glopolis
Prague Global Policy Institute
Pražský institut pro globální politiku

THE WORLD IN CRISIS:

SECURING ECONOMIES AND RESOURCES FOR THE POOR COUNTRIES

Manifesto for the Czech Presidency of the European Union
January 2009

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Prague Global Policy Institute – Glopolis is a non-political, non-governmental organization which focuses on the policy analysis of economic globalization and sustainable development.

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I SUMMARY

In times of crisis, the poor suffer the most. The cumulative effects of global economic downturn, climate change, and energy and food crises call into question the entire economic model and policies of the past quarter of a century. And yet a world in multiple crisis opens windows of opportunity. More stable, equitable and sustainable economies are already springing up locally. To retain greater control over local food, energy and money, to achieve a stable climate and fairer consumption, a global vision of alternative economics and politics is also needed. Smart growth, slower trade, sound investment and stable finance all form part of the challenge. More transparent, accountable and just governance of global markets, companies and institutions must support, not undermine, effective states, public services and modern regional policies. The European Union has a key role to play both at home and abroad. The Czech Republic's unique experience of 20 years of transformation and half a year of presiding over the EU can help facilitate the change now. We therefore call on the Czech Presidency of the EU to:

MONEY UNDER CONTROL

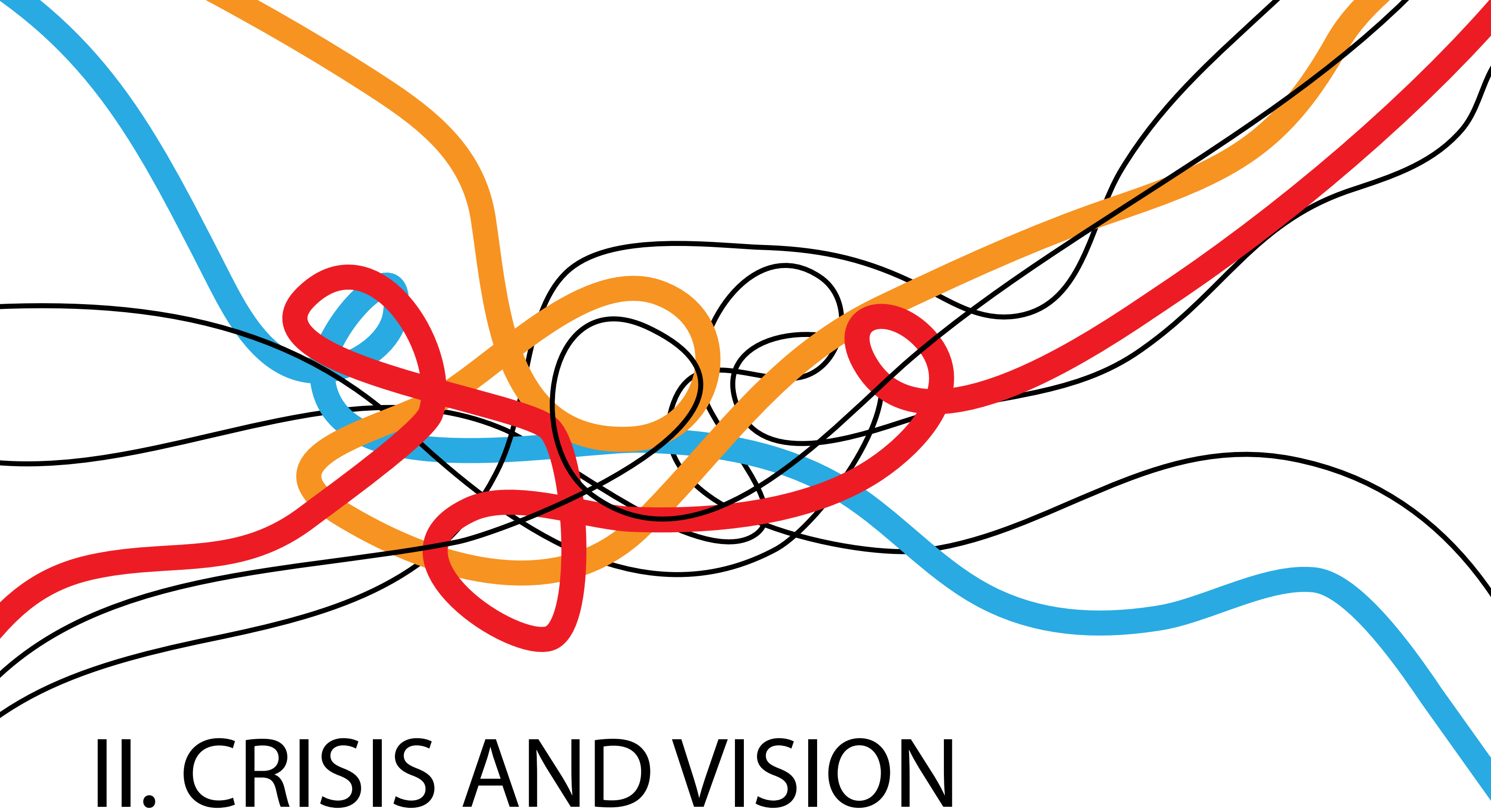
1. Compel tax havens to end banking secrecy, promote Automatic Information Exchange between tax authorities, and expand the European Savings Directive to cover companies and trusts.
2. Push for international accounting standards to include Country-by-Country Reporting of multinational corporations in order to reveal the profits, losses and taxes paid in each country of operation.
3. Make financial regulators and standards setters – including the International Accounting Standards Board, the Financial Stability Forum, the Financial Action Task Force and the Bank for International Settlements – more representative and accountable.

