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This year's G20 in Cannes will be dominated by talk of global financial meltdown. But the crisis reaches far beyond just the boardrooms and bourses. Climate change, runaway food prices, climate-induced disasters and growing inequality are equally symptoms of a world order that is failing hundreds of millions of people. The G20 wisely acknowledges these problems. And far-reaching and feasible solutions are on the table. It's time for courage and ambition.

G20: Courage and ambition in Cannes

The G20 was born out of the 1998 Asian financial crisis. It became a leaders' forum in response to the 2008 credit crisis. In 2011, it meets in Cannes under the spectre of global contagion. To paraphrase Olivier De Schutter, the UN Special Rapporteur on the Right to Food, the G20 not only needs to fight another fire today, it surely needs to build a more fire-resistant system for tomorrow too.

Short-term fixes must be consistent with the structural changes needed to reduce long-term systemic risks. This is true not just for the financial and energy markets, but in order to tackle climate change, poverty and inequality, food insecurity and resource constraints too. All these issues are tightly intertwined and inter-related. A solution to one must not become the catalyst for undermining another.

The G20 has the mandate and means to help resolve these mega-problems. In recent meetings at Pittsburgh and Seoul, the G20 recognised it must look past the "recovery" phase to build a new prosperity. President Sarkozy talked about "moralizing capitalism". The G20 got plaudits for this. Now it must turn that vision into action. If not, the G20 risks losing credibility and another opportunity will be allowed to slip away.

The G20 must gear its work not only to the needs of the rich and powerful who can shout loudest. People living in poverty continue to be hit the hardest by these tectonic shocks to our system – from the effects of extreme weather, budget cutbacks and rocketing food prices. For solutions to be effective and sustainable they must work for poor people too, most particularly for women.

Oxfam will judge this G20 on three of the kind of far-sighted but achievable reforms that will help us get "beyond recovery " and begin to achieve global stability, resilience and sustainable growth-for-all.

- The G20 must **free up new resources** so that the people hit hardest by global shocks can protect themselves. A Financial Transaction Tax (FTT or "Robin Hood Tax") and a fair carbon charge on international shipping would unlock tens of billions of new dollars. The G20 also needs to take renewed action against tax havens and help developing countries improve their own tax revenues.
- The G20 must **tackle food price volatility** by ensuring that agricultural derivatives markets work effectively for food producers and consumers. We need better transparency and regulation of markets, including setting price and position limits, and limits on damaging speculation that is divorced from supply and demand.
- The G20 must change our narrow **measurements of economic success** by making the distribution and sustainability of growth as equally important as the rate of growth. The quality of growth – not just its quantity – must become embedded in the work of policy-makers, treasuries and donors.

1. Innovative finance for development and climate change

SOME FACTS ON POVERTY AND FINANCING

- 64 million people are now living in poverty as a result of this financial crisis
- Rich nations are delivering less than half of the aid they had promised nearly 40 years ago
- According to Bill Gates an FTT within G20 countries alone could raise \$50 billion a year
- A fair carbon charge on international shipping could raise \$25 billion a year

Last year the G20 acknowledged that the financial crisis was “disproportionately affecting the most vulnerable in the poorest countries. It has been estimated that, as a result of the recent crisis, an additional 64 million people will be living in extreme poverty (i.e. living on less than \$1.25 a day) by the end of 2010. We therefore have a responsibility to fulfil.”

Indeed. It is time for the G20 to live up this responsibility. But its richest members are starting from a depressingly bad base of their own making. The G8 are \$19 billion off track from their Gleneagles aid commitments. The EU lags behind on its pledges to the tune of €11 billion. Rich nations as a whole are delivering less than half of the commitment they made at the UN to provide 0.7 percent of their gross national income in aid – a promise they made nearly 40 years ago.

The Green Climate Fund, set up last year at the UN climate change talks, to help poor countries adapt to climate change and develop in a low carbon way remains empty. Rich countries promised this would be channelling up to \$100 billion per year by 2020. There is as yet no clear plan for where or how the money will be raised. This uncertainty has created an unhealthy air of distrust in UN negotiations.

The French Presidency has put “innovative sources of finance” high up its G20 priority list. Earlier this year, President Sarkozy asked business magnate Bill Gates to identify the most promising sources of new finance. Gates’ report will be formally presented in Cannes but its substance went before the G20 Finance and Development Ministers in September. Gates identifies a financial transactions tax and a surcharge on shipping emissions as two of the most attractive, credible and feasible options.

At the same time, G20 Finance Ministers asked the World Bank, IMF and other international organisations to report on options for long-term sources of climate finance. They too indicated that an FTT was technically feasible and presented detailed analysis of how a fair carbon charge on international shipping and aviation could be applied.

• **A broadened, harmonised Financial Transaction Tax**

Several G20 countries (including the UK, South Korea, India, South Africa, US, Brazil) already apply some form of FTT. Extending this to new countries and asset classes could raise hundreds of billions of dollars every year. Globally, economists suggest a broad-based tax could raise \$400 billion annually. Gates suggests that a smaller G20-wide FTT could raise \$50 billion. Oxfam calculates that even a limited adoption by “a coalition of the willing” – France, Germany and Spain – alone could generate €18 billion.

