



**DIRECTORATE-GENERAL FOR EXTERNAL POLICIES OF THE UNION
POLICY DEPARTMENT**

**DIRECTORATE-GENERAL FOR INTERNAL POLICIES OF THE UNION
POLICY DEPARTMENT A**

G20: AN ACCOUNTABLE AGENDA?

SUMMARY OF THE CONFERENCE 4 JUNE 2012



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On Monday 4 June 2012 the European Parliament (EP) discussed the upcoming G-20 summit to be held in Los Cabos in Mexico on 18-19 June 2012. The event was sponsored by the chairs of AFET, DEVE, ECON, INTA and ENVI, and was organised by the Project team on the G20. While stressing the need for greater democratic legitimacy of the G-20, the conference examined the priorities put forward by the Mexican Presidency, including economic governance issues to face the economic crisis. The Vice President of the European Parliament, Mr Othmar KARAS, gave the introductory speech. Ms Sandra FUNTES-BERAIN, Ambassador of Mexico to the EU, explained the views of the Mexican Presidency and the need to build an effective and efficient system of checks and balances in international economic governance.

The EP conference was divided into two panels: the first underlining new challenges for economic governance and the second focusing on the economic, social and environmental preconditions for global growth and employment.

1. INTRODUCTION

An effective system of checks and balances for the G-20?

Othmar KARAS, Vice-President of the European Parliament

Mr KARAS welcomed the participants and reminded them of the importance of the conference. He focused on the following aspects:

New Challenges necessitate new global governance: The forces of globalisation had dramatically changed the face of the world, Mr KARAS said. The financial and economic crisis had clearly shown that countries had become more closely interconnected and interdependent. Mr KARAS stressed that this new challenge necessitated a new form of global leadership and global governance based on shared responsibilities. The numbers of issues that must be solved globally were increasing; they included climate change, health risks, and others. He stated that in order to face this new reality, the current 'problem solving toolbox' did not suffice. New instruments were therefore needed, as was a reform of international institutions and fora. Although an 'informal body', the G-20 has played a central role since the outbreak of the crisis. The G-20 represented an important element of the new global governance system and must deal with the most important international issues, e.g. regulation of financial markets and the fight against protectionism.

Increasing the democratic legitimacy of G-20: Mr KARAS stressed that the G-20 had significant untapped potential, but that it also lacked democratic legitimacy. Greater transparency and parliamentary scrutiny was therefore needed. The G-20 Speakers' Consultation is only the first step in setting up a truly democratic G-20. Mr KARAS proposed that the Head of State of the country hosting the G-20 take part in the Speakers' Meeting, and that, in return, the Speaker of Parliament take part in the G-20 Summit. In order to develop its democratic underpinnings, the G-20 must open up its work to elected representative bodies around the world. G-20 national delegations should report to their national parliaments before they leave for the G-20 Summit and again upon their return.

The Mexico G20 Presidency

Perspectives on the priorities of the G-20 agenda

Sandra FUNTES-BERAIN, Ambassador of Mexico to the EU

Ms FUNTES-BERAIN said that the Mexican Presidency of the G-20 was confronted with very complex negotiations. In this difficult global economic situation, the presidency had five priorities in its G-20

agenda. The aim of Mexico was not only to deal with the urgent issues that required political input from the G-20, but also to confront medium- and long-term challenges. The Mexican Presidency wanted to ensure continuity, to follow up commitments taken in previous summits and to represent the interests of both developed and developing countries.

The five priorities were:

i) **Ensuring economic stability.** structural reforms are required to strengthen economic growth and create high-quality and sustainable jobs.

ii) **Strengthening financial systems and financial inclusion to reinforce growth.** Ms FUNTES-BERAIN said the instability of financial markets in developed countries demonstrated the need for fundamental reforms of regulation in both developed and developing countries. Moreover consumer protection was needed in order to achieve development and to reduce poverty.

iii) **Optimising international financial structures** and in particular the IMF. The aim of the Mexican Presidency was to work towards providing international organisations with the resources necessary for promoting stronger, more sustainable and balanced growth.

iv) **Strengthening food security and minimising the volatility of the prices of raw materials.** The Mexican Ambassador stressed that there were strong fluctuations in the agricultural sector that affected the poorest of the world's population.

vi) **Tackling climate change and promoting sustainable development.** Mexico strongly believes that the environmental impact of the current model for economic growth should be examined. However, it is very difficult to convince the 19 other partners of the importance of a green agenda.

Ms FUENTES-BERAIN expressed her hope that these priorities would be translated into positive results, not just for the members of G-20 but for the international community as a whole. Finally the Mexican presidency has promoted the inclusion of business leaders, civil society and youth in the G-20 related activities.