CLEAN ENERGY

4. Lower greenhouse gas emissions by 30% by 2020 (against the 1990 level) and make the current 20% target for the reduction of the consumption of primary energy sources by 2020 legally binding instead just indicative
5. Push for a common EU energy policy to create a functional EU-wide electricity and gas market and not to succumb to pressures from national champions to maintain the status quo.
6. Incorporate into EU development programmes support for poor countries in integrating renewable and decentralised energy sources, forming long-term energy development strategies which ensure access to energy, improving energy efficiency by making EU expertise and knowledge accessible to development countries, and using best practice for the mobilisation of local private sector finance.

FOOD SECURITY

7. Support the realisation of a Global Partnership for Food and Agriculture and ensure that this partnership brings added value to the already existing coordination of the response to the global food crisis and that its architecture is agreed by all developing countries.
8. In line with the European Parliament's demand draft an international proposal on a global inventory of food stocks and on how to support developing countries in bolstering local and regional food stocks.
9. Ensure the implementation plan of the €1 billion Food Facility is result-oriented and pays particular attention to engaging civil society organisations from developing countries in planning, implementing and monitoring actions financed by the Facility.



II. CRISIS AND VISION

Multiple Crisis

The Czech Republic is holding the Presidency of the EU at a watershed period. Europe and the world are being shaken by a multiple global crisis. The US financial crisis that has escalated into global economic crisis is hitting hardest poor and vulnerable communities all around the globe, as are climate change and the crisis in food and energy prices. The global economy has been borrowing too much from both the future and the present – it has accumulated a money debt from future taxpayers, an emission debt from the global climate, and extracts too much land, energy and capital from poor countries.

The governments of rich as well as less rich big countries are spending enormous amounts of tax-payers' money to bail out the financial sector and big economic players and to stimulate their old-style economies depressed by the bursting of the credit bubble. Increased public debt might save a number of important jobs and private economic interests for now. However, it is doing little to prevent further climate change, hunger and polarization between and within societies. It is doing little to initiate a new kind of more stable, equitable and sustainable economy needed globally in the third millennium.

Opportunity

Globally, we are closer to a major change in political thinking than we have been for the past quarter of a century or more. People understand that new forms of economics and politics, lifestyle and international order are arising once again. It is not just the new United States of Obama spirit. The news from the South are much more scattered, but from Brazil and Malawi to India grass-root initiatives, community activism and social movements are running independent bio-farms, carbon-neutral villages and successfully managing local sources, markets and relations with the outside world. Indeed, they are responding to the deeper roots of the current crises. But we need big powers and big markets to make it easier for them.