This is the most significant opportunity for new development finance since the advent of debt relief in 2000. In addition, an FTT would help discourage the kind of high-frequency speculation that can destabilize financial markets.

There is an unprecedented level of support for a new FTT in Europe. France and Germany are strong advocates. The European Commission has recently published legislation for a European FTT. More than 1000 economists backed the idea in a letter to the G20 in April. A recent poll found that a clear majority (61 per cent) of European citizens supported an FTT.

This year G20 countries should join the EU in implementing a tiny tax on all financial transactions – \$500 for every million-dollar transaction. Existing taxes should be broadened and harmonised and, as recommended by Gates, the money used to foster development and fight poverty and climate change.

• **Climate finance from shipping**

Without urgent action now, the target that world governments agreed last year to keep global warming below 2°C (let alone the 1.5°C needed) is likely to slip out of reach. Greenhouse gas emissions from international shipping are high and rising fast. They are already responsible for 3 percent of global

emissions – greater than Germany's and twice those of Australia – and they are set to treble by 2050. A single ship can now emit more in a year than many small island developing states.

The recent Oxfam/WWF report '[Out of the bunker: time for a fair deal on shipping emissions](#)' makes the case for a deal on a fair carbon price on shipping under the International Maritime Organisation that can both tackle the sector's emissions and generate billions for tackling climate change in poor countries. It is supported in all key respects by the World Bank and IMF in their report for the G20.

It says that applying a carbon price of \$25 per tonne would help to cut shipping emissions, raising the costs of global trade by just 0.2%, and generating \$25 billion per year by 2020. To ensure that developing countries are not unfairly hit by this marginal increase in the costs of shipping, a portion of the revenues should be used as a form of compensation to developing countries, with a further portion – of at least \$10 billion per year – directed to the Green Climate Fund.

France and Germany have championed the need for a fair global deal along these lines. Their EU partners are considering a common position in support. Industry is supportive. At the recent climate talks in Panama, South Africa tabled language for a deal on these terms. The poorest countries in those negotiations – those among the most vulnerable to climate change – have long called for climate finance to be raised from the international transport sector.

- **Making tax fairer**

Two and a half years ago, at the London G20 Summit, leaders promised to stand together against tax havens. In Seoul last year they spoke of the need to help developing countries increase their tax revenue. The two are irrevocably linked. One respected source believes that even by conservative estimates, the illicit financial flow of potentially taxable resources out of developing countries in 2008 was between \$1.26 and \$1.44 trillion, mainly diverted through tax havens.¹

G20 members must make hidden assets transparent in their agreements with tax havens. The G20 should also promote more transparency from multinational companies, for example via country-by-country reporting of financial information to prevent transfer pricing abuses. As a minimum first step, all G20 countries should require the extractives industry to provide information on the revenues they generate and payments they make in every country in which they operate.

This kind of concerted action by the G20 would support efforts being made in developing countries to improve their tax revenues. A recent Oxfam report '[Progressive Taxation: Towards Fair Tax Policies](#)', analyzing 52 different countries, suggests that developing countries could raise an additional \$269 billion a year by closing tax loopholes. This would allow, for example, Guatemala to double its education budget.

2. Food price volatility

SOME FACTS ON POVERTY AND FOOD PRICES

- Food prices are set to double in the next 20 years
- 44 million people fell below the poverty line in 2010 as a result of food price hikes
- Financial investment in commodities including food has gone from \$100 billion to \$400 billion in the past six years

Food prices are a matter of life and death to many people in the developing world. Financial markets should be helping farmers and food processors to manage risk and determine prices. However they have become a potential threat to global food security. Deregulated and secretive agricultural commodity derivatives have attracted huge sums of speculative money and there is growing evidence that they deliver distorted and unpredictable food prices.

¹ Global Financial Integrity, Kar, D and K. Curcio *Illicit Financial Flows from Developing Countries: 2000-2009*, (2011)

As things stand, with the impacts of climate change and resource scarcity already becoming apparent, food prices will more than double in the next 20 years² and will remain high and extremely volatile for at least the next ten years.³ The World Bank estimates that 44 million more people fell below the poverty line in the last half of 2010 as food prices climbed back to 2008 peak levels.

According to a new Oxfam briefing '[Not a game: Speculation vs. Food Security](#)', the precise impact of speculation on food prices today remains disputed and cannot yet be proven – not least because financial markets operate with such lack of transparency. However this should not preclude action on the basis of well-founded concerns. Even if no link is found between speculation and food prices, evidence shows that these markets are no longer playing their primary role of helping to hedge the risk of those involved in the precarious business of producing and trading food.