2. PANEL 1:

Which challenges for governance in the 21st century?

Chair: Ioan Mircea PAȘCU, Vice-Chair of the Committee on Foreign Affairs

Mr PAȘCU explained the importance of the conference and thanked participants. He focused on the need to update international institutions. He affirmed that they were presently structured in the same way as they had been after the Second World War. According to the Mr PAȘCU, the world has changed, and global governance must therefore change as well.

Gabriela RAMOS, *Chief of Staff and G-20 Sherpa, Organisation for Economic Cooperation and Development (OECD)*

Ms RAMOS pointed out that this G-20 conference would be different from previous global meetings. In particular, the preparatory conferences for this G-20 have been structured according to OECD's contributions, thereby giving the G-20 a strong analytical framework and demonstrating that international institutions can work together to achieve global goals. Ms RAMOS confirmed that there must be a common will to build structured international cooperation in order to achieve balanced governance. As a result, only an informal structure as the G-20 can contribute to creating a balanced and updated governance system. Ms RAMOS also stressed the efficiency of the G-20 in bringing together many countries and pooling efforts to face the economic crisis. However, given the economic data of EU countries, the current situation is not good: the efforts of the G-20 must therefore be directed towards sustainable and green growth. In particular, she suggested three areas of focus:

- i) an improved education system for younger generations,
- ii) sustainable economic development,
- iii) gender parity.

She concluded that the overall efforts of the G-20 were positive.

Daniel GROS, *Director of the Centre for European Policy Studies (CEPS)*

Mr GROS characterised the G-20 as a useful forum, but expressed doubts that it could lead the world economy beyond the current crisis. He presented a study on the external representation of the euro area, recently carried out at the request of the European Parliament. This study proposed that the International Monetary Fund (IMF) could represent the euro area for both fiscal and monetary issues. According to Mr GROS, the argument usually launched against this proposal is that the IMF deals principally with fiscal affairs, while the euro area does not have a fiscal authority. Yet the creation of the ESM is changing this situation. The euro area is in the process of creating a form of fiscal authority, of which the European Stability Mechanism (ESM) is a precursor. Mr GROS proposed that the fiscal interests of the euro area Member States could be bundled in the IMF via the ESM. At a final stage of development, the ESM could represent the fiscal interests and the European Central Bank the monetary interests of the euro area within the IMF. He also outlined concrete steps to reach this final stage.

Daniel GUYADER, *Head of Division, European External Action Service (EEAS)*

Mr GUYADER emphasised that, in reality, global governance at the moment is fragmented, plural and disintegrated, and that true global governance remains to be achieved. He mentioned different elements contributing to the challenge of global governance in the 21st century:

Mr GUYADER enumerated a long list of global challenges and stressed the need for global answers. The EEAS could provide some elements for reflection. The G-20 was moving into the right direction by tackling issues other than purely economic and financial ones. Foreign policy topics (Iran, Syria) should also be placed on the G-20 agenda. He pointed out the interconnectedness of economic, political and security issues, which makes it imperative to comprehensively monitor the international agenda. Mr GUYADER also underlined several pressing needs: a pragmatic reform of multilateral institutions within the international framework; a rigorous and constant monitoring of the commitments of the G20 and other international fora (necessitated by the unsatisfactory degree of compliance); preventative rather than reactive diplomacy; and a better balance of short- and long-term objectives. He asked how the debate about efficiency and legitimacy of G-20 could be strengthened. Rather than substituting for other international institutions, the G-20 should instead provide political leadership. The relation of the G-20 to other international fora and institutions should be determined by principals of efficiency and complementarity. Europe was not yet relegated to the back burner; Europe still had much to offer and should use the tools created by the Lisbon Treaty. One of the main challenges for the G-20 would be implementing a mature and effective global foreign policy governance framework, and the EU should continue framing the debate on global economic governance. Mr GUYADER said he fully agreed to what Mr KARAS had said in his introductory speech.

Debate

Gunnar HÖKMARK, MEP, Committee on Economic and Monetary Affairs, Rapporteur on 'Global Economic Governance' (2011/2011(INI)).

Mr HÖKMARK described a world that had changed dramatically (with the collapse of Soviet Union, greater interconnectedness via the internet and the decreasing global economic dominance of US and Western Europe), while its global economic institutions had remained more or less the same. Richer countries were confronted with increasing public spending and debts; at the same time, less wealthy countries were building surpluses. The key for global institutions was to acknowledge that there was a global economy and a need for global governance, particularly in the areas of monetary policy, free trade and public finance. In addition, it was necessary to improve the monitoring and global surveillance of financial markets.