From the development point of view, the litmus test of the economic and financial reforms to be adopted in response to the crisis should be whether they bring more control over food, fuel and finance to poor communities, whether they increase the stability of the climate and not just the economy, and whether they lead to sustainable and equitable, not just increased consumption.

Glopolis believes that a vision of a new development model is needed to successfully confront the global challenges faced by the world in crises. Change is hard. But the 20th anniversary of the Velvet Revolution is an opportunity to remember that Czech Republic would not be the successful country it is today had its people not found the courage to risk change. The Czech Presidency must not only take pride in history, but also display leadership for the future.

In order to inspire a more future-oriented realisation of the Three Es of the Czech Presidency (Economy, Energy and Europe in the World), we offer the Six Ss of an alternative approach to economics and politics:

1. Sovereignty over Resources
2. Sustainable Production (and Consumption)
3. Smart Growth
4. Slower Trade
5. Sound Investment
6. Stable Finance

Vision

1. The right to resource sovereignty, i.e. basic public (albeit not necessarily state) control over food, energy and money, lies at the heart of successful human development. Those communities and societies that exercise this power over key inputs for their economy – as Western Europe did for most of its history – enjoy advantages in times of both growth and crisis. They are less vulnerable, freer to design the best ways of managing booms as well as more flexible when deciding on the best ways to respond to hardship. Enhanced policy space strengthens their accountability to the public, social diversity and democratic legitimacy, including the right mixture of competition and cooperation and the choice of where, when and how to best engage with external or future resources.

2. The well-being of people depends on the production and consumption of goods and services of key value to them. Both matter for the green social economy advertised by the EU – what is produced and consumed and how. Just as too little production causes various kinds of poverty and the erosion of rights, too much consumption is detrimental to physical and psychological health. More importantly, both excesses imply high social and environmental costs for societies, especially when deprivation and affluence occur in close proximity.

3. Growth is part of human nature, a need and a right. People only achieve self-realisation when attaining and expanding their potential. Furthermore, there are so many areas of human life on this planet that still desperately call for growth, e.g. calorific intake, health care, housing or understanding. At a high cost to nature, current economic growth creates many jobs to satisfy few needs, but only a few jobs to satisfy many other needs. Smart economic growth creates more jobs where most agree they are more needed, enhancing both human and natural capital.

4. If managed well, exchange and openness make individuals more free, and societies better off. However, finding the right scope and scale of openness is difficult and cannot succeed without a right to make – and more importantly reverse - mistakes, without a (fundamentally democratic) right to change. The current wave of global opening has gone too far, too fast, and has locked many policy changes in. The prevailing preference for competition over cooperation has over the past 25 years brought freedom, prosperity and security to those who were ready, but restricted too many who were not adequately equipped. Slowing trade (especially in speculative finance) would allow us on a local level to build the markets, institutions and policies necessary for successful integration, and on a global level to review and adjust liberalisation policies. Better assessment of the costs and benefits of external trade and finance to various societies can make further smart liberalisation more sustainable and legitimate.

5. The EU principle of subsidiarity does not imply a return to autarchy. On the contrary, outside or future resources may be quite helpful in many instances and spread over time, especially where basic infrastructures have developed to support more intense exchange and debts. Whether sound investment is from local or foreign sources, private or government, savings-based or debt-based thus depends on many factors, as does the acceptable level of risk. As this choice differs across economies, cultures and over time, policy space and informed actors again are required. Sustainable, effective and legitimate investment, however, is never characterised by small-scale private gains and large-scale socialised losses.

6. The right policy choices, strong regional and local markets and national institutions, along with the smart growth of the productive economy, slower trade and sound investment are crucial if stable finance is to be achieved. This happens in disciplined countries, where finance is primarily at the service of growth in the real economy, and its expansion is reasonably paced and shared amongst the population, without the huge import or export of capital, and where sustainable, smart consumption is not based on excessive future or foreign resources. Such a financial sector enjoys clear, enforced regulation, justifiable level of risks, profits and debts, but above all freedom and wisdom as to how to integrate responsibly into global financial markets.

