

Policy recommendations for consideration by G20 officials

Recognizing that the G20 agenda bears directly upon business goals for trade, economic growth and job creation, ICC has undertaken the responsibility to share global business views on these topics. Our aim is that you find these views to be of value to your deliberations.

Our focus, like yours, is currently on Cannes and to this end we are collaborating with other key groups, including the World Economic Forum (WEF) and the Mouvement des entreprises de France (MEDEF). Over the longer run, we endeavor to establish an enduring, legitimate voice of global business and a primary source of business expertise on the global policy agenda.

The following recommendations are the product of an inclusive, global consultative process that has collected input from companies and business organizations of all sizes and in all regions of the world.

1. Trade, investment and development

The G20 has a key role to play in ensuring an open global economy that will facilitate cross-border trade and investment by business to nurture economic recovery, job creation and sustainable development.

Recommendations to G20 leaders

- G20 leaders should lay the ground for an ambitious, balanced and comprehensive Doha Round agreement under a single undertaking approach as originally envisaged. At the very least, the G20 should agree to implement a future work programme at the WTO's December 2011 Ministerial Conference.
- G20 governments should re-engage substantively in negotiations among themselves and with other WTO members to produce better offers on agriculture, industrial goods, and services.
- G20 leaders should build on efforts of past G8/G20 Summits to "create a predictable and stable climate for investment" and elaborate a reference framework for international investment as a practical tool to help countries review their international investment agreements. Agreement on shared principles should serve as a basis for a more structured and wider process towards a common multilateral framework in the long-term.
- The G20 should create the conditions for scaling-up business contributions to sustainable development through public-private partnerships and the creation of enabling business environments.

2. Strengthening financial regulation and ensuring the availability of trade finance

New global financial regulations should be complemented by effective international supervisory mechanisms and consistent implementation across jurisdictions. Great care should be taken to avoid that new regulations have a detrimental effect on the availability of trade finance, especially in developing countries.

Recommendations to G20 Leaders

- Basel III should be understood and implemented in a consistent manner across jurisdictions, building on the guidance published over the years by the BCBS, but perhaps with additional guidance focused on the very different conditions created by Basel III.
- If a leverage ratio is to be adopted, off-balance sheet trade products should be allowed to retain the Credit Conversion Factor (CCF) values used by banks under the current "risk weighted assets" calculation (Basel II). This would allow financial institutions to "apply a lower (positive) CCF for unconditionally cancellable

commitments or Basel II standardized CCFs". The ICC-ADB Trade Register¹ can provide evidenced-based information for this purpose. It is our view that such an approach would be consistent with the G20 agenda to promote trade finance, without compromising the overall objective of the BCBS proposals.

- There should be reconsideration of the Basel rules in respect of the maturity floor applied to trade assets under the advanced model. The ICC Register has clearly confirmed that the average LC has a maturity close to 90 days (a standard of payment in short term international trade), so obliging financial institutions to back self-liquidating asset for a full year is a considerable waste of capital resources at a time when these are scarce.

3. Fighting corruption

Corruption threatens the integrity of markets, undermines fair competition, distorts resource allocation, destroys public trust and undermines the rule of law. It is estimated that corruption adds up to 10% to the total cost of doing business globally, and up to 25% to the cost of procurement contracts in developing countries. Moving business from a country with a low level of corruption to a country with medium or high levels of corruption is found to be equivalent to a 20% tax on foreign business.

Recommendations to G20 leaders

- All G20 governments should ratify and implement UN CAC. G20 governments should also encourage work with non-G20 states toward a universal adoption and implementation of UN CAC.
- All G20 governments should become parties to the OECD Convention on Combating Bribery of Foreign Public Officials.
- Each national government should consider creating a reporting mechanism to provide assistance to companies that are confronted with a solicitation for bribe and/or extortion, and to resolve other concerns that may arise in the context of public procurement and international projects. To be effective, such a mechanism, which could take the form of an "ombudsman" function, should provide adequate guarantees of independence and be subject to annual reviews of effectiveness.

4. Reforming the international monetary system

While the global economy may have avoided the worst of the crisis via the injection of massive amounts of fiscal and monetary stimulus, several broad issues regarding the current international monetary system remain, including the set of rules, norms, and institutions that governs the world's currencies and the flow of capital across borders. Dealing with these issues requires both fiscal and structural reform as one without the other is not sustainable in the long term.

Recommendations to G20 leaders

- G20 leaders should enhance economic surveillance to provide as accurate a picture as possible of economic flows and overall sustainable economic development of an economy. G20 leaders must also take into account that their countries' domestic policies interact and affect global stability and have spill-over effects.
- G20 leaders should promote international exchange rate coordination to avoid currency wars. While IMF members, under its Articles of Agreement, have the right to choose their respective exchange rate policies, they also have a stated obligation to avoid manipulating exchange rates to secure a competitive advantage. G20 leaders could consider making countries' obligations more specific, perhaps through the use of benchmarks to identify instability and misalignment. G20 leaders could further develop/integrate a joint monitoring system along the lines of that for capital controls to monitor excessive exchange rate fluctuations.

¹ Created in November 2009, the Register pools performance data for trade finance products from nine international banks, covering a total of 5.2 million transactions between 2005 and 2009 with a total value of over \$2.5 trillion.

- In light of the experience of the recent crisis, further steps should be taken to make the IMF more receptive to being a global lender of last resort ready to act in a reliable, rules-based fashion, and with appropriate protections to limit moral hazard.

5. Mitigating the adverse impacts of commodity price volatility

Commodity markets are inherently volatile, as evidenced by the 2007-2008 rise and fall of prices as well as by recent fluctuations due to global political tensions. Rising commodity prices, particularly for fuel and food, have placed millions at risk of malnutrition and hunger and are exacerbating social and economic tensions worldwide. During the recent period of global economic expansion – 2002 to 2008 – the factors that drove prices were a combination of strong global demand in emerging markets for global commodities, slow supply responses, and low inventories, thus reducing the ability of markets to react to events.

Recommendations to G20 leaders

- G20 leaders should avoid measures that may increase volatility such as overregulating over-the-counter derivatives (OTC) deals.
- G20 governments should eliminate trade-distorting subsidies to ensure a level playing field in the global marketplace and avoid limits on the use of technology which can hinder opportunities and deprives farmers of agricultural tools.
- G20 leaders should encourage the International Energy Forum to press on with its Joint Oil Data Initiative.
- G20 leaders should look to improve access to raw materials by encouraging greater dialogue, including with the private sector on issues related to access to raw materials and enhance market access to raw materials that are, for example, critical to deal with global challenges such as climate change.

6. Encouraging Green Growth

The prospect of critical, interlocking crises for climate, energy, food and water presents the G20 with a significant challenge to secure and expand economic opportunities for a growing population while ensuring that economic growth and environmental and social responsibility work together in a mutually reinforcing fashion.

Recommendations to G20 Leaders

- G20 leaders should avoid potential competitive distortions in international trade in the transition to greener economies and provide a stable economic environment governed by the rule of law, including effective intellectual property rights protection (IPR), strong contractual arrangements and open, rules-based trade – all strong prerequisites to driving green growth.
- G20 leaders should encourage the implementation of UNFCCC Cancun agreements at COP 17 in Durban and work towards a truly global agreement on climate change, but not let delays in such agreements slow establishment of effective domestic policies.
- G20 leaders should establish clear and consistent standards to better measure environmental footprints and support benchmarking efforts and use of these standards in policy setting.
- G20 leaders should pursue market-based carbon pricing (either via through a market-based, cap-and-trade approach or via taxation approaches) within the context of each country's respective national circumstances.

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