BRIEFING

The 2021 G20 Summit

Bridging global rifts for a greener and more sustainable future

SUMMARY

The 2021 G20 Summit, to be held in Rome on 30 and 31 October, was expected to bring together the major economies' leaders in a physical meeting for the first time since the pandemic began. However, several leaders (of Russia, Japan, Mexico and China) have announced that they will not attend in person, limiting opportunities to hold informal bilateral meetings in the margins of the summit. Important decisions designed to put the global economy and society on course towards a greener and more sustainable future have already been sketched out at ministerial level meetings. These now need to be endorsed by the heads of state or government.

With its informal nature, the G20 is a vital global platform, bringing together the leaders of all the major developed and emerging economies, regardless of their political systems. In a global context characterised by growing rifts between the major geopolitical powers, the US and China in particular, the 2021 summit will be an opportunity to show how committed countries still are to multilateral rules and cooperation, but also how much trust remains to sustain the G20's customary voluntary commitments.

The leaders at the summit are expected to reaffirm their commitments to boosting economic recovery, while mainstreaming green and digital objectives. They may also discuss more ambitious climate objectives than their ministers have managed to agree. The summit should take the final decision on the historic reform of global taxation, agreeing on a global minimum tax rate for firms operating multinationally. Vaccine equity and other health challenges relating to the pandemic will also figure on the agenda.

For the EU, the summit is an opportunity to reaffirm its unabatedly strong support for multilateralism. The European Parliament has expressed support for the tax reform debated at G20/OECD level.

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EPRS | European Parliamentary Research Service

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Members' Research Service

PE 698.762 – October 2021

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Background

The G20 is an international forum for economic cooperation on key issues on the global economic and financial agenda. Its members are Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, South Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom (UK), the United States (US) and the European Union (EU). It was launched in 1999 at the level of finance ministers and central bank governors and then upgraded to include a summit of the leaders of member countries in 2008, in the wake of the financial crisis. The G20 response to the financial crisis, which included financial supervisory and prudential rules, as well as a massive stimulus, has been hailed as having been highly effective in averting a global depression. The G20 agenda has expanded beyond macro-financial issues to include issues such as refugees, terrorism, climate, health and development.

The G20 (see Figure 1) is an inclusive group that aims to represent through its membership both advanced and emerging economies from all regions of the world, irrespective of their political regime. Most of the members are among the largest 20 economies in the world, but not all (e.g. South Africa – the only African member – is not). The G20 members account for more than 80 % of world gross domestic product (GDP), 75 % of global trade and 60 % of the world's population. By comparison, the G7 countries, an alliance of the largest liberal democratic economies, account for slightly over half of nominal world GDP. There are big disparities among G20 members in terms of GDP, population and wealth (see Figure 2). For example, the four largest members in economic terms China, US, EU, and Japan represent alone two thirds of global GDP. In demographic terms, India and China alone make up more than half of the group's population.

Figure 1 – G20 and G7 member states

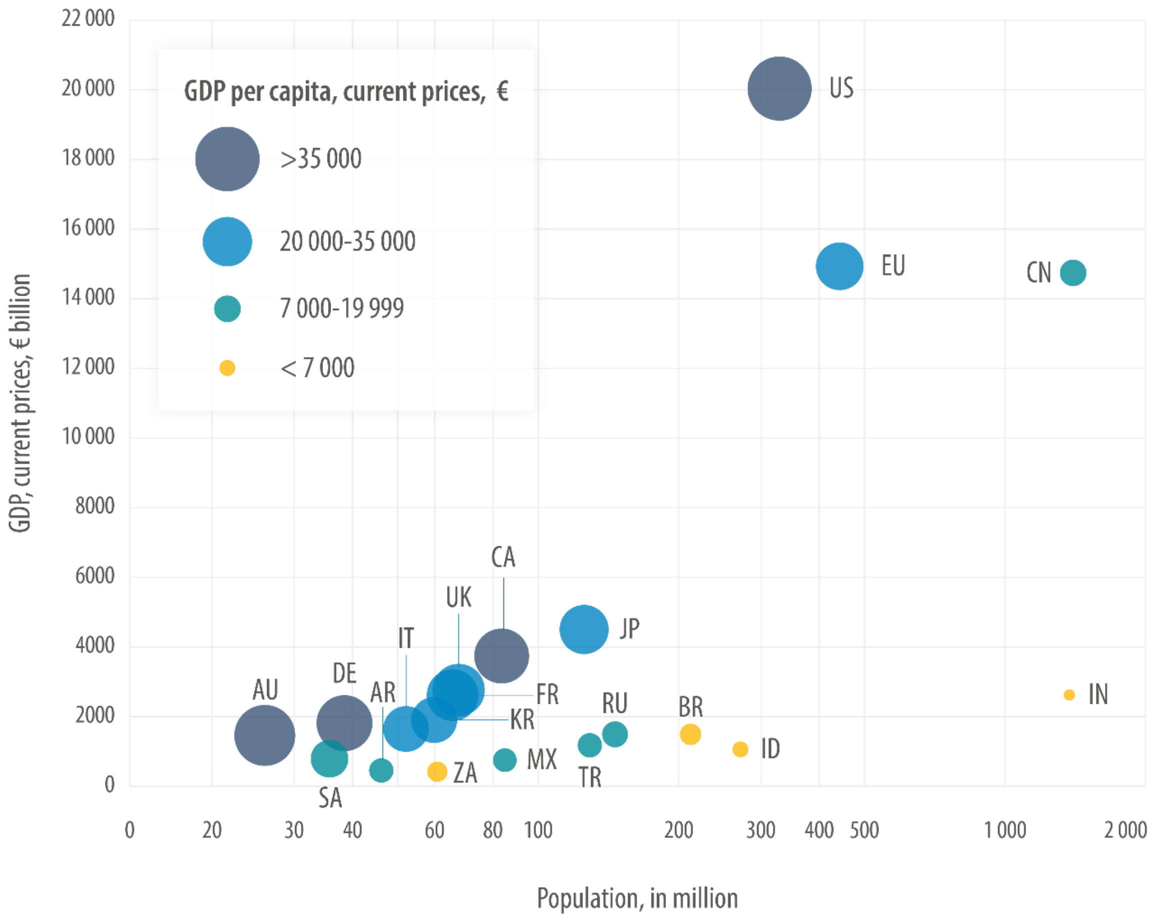
Source: EPRS.