III. MONEY UNDER CONTROL

Financial crisis

The roots of the current financial crisis date back to the 1980s. The contraction of state power, removal of borders and the unshackling of market instincts bore fruit for some, but also brought local crises and global problems to many others, especially the poor. The explosion of finance without rules, in turn, led to a building up of global imbalances, collective risks, innovative debts and private profits without frontiers. The slump we are witnessing now not only culminated in a collapse of prices, the evaporation of billions in assets, and recession, but also revealed a breakdown in values and the non-sustainability of the existing economic model. The economic policies of the past three decades resulted not only in polarization between and inside societies and the degradation of natural resources and the climate, but also in greater economic instability, the vulnerability of the poor and a lack of public control over the economy.

Czech Presidency

The financial and economic crisis stands high on the political agenda of the Czech Presidency, which will coordinate the EU delegation at a crucial global meeting during 2009, the G-20 conference in London on 2 April. On 19-20 March the European Council will take stock of what the EU has achieved since the last G-20 meeting in Washington DC and prepare the EU's position for the London meeting. Following on from related 2008 Council conclusions, the Czech Presidency will focus on the rehabilitation of financial markets and better regulation, economic decline, and the EU's contribution to global financial architecture.

A host of proposed financial market recovery measures (e.g. a review of capital adequacy, regulation of the insurance sector, credit rating agencies and cross-border payments) may help to increase transparency and accountability, supervision and the stability of the financial markets. Responsible implementation of the European Economic Recovery Plan may save jobs and soften economic recession, and even assist small undertakings and contribute to structural reforms aimed at a green economy. The Czech Presidency resolution for "[i]nternational cooperation in the stabilisation, regulation, supervision and currency areas"[1] as well as G-20 2008 Summit Declaration raise hopes that some of the root causes of the financial crisis will indeed be tackled. Stabilised markets and improved global economic governance would directly benefit developing countries.

Whether these steps will lead to "a genuine, all-encompassing reform of the international financial system based on principles of transparency, sound banking, responsibility, integrity and world governance"[2] remains to be seen. A lot will depend on actual implementation.

[1] Europe without Barriers – Work Programme of the Czech Presidency 1 January – 30 June 2009
[2] Brussels European Council 15 and 16 October 2008 Presidency Conclusions, 14368/08, para 12

Yet it is also clear by now that many of the core problems of the current global economic crises affecting poor communities are being addressed by the EU and G-20 only very inadequately, if indeed at all.

Economic Governance

World-wide liberalisation, deregulation and privatisation paid little concern to whether developing countries have in place the institutions and policies needed to cope with globalisation (those that the Czech Republic – unlike so many other countries - had during its post-communist transition). In their absence, poor countries were left with less policy space, weakened governments, production orientated towards export rather than domestic consumption, and a dependence on highly volatile external finance. This makes the strong drive to unqualified, further and further global liberalisation one of the most problematic priorities of the Czech Presidency in general and a misplaced response to the financial (and food) crisis in particular (especially if applied to financial services and capital controls). The G-20 contends that "developing economies should have a greater voice and representation[3] in international financial institutions", though reforms of their governance have thus far been very piecemeal. While the G-20 is surely an improvement on the G-8, it is far from being a comprehensive and representative UN-led process.

Tax Justice

While official aid, remittances, loans and private investment to poor countries will tend to dry up as a result of economic recession, capital and other resources continue to flow from South to North. Many developing countries still suffer from illegitimate and unpayable debts, as well as from illicit capital flight caused, for instance, by abusive transfer pricing. Much of the estimated EUR 500 billion lost every year to criminal activities, corruption and tax evasion flows through tax havens – a fact which is blatantly not addressed in official responses (except UN) to the financial crisis. Yet tax havens play a major role in speculation on commodities, facilitate money laundering, destabilise the financial system and cost EU taxpayers alone about EUR 100 billion[4] every year. Moreover, they also reduce the public revenues of North and South indirectly as they feed unfair global tax competition.