Nirj DEVA, MEP, Committee on Development

Mr DEVA pointed to the collapse of the international institutions since the last economic crisis. He criticised the G-20, G-10 and G-7 as informal and inefficient international bodies that have been unable to avoid the fact that national interests prevailed over international interests. He also criticised that European Institutions as slow to react to new challenges, thereby discouraging countries such as China and India from following Europe and its weak democracy. At the end, Mr DEVA questioned how advanced countries would face the fact that every year EUR 800 billion left African countries as 'black funds'.

Reply by Ms RAMOS

Ms RAMOS replied that the G-20 was committed to achieving higher growth and had been working to build a framework to create strong, sustainable and balanced growth. Understanding how the production processes worked in international trade and the investment environment would change the

organisation's manner of dealing with trade issues. The current outlook perceived exports as positive and imports as negative. Yet this mentality failed to recognise the complex reality of production chains. Ms RAMOS concluded that the agenda was moving forward and that the G-20 should continue to push for a stronger world economy.

Reply by Mr GUYADER

Mr GUYADER singled out a number of points. First, things were moving into the right direction although not always as quickly as they should. Yet things were evolving. In addition to financial issues, issues such as fighting poverty, green growth were now also part of the international agenda. Second, he underlined the role Europe could play despite its current turmoil. European values offered important elements to its partners. Finally, Mr GUYADER said, the global fora had evolved considerably over the last decades and would have to evolve further in the future.

3. PANEL 2:

Which preconditions for global growth and employment?

Chair Vital MOREIRA, MEP, Chair of the Committee on International Trade

Mr MOREIRA stressed the importance of the parliamentary dimension to global governance and the G-20 proceedings. He opened the second panel, devoted to the conditions required for global growth and employment.

Lorenzo BINI SMAGHI, Harvard University's Centre for International Affairs

Mr BINI SMAGHI stressed several aspects that were necessary to consider in order to build a more legitimate international forum.

i) Understand that the issue of 'accountability' was an instrument in the hands of the European Parliament: the European Union needed to adopt a more coherent approach to topics such as trade, imbalances and growth in order to have a more efficient and influential voice in the G-20.

ii) The European institutions had to understand that crisis risk aversion and crisis contagion were international issues that demanded international solutions. Otherwise international investments would dissipate.

iii) Problems existed outside the EU. A sustainable international economic system would not allow countries such as the USA and Japan to borrow money from international markets if their internal deficit was persistent and high.

iv) International imbalances had been provoked by the high price volatility in commodities markets. This was a particularly urgent issue for emerging markets, where commodities were related to industrial production and subsequently with sustainable economic growth.

v) In fact, global imbalance was not diminishing quickly. In terms of capital accounts, a great deal of capital was flowing from emerging markets to developed markets, such as the US and the EU, where capital markets were more liquid and safe. As a consequence, this mechanism could enhance free and necessary adjustments in foreign exchange markets.

vi) EU countries needed urgently to achieve a permanent fiscal equilibrium in order to balance external trade performances and keep at bay their competitive differences. Creating this equilibrium would require strong changes in the exchange policies.

vii) To solve the global imbalances, it had to be understood that BRICS countries were more willing to face a 'foreign exchange war' than were the European countries. The BRIC/BRICS remained critical of the EU and the US's expansive monetary policy.

Finally, Mr BINI SMAGHI argued that all these issues had to be resolved within an international forum such as the G-20 if the fora were to achieve more international legitimacy.

Peter BEKX, Director on International Economic and Financial Relations, Global Governance, DG ECFIN, European Commission

Mr BEKX started with an outline of the current state of the global economy and both the short- and long-term risks. He emphasised that the global economy remained highly vulnerable. The most immediate threat was an intensification of the euro area crisis, which could reactive or worsen adverse feedback loops. In order to avoid this, the EU needed to act simultaneously in three areas: banking, confidence in sovereigns and economic growth. Other immediate risks were fiscal policy in the United States ('fiscal cliff') and a potential oil supply shock. The medium- and long-term risks involved

inadequate fiscal consolidation in the United States and Japan. Finally, risks in emerging markets, such as a rapid credit expansion, also existed.