New rules are urgently needed to ensure that today's heavily-financialized agricultural markets work for their most important stakeholders: farmers and consumers. Powerful exchanges, investment banks and food trading companies have made a lot of money from highly volatile markets. They are lobbying hard to ensure that any proposed new laws to strengthen market oversight and transparency will not affect their profitability. By contrast, those hit hardest by such volatility – small-scale producers who depend on getting reliable prices for their produce and poor consumers who can be forced to spend up to 75 percent of their income on food – have a much weaker voice.

The sums involved are huge. Barclays Capital for example, the investment banking division of Barclays Bank and Europe's most important player in the agricultural commodity derivatives market, may have earned as much as £340 million in 2010 from financial speculation on food, according to the World Development Movement. In the last 20 years, Cargill – the largest of the world's agricultural traders – has opened up at least five financial subsidiaries some of which are involved in speculative activities on commodities markets. The profits at the company have soared in recent years, with a record \$4 billion in profits in 2010-11. Overall, financial investment in commodities – including food, metals and energy – has increased from less than \$100 billion in 2005 to over \$400 billion in 2011.

The French Presidency is trying to forge a consensus on the need to regulate food markets at this year's G20. Agricultural ministers have already signaled their agreement. For Oxfam, failure on the part of the G20 to set new rules would put into question the central role the G20 claims to play in international economic cooperation.

- The G20 must commit never to impose export restrictions that may undermine the right to food and long-term development prospects of poor people.
- Physical and financial markets must be made more transparent, including as near to real time as possible reporting of all transactions. This must be followed by appropriate regulation of trade in agricultural commodity derivatives, including restrictions on passive speculation and establishment of position and price limits.
- The G20 should support the proposed regional emergency reserves pilot in ECOWAS. This should be complemented by support for scaled-up and better managed local and national emergency and strategic reserves as part of the safety net response to food price spikes.

3. Inclusive and sustainable growth

SOME FACTS ON POVERTY AND GROWTH

- More than half of the world's poorest people now live in G20 countries.
- Humankind is currently using up natural resources between 20-50 percent faster than they can be replenished.
- The G20 countries alone use 95 percent of the globe's sustainable resources each year.
- Income inequality has worsened in most G20 countries since the 1990s. At the same time, many lower-income countries have been able to reduce income inequality.

² Oxfam, *Growing a Better Future: Food justice in a resource-constrained world*, 31 May 2011, <http://www.oxfam.org/en/grow/reports/growing-better-future>

³ OECD-FAO, *Agricultural Outlook 2011-2020*, http://www.agri-outlook.org/pages/0,2987,en_36774715_36775671_1_1_1_1_1,00.html

In 2010, the G20 made bold commitments to 'shared growth' and 'green growth'. They said they would support "policies which promote environmentally sustainable growth" and that "for growth to be sustained, it must be shared." If it is serious about that, the G20 needs to lead by example. And that means challenging the status quo. Oxfam's paper '*Left Behind by the G20?*' sets out the evidence and required policy responses.

- **Inclusive growth**

The power of growth to reduce poverty depends on how equitably that growth is distributed. Unless G20 members tackle their own income inequality, a return to strong economic growth will not be enough to stop more people sliding into poverty. This holds true in South Africa, Brazil, Mexico and G8 countries.

High or rising inequality is also detrimental to economic growth itself. Evidence shows that inequality stymies productive investment and undermines the development of strong institutions. G20 members' unwillingness to address inequality goes to the heart of their failure to foster inclusive economic growth. Women, who have less opportunity to realise their rights, have lower incomes and must endure poorer life chances than men, pay the highest price.

All evidence suggests that policy makers must devote more attention to inequality. Despite this, most G20 countries are moving in the wrong direction and are being put to shame by the significant reductions in inequality that have taken place in many low income and lower middle income countries over the last 15 years. The experience of Brazil, Korea and many low and low-middle income countries shows that reducing inequality is within policy makers' power.

The G20's "[*Development Consensus for Shared Growth*](#)" raised hopes that world leaders would try to tilt the balance of economic policy in favour of the poor. And so they must. The G20 must start to focus not only on "growth" as the ultimate achievement of economic policy but more on the way that growth is distributed within society. G20 countries must raise the prominence of income equality and insist that the IMF and World Bank and their own ministries embed measures of distribution and inequality into their work.

- **Green growth**

The current trajectory of unsustainable usage of the world's natural resources is disturbing. No country has yet shown that a high average income can be achieved with the sustainable use of natural resources. In some middle-income countries resource use has grown more slowly than their economy: Mexico's GDP grew four times faster than its CO₂ emissions; China's two and a half times faster. However, the G20's richest countries have on the whole performed very poorly. Only four have reduced their carbon emissions since 1991.

Environmental degradation hits the poorest hardest. Poor people depend most heavily on natural resources for their livelihoods and tend to live in places disproportionately affected by climate change. They also lack the rights or power to secure access to the natural resources they live by, especially and increasingly land.

G20 member countries must act far more decisively to bring their use of natural resources back within the limits of what this planet can provide. The G20 must use its influence to ensure that the climate talks in Durban, followed by Rio 2012, are turning points towards sustainable and internationally equitable use of this planet's resources.

OXFAM AT THE G20

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