Local Economies

Taxation is the most predictable, sustainable[5] and safe source of financing for development over the long term. Besides funding the essential public services and other development policies of poor countries, taxes also allow for the redistribution of wealth, regulation, and strengthen democratic representation. Local development is best aided by stronger national and regional economies. Yet EU and international support – through financial, trade and development policies – for regional currencies and innovative financial bodies in developing countries, and for new local and national financial markets, including local corporate and equity markets, is insufficient, if, indeed, present at all.

1. We call on the Czech Presidency of the EU to start work on compelling Offshore Financial Centres (tax havens) to end banking secrecy, to promote Automatic Information Exchange between tax authorities (tax cooperation), and to expand the European Savings Directive to cover companies and trusts.

2. We call on the Czech Presidency of the EU to push for international accounting standards to include Country-by-Country Reporting of multinational corporations in order to reveal their profits, losses and taxes paid in each country of operation.

3. We call on the Czech Presidency of the EU to encourage financial regulators and standards setters – including the International Accounting Standards Board, Financial Stability Forum, Financial Action Task Force and the Bank for International Settlements – to become more representative and accountable.

[3] Declaration of the Summit on Financial Markets and the World Economy, November 15, 2008, Washington DC
[4] Addressing Development's Black Hole: Regulating Capital Flight, Eurodad, 2008
[5] Hole in the pocket – Why unpaid taxes are the missing link in development finance, ActionAid Briefing Paper, November 2008

IV. CLEAN ENERGY

Climate Change

Like the financial crisis, climate change is also a development problem. Historical and current emissions of greenhouse gases have the potential to undermine important development benefits. Melting glaciers and rising sea levels, droughts and floods, and more violent weather patterns are all hitting the poorest people of this planet first and the hardest. Their farms, roads and settlements are at threat, regardless of their economic or financial situation. Therefore, the global economic crisis must not divert our attention from the challenge to base economic growth and employment on energy consumption which is not harmful to our environment. Energy policies have thus quickly become climate and development policies as well.

Czech Presidency

Energy and climate belong to one of the three flagships (Es) of the Czech Presidency. As one of the biggest polluters the European Union plays an important role in tackling climate change, by providing clear leadership in respect of both domestic policies and international negotiations. Adoption of the climate-energy package by the European Council in December 2008 was only the first – admittedly weak, but important – step in the process of countering climate change.

In 2009, the EU will participate in the final round of negotiations within the UNFCCC[6] framework, to culminate in December in Copenhagen with the signing of a new (post-Kyoto) climate convention. The Czech Presidency will pave the way to EU collective commitments to reduce emissions and to effectively support developing countries, so that these can adapt to climate changes, as well as shift to cleaner, low-carbon economies. Three basic principles must be observed on the road to Copenhagen: common but differentiated responsibilities, equity, and full consideration of the development needs of developing countries.

The Road to Copenhagen

A shared vision must be guided by the ultimate, scientifically-supported objective of maintaining the increase in global warming below 2°C so as to avoid unmanageable consequences.
This encompasses the reduction of emissions, as well as mitigation, adaptation, technology transfer and financing. A Green Paper released in late January 2009 by the European Commission will reveal the EU's initial take on all thesekey aspects of international climate negotiations.

[6] United Nations Framework Convention on Climate Change

The Czech Presidency will then facilitate the EU negotiations of the official position to be reflected in March's Environment and ECOFIN Council conclusions. Effective mitigation will require the adoption of ambitious reduction targets so that global emissions peak and start declining over the next 10–15 years, and are reduced by at least 50 % by 2050 compared to their 1990 levels. Developing countries should contribute according to their respective capabilities with/by a 15-30% deviation from business as usual by 2020. On the other hand, rich countries, which bear the largest share of responsibility as well as the capability to act, must adopt mid-term targets within a range of 25-40% by 2020 and 80-95% by 2050. So far the EU has not agreed to such targets.

Financial and other instruments earmarked for adaptation measures and technology transfer to developing countries must not be part of Official Development Assistance. Instead, they must go beyond these commitments. Adaptation plans need to be streamlined into national development strategies as well as into the implementation strategies of international and national agencies and non-governmental organisations. The Czech Presidency will also need to ensure that local communities are mandated to participate in the preparation of local and national adaptation plans.