In view of the Mexican G-20 summit, Mr BEKX highlighted the position of the Commission and focused on the following priorities:

- i) The sovereign debt crisis. The Commission would make it very clear that the integrity of the euro area was not to be put in doubt. Greece had to remain in the euro area (while respecting its commitments), and the EU expected support from the G-20 partners on this position. The Commission would also explain how it intended to promote growth in the EU, where the most important force remained the single market.
- ii) Difficulties beyond the euro area. As the situation in the euro area was not the only issue of concern, the Commission would stress that other G-20 members should recognise their responsibilities. The Commission would urge the US and Japan to produce credible medium-term fiscal consolidation plans and would call on China to strengthen its social safety nets, to carry out further structural reforms and to speed up its move towards a market-determined exchange rate.
- iii) Trade. Because trade should provide a source of growth and jobs, the EU would call on the G-20 to enhance its fight against protectionism and further strengthen the multilateral trading system. The recent surge in protectionism in countries including Argentina and Brazil was a major issue of concern, and the G-20 should confront it.

Debate

Daniel CASPARY, MEP, Committee on International Trade, Rapporteur on 'New Trade Policy for Europe under the Europe 2020' (2010/2152(INI)).

Mr CASPARY underlined two points, which might serve as preconditions for global growth and employment:

- i) Resolving the debt crisis. The whole world considered the European economic crisis as key to all international imbalances. He underlined that the Greek GDP represented 2 % of the European GDP and questioned how the European Institutions had been unable to face the crisis. According to Mr CASPARY, a deficit crisis also existed in the UK, although all international financial and economic institutions were focused on Greece.
- ii) Global growth. While all international institutions were discussing programmes for growth and employment, Mr. CASPARY said, global growth would not be possible if the institutions failed to build the economic, social and political preconditions for sustainable growth. These preconditions represented a *conditio sine qua non* for all reforms and programmes. Mr CASPARY suggested that the European market should be more open to BRICS countries.

Richard SEEBER, MEP, Committee on Environment, Public Health and Food Safety

Mr SEEBER emphasised the need to look at long-term issues such as climate change, demographic change and scarcity of natural resources and to consider the effects that they would have on society. Developments in regard to coal, gas or oil would be crucial in the future, and attention should be paid to how to internalise external costs. Mr SEEBER stressed that long-term changes should be adopted to avoid abrupt changes that could lead to unrest and conflict. He described these developments as the major political challenge politicians were faced with today.

Bas EICKHOUT, MEP, Committee on Environment, Public Health and Food Safety

Mr EICKHOUT stressed it was necessary to think in terms of the planet while developing economic growth. He underlined that the targets that were set in regard to, for example, climate change and biodiversity, had not been properly addressed. Mr EICKHOUT said that the fossil economy was still promoted and subsidised, including through taxation, and that the economy was still, to a large extent, based on labour instead of on the use of resources. This approach had created a wasteful approach to global resources.

Mr EICKHOUT argued that investing in a resource-efficient economy would significantly reduce costs and create jobs, and that a resource efficient economy was the only possible future economy. He concluded that it was necessary to reflect today on how to spend money wisely; otherwise, a major crisis would occur in ten years' time, with far greater consequences than the euro crisis of today.

Reply by Mr BINI SMAGHI

Mr BINI SMAGHI said he shared the MEP's concerns, and particularly his sense that there was too great a difference between long-term and short-term goals. He argued that many international issues were focused on short-term issues. Financial markets were focused on the short-term sovereign debt crisis. However, Mr BINI SMAGHI stressed this outcome was not optimal. The difficulty was to strike the correct balance between sustainable long term objectives and solutions which were credible to the markets in the short term. Maintaining people's confidence was essential. Europe was a test case in this respect and in its ability to match its promises with action. Mr BINI SMAGHI underlined that it was the responsibility of parliaments to pose the right questions.

Reply by Mr BEKX

Mr BEKX concurred with the question of short-term vs. long-term visions. The recent crisis obliged the G-20 to deal with short-term issues. Including other issues such as green growth in the G-20 agenda was fully supported by the EU. Mr BEKX said he wanted to express his disagreement with some statements made in the first panel. First, Mr BEKX recalled Ms RAMOS's assertion that countries in the G-20 represent themselves. Mr BEKX pointed out that there was an important element of regional representation in the G-20. Second, he disagreed with the conclusions of Mr GROS, which described the ESM as a fiscal authority and proposed that it act as external representative of the euro area. Mr BEKX underlined the role the European Commission had to play in fiscal governance and criticised Mr GROS's schema for omitting this. Third, in contrast to Mr GUYADER, who proposed enlarging the G-20 agenda to include foreign policy issues, Mr BEKX argued that the success of the G-20 resulted from its focus on economic and financial issues.

4. Concluding remarks by Chair Mr Vital MOREIRA

Mr MOREIRA concluded the conference with a reminder of its objective to engage the Parliament more deeply in global economic governance. He argued that the European Union should be one of the main global actors in this domain. As the only directly elected body in the Union, the European Parliament had a very important role to play.