populations against the instability of agricultural prices.** Several programmes are proposed by international organizations, in particular the World Bank, to mitigate the effects of price volatility on the most fragile populations (crop insurance, weather insurance).

- **Improving research and innovation in order to stimulate agricultural production and productivity,** in particular through the introduction of an international research initiative on wheat and a technical and scientific exchange platform on tropical agriculture

ENHANCING G20 COMMITMENT TO DEVELOPMENT

In Seoul, it was decided that development would become part of the scope of the G20 agenda from then on.

The French Presidency has decided to place emphasis on three priority areas of action for development, which have been at the heart of the G20 ministerial meetings of finance, cooperation and agriculture ministers:

- **Food security,** linked to agriculture (see pg. 17 and 18).

- **Development of infrastructure in developing countries,** which is one of the key factors needed to kick-start the economy of these countries.

- **Innovative financing,** to meet the commitments made regarding development and efforts to tackle climate change.

1. INVESTING IN INFRASTRUCTURE IN DEVELOPING COUNTRIES

The lack of infrastructure is a major obstacle to growth in developing countries, particularly in Africa, where the least progress has been made in meeting the Millennium Development Goals (MDGs). It is estimated that lack of infrastructure alone cuts **2 points per year off GDP.** Better access to basic infrastructure such as energy, transport, water and telecommunications would stimulate sustainable economic development, increase access of national businesses to local markets and create jobs, in addition to reducing poverty.

To make progress on these subjects:

- In February 2011, the French Presidency created a High-Level Panel on Infrastructure and entrusted its Chairmanship to Tidjane Thiam, CEO of the insurance company Prudential. Bringing together experts mainly from the private sector, the panel studied means of promoting an enabling investment environment for infrastructure and guiding private investors in developing countries. Its recommendations will be submitted to the Heads of State and Government at the Cannes Summit.

- The French Presidency also asked multilateral development banks to draft a joint action plan aimed at enhancing the effectiveness of their contribution to the development of infrastructure and facilitate infrastructure project implementation.

These efforts, which will be made public at the Cannes Summit, will help identify the main bottlenecks, particularly the insufficient number of well-prepared development projects, the need to build the capacity of the teams leading public-private partnerships, the excessive disconnect between perceived and real risks and the difficulties of associating public and private financing efficiently.

2. WORKING TOWARDS THE IMPLEMENTATION OF INNOVATIVE FINANCING

As a supplement to traditional aid, innovative financing can and must be mobilized to face the challenges of international solidarity. The French Presidency of the G20 has worked in concert with the private sector and civil society on means of expanding development financing mechanisms.

The Bill Gates report, produced at the request of President Sarkozy, proposes a more diverse, stable and sustainable development finance model, adapted to the new realities of the 21st century.

It highlights all the challenges of development and advocates a wide approach to available financing, both private and public. This includes increasing the domestic resources of developing countries through tax reforms, official development assistance flows, innovative financing such as a tax on financial transactions, a tax on tobacco or a global mechanism for bunker fuel emissions in the international aviation and shipping sectors, in order to tackle the challenges of the fight against climate change and meet the Millennium Development Goals by insisting on the critical role of the private sector and innovation.

In this context, **France considers that a tax on financial transactions is the most promising instrument.** With a broad base and a low rate, this tax would bring in substantial revenue.

FACING THE NEW CHALLENGES OF GLOBALIZATION

1. TAKING BETTER ACCOUNT OF THE SOCIAL DIMENSION OF GLOBALIZATION

Since Pittsburgh, the G20 has pledged its support for employment, social protection and strengthening the social dimension of globalization. In 2011, the G20 chose 4 priority topics, which were at the heart of the work of the Labour and Employment Ministers on the 26 and 27 September:

- **Improve active employment policies,** in particular for the younger generations and the most vulnerable groups.
- **Enhance social protection** through the creation of nationally defined social protection floors.
- **Ensure total compliance with basic labour principles and rights.**
- **Enhance the coherence and consistency** of economic and social policies and the coordination of the international organizations which deal with them.

2. FIGHTING CORRUPTION

According to the World Bank, corruption costs the world economy more than a trillion dollars each year. This is a roadblock to economic growth. Measures have been taken at the international level to fight against this scourge, including the OECD and United Nations Conventions which many countries have already ratified. But the G20 must go further.

The efforts of the French Presidency aim to:

- **Encourage countries which have not yet done so to accede to and implement these two Conventions.**

- **Ensure the effective and transparent implementation of the commitments made** to the fight against corruption by undertaking reviews in each Member State.

- Enhance national legislation in a coordinated manner.

- **Increase private sector involvement,** particularly in the framework of public-private partnerships and the B20 Business Summit.

3. ENHANCE THE INTERNATIONAL ARCHITECTURE

The G20 has been a major actor in modernizing economic governance by initiating reforms at the World Bank and the IMF and creating the Financial Stability Board. However, the action of the international community continues to often lack coherence. The world needs appropriate governance to face up to the global challenges of today. The approach of the G20 is pragmatic and realistic, based on three main areas:

- **Tackle the issues around of the role, scope, orgnisation and efficiency of the G20.**

- **Enhance the coordination of the international organizations which support the G20's work.** In particular, it is essential to strengthen the link between the G20 and the UN in order to combine the effectiveness of the former and the representativeness of the latter.

- **Encourage international institutions to strengthen themselves in order to face their new challenges and missions** (food security and the functioning of markets for the FAO, financial regulation for the Financial Stability Board, etc.).

A report on the reform of global governance, entrusted by the President of the French Republic to the British Prime Minister, will be the basis of discussion between the Leaders at the Cannes Summit.

NOTES