Modern Energy Policy

Along with climate negotiations the Czech Presidency will have a significant influence on the formation of the EU's domestic energy policy. Namely, it will reflect on European Commission's Strategic Energy Review. This review will form the basis for the EU Spring 2009 Council Conclusions. The Czech Presidency is expected to formulate concrete proposals for the future development of EU energy policy in the form of an Action Plan for Energy Policy for 2010-2012. Energy policy for the 21st Century which passes the test of compliance with both stable climate and sustainable development needs to be based on three pillars:

- High energy source effectiveness and low overall energy consumption
- Scaling up of renewable energy resources
- Decentralisation of production capacities and transmission systems

Important negotiations within the framework of the Third EU Liberalisation Package will be led by the Czech Presidency, including discussions regarding electricity and gas trade liberalisation and ownership unbundling of energy production and distribution. The Czech Presidency can also determine the level of investments into the EU energy infrastructure, the extent to which local resources are used, and the interconnectedness of national levels. Higher levels of infrastructure investments are one of the primary preconditions for the functioning of the EU's internal electricity and gas market. Therefore, the contribution of the resources from EU structural funds earmarked for energy efficiency, renewable resources support and R&D in low-carbon technologies will be a benchmark of the Czech Presidency to monitor.

Local Energy

Last but not least, local sustainable sources of energy are a number one priority of the Czech Presidency in the field of development cooperation. If the EU is serious about setting poor countries off on the road to a low-carbon development model, access to modern technologies is needed. For this reason, the Czech Presidency will be evaluated inter alia against the extent to which the EU's financial and technical support for the creation and strengthening of institutional capacities in developing countries is effectively increased.

1. We call on the Czech Presidency of the EU to increase the binding targets for reduction of greenhouse gas emissions to the level of 30% by 2020, taking 1990 as a benchmark, and to change the current 20% target for the reduction in the consumption of primary energy sources by 2020 from indicative to legally biding.

2. We call on the Czech Presidency of the EU to push for the establishment of a common EU energy policy, based on effectiveness, renewable resources and decentralisation, with a functional electricity and gas market, and not to succumb to pressures from national champions for maintenance of the status quo.

3. We call on the Czech Presidency of the EU to explore ways of incorporating into EU development programmes support for poor countries in: a) integrating renewable and decentralised energy sources into their energy supply mix, b) forming long-term energy development strategies which ensure access to energy and achieving future low-carbon energy systems, c) improving energy efficiency by making EU expertise and knowledge accessible to development countries, and d) taking account of independent analyses of current best practice for the mobilisation of local private sector finance.

V. FOOD SECURITY

Food Crisis

Access to food stands at the core of the foremost Millennium Development Goal – halving world hunger by 2012. In 2008, agricultural commodity prices on world markets reached their highest levels in 30 years. Several short-term factors caused food price inflation: the increased demand for agricultural commodities created by the rapid development of agrofuels; lower production levels due to weather-related problems in some major producers for world markets such as Australia; higher production costs as a result of high energy prices; and a low level of global food stocks, only enough for 40 days in 2008. Then the financial crisis got underway and again worsened the perspectives of the poor countries for sustainable development and poverty eradication. The turmoil on financial markets has pushed agricultural commodity prices upwards and increased their volatility. "Investments" in grains from speculators reached $13 billion in 2003 and exploded to $260 billion in March 2008[7] .

But neither of these factors was sufficient to lead to food riots in around 30 countries and to throw another 40 million people into a spiral of chronic hunger just within the single year of 2008. It is decades of neglect of agriculture combined with agricultural trade liberalisation processes which have worsened the exposure of many developing countries to food crisis. While high food prices (albeit somewhat ameliorated by the economic crisis) have dramatic consequences for the poor today, the previous era of low international agricultural prices has to a large extent paved the way to the current food crisis.

Bad Policies

By under-prioritising production for domestic markets and relying on cheap imports for staple food, several countries have rendered themselves net food importers and thus very vulnerable to food price increases. In the 1960s, developing countries had an overall agricultural surplus of about US$ 7 billion. In 2001, their deficit was about US$ 11 billion. In parallel, the focus on exports as a main source of income has diverted efforts away from developing local agriculture and the market infrastructure, and from developing local purchasing power. The governments of most developing countries only spend around 4% of their budget on agriculture, despite widespread agreement that only at 10% of the total budget does it become possible to reasonably develop the agricultural sector. Last but not least, total Official Development Assistance to agriculture has dropped from 17% in 1982 to 3% in 2005.

Tools such as public food stocks, which offer a safety valve preventing prices from rising or falling too steeply, have more and more been abandoned over the last 15 years. They were considered trade-distorting under WTO rules and highly expensive by the World Bank and the IMF.

[7] De La Torre Ugarte, D.G, Murphy, S. (2008), "The Global Food Crisis: Creating an Opportunity for Fairer and More Sustainable Food and Agriculture Systems Worldwide" in EcoFair Trade Dialogue, Heinrich Boll Foundation, Misereor, and Wuppertal Institute for Climate, Environment and Energy, Discussion paper No. 11.

But such arguments fade into insignificance given that the food import bill of developing countries increased by 33 per cent in 2007[8] and even more in 2008. Local and regional reserves would provide a way to help stabilise national or regional markets, support local production and increase rural incomes, while reducing people's vulnerability to natural disasters and the need for international aid.

Czech Presidency

The ongoing food crisis is not deemed a priority by the Czech Presidency. This total disengagement on the part of the Czech Presidency in respect of this agenda contrasts with the approach of the EU during previous Presidencies. The May 2008 GAERC Conclusions and June 2008 European Council Presidency Conclusions listed short-term measures, as well as medium and long-term responses focusing on humanitarian aid, safety nets, financing agricultural inputs, support to public and private investments in agriculture, better agricultural policies in developing countries, the reinforcement of regional integration, and a reduction of imbalances in food markets[9]. They also stated that the EU would promote a more coordinated and long-term answer to the current food crisis at the UN, within international financial institutions, and within the context of the G8".

A first concrete step in providing a response was the adoption by the European Parliament and the Council on December 8th of a regulation establishing a Food Aid Facility worth €1 billion between 2008 and 2010. The facility has been designed to address primarily the period between emergency and medium to long-term development assistance. The regulation stipulates that non-state actors are eligible partners for implementing the instrument. Another concrete step was France's proposal for the establishment of a Global Partnership for Food and Agriculture. This proposal has won support from other European Member states.

Rather than promoting long-term responses to the food crisis, the programme of the Czech Presidency threatens to impede them. Through its championing of free trade as a tool for solving the global economic crisis, the Czech Presidency is perpetuating the increasingly criticised mainstream stance, which has proved to be harmful to the food security of many developing countries. Moreover, its aim of leading a debate on how to lay foundations within Common Agricultural Policy for "strengthening the position of European agriculture and European food-processing industries on the global open market" ignores the need to limit the market[10] power of agri-business over small farmers, not only in developing countries, but in Europe as well.

1. We call on the Czech Presidency of the EU to support the realisation of a Global Partnership for Food and Agriculture and to ensure that this Partnership brings added value to the already existing coordination of the response to the global food crisis and that its architecture is agreed by all, developing countries in particular.

2. We call on the Czech Presidency of the EU to create – in line with the European Parliament's demand – an international proposal on a global inventory of food stocks and on how to support developing countries in reinforcing local and regional food stocks.

3. We call on the Czech Presidency of the EU to ensure that the implementation plan of the €1 billion Food Aid Facility is result-oriented and pays particular attention to engaging civil society organisations from developing countries in planning, implementing and monitoring actions financed by the Facility.

[8] Oxfam, Note on Policy on Grain Reserve, 2008
[9] Council Conclusions: Speeding up progress towards the MDGs, 2870th External relations Council Meeting, Brussels 26-27th May 2008
[10] Czech Presidency of the Council of the EU, Work Programme of the Czech Presidency, Europe without barriers 1 January- 30 June 2009, p 17