The G20 remains an informal forum, without international legal representation. Its presidency rotates every year between the member states. The state holding the presidency establishes its priorities and the agendas for the various meetings. G20 activities include the annual meetings of heads of state or government (the 'summits'), and regular meetings of finance ministers, central bank governors, sherpas (personal representatives of countries' leaders), meetings of ministers from various sectors, as well as meetings of various stakeholders (referred to as 'engagement groups'), such as business groups, labour unions, women's groups and civil society organisations.

The involvement of civil society in the G20 summits has broadened over the years. '[G20 engagement groups]' bring together relevant stakeholders to discuss topics relating to entrepreneurship, labour, youth, women's empowerment, urban policies, sustainable development and the fight against inequalities. Under the 2021 Italian presidency, the following engagement groups have met: 'Business', 'Think' (leading think tanks and research centres), 'Women', 'Youth', 'Labour' (trade union leaders), 'Urban' (made up of 25 cities from within the G20 countries), 'Civil' (open civil society community), and 'Science' (academies of science of the G20.).

In 2022, the G20 presidency will pass to Indonesia.

Figure 2 – G20 countries: Total GDP, GDP per capita and population in 2020



Data source: International Monetary Fund, World Economic Outlook Database: October 2021.

Challenges and outlook for the G20

As an informal group seeking commonly agreed solutions to worldwide problems, which are implemented through voluntary commitments, the G20 requires mutual trust between its members. The group is thus inevitably affected by current geopolitical tensions between major powers and between different political regimes. In a global geopolitical environment that many experts, and also ordinary citizens in Europe, believe may be the start of a possible new cold war between the US and its main geostrategic rivals Russia and China, the G20 could emerge as the forum best suited to easing tensions and building trust between advanced and developing economies, as well as between more and less democratic regimes. The group is already playing an important role in boosting coordination between the major powers on public health, climate change and developing country debt, beyond the areas where it has already proved its worth, such as finance and macroeconomic concerted action.

The need to mount a response to the pandemic similar to that which the G20 proposed during the financial crisis in 2008 has been highlighted repeatedly. *Financial Times* editorial board consider the group 'the closest we have to a world government', and therefore the forum best placed to address the immediate challenges of the pandemic, but also to assure a sustainable economic recovery. Following its performance in 2020, however, the group was criticised for not mounting an effective enough response to the pandemic and its economic impact.

To face this reality, experts point to different potential ways to improve the way the G20 functions. According to Colin I. Bradford from the Brookings Institute, to make it more apt to deal with geopolitical tensions, the G20 summit should broaden its agenda and also address 'selective strategic and political security issues and … include foreign and defence ministers and officials in some G-20 processes'. The group could also play an important role in initiating a multilateral dialogue on trade and supporting the World Trade Organization reform agenda, according to an India-based foundation. Another proposal refers to the fact that, being an extension of the Bretton Woods institutions, the group remains too focused on financial and economic issues. To deal with the world's humanitarian, social, health and environmental needs, the G20 summits need to focus more on sustainability issues – a direction in which it has been moving.

European Union in the G20

The EU is a full member of the G20 alongside three of its Member States: France, Germany and Italy, while Spain is a permanent observer. The EU-27 has the third largest population among the G20 members, and the second largest share of nominal world GDP – 18.6 % (in 2018) after the US, although this has declined significantly from 25.6 % in 2008. The EU is jointly represented at summits by the presidents of the European Commission and the European Council. Unlike other members, the EU does not hold the rotating presidency and does not host summits. The political positions to be taken by the EU are presented at a press conference ahead of each summit.

The EU remains strongly committed to multilateralism. Intensifying cooperation with the G20 is among the priorities established by the 2019 Council conclusions on EU action to strengthen rules-based multilateralism. The joint communication by the Commission and the High Representative, published in February 2021, on strengthening the EU's contribution to rules-based multilateralism underlined that 'the EU will further strengthen its role and influence in informal multilateral fora such as the G20 and the G7' and that it is committed to the work under G20-OECD framework on finding a global solution to digital taxation. The communication stated that the immediate priority for these two forums should be to ensure 'strong global economic and health policy coordination' in order to drive a sustainable recovery.

Italy's 2021 presidency and the Rome summit

The Italian government defined three pillars for its G20 presidency in 2021, 'people, planet, and prosperity', with a view to building a sustainable future while focusing on digital innovation. Under these three broad, interconnected pillars of action, the G20 should seek a 'swift international response to the pandemic – able to provide equitable, worldwide access to diagnostics, therapeutics and vaccines – while building up resilience to future health-related shocks'. The Italian presidency sees the need for a rapid recovery that addresses the people's needs, in particular those of women, young people and marginalised persons, and has made a more sustainable climate-protective economy central to its ambitions for the G20. According to the Italian presidency, making digitalisation an opportunity for everyone will be key to increasing prosperity and sharing it more widely.

In the run-up to the summit, the Italian presidency has organised ministerial meetings in specific areas: finance, tourism, education, labour, foreign affairs, development, environment, climate and energy, culture, digital, research, health, and agriculture, as well as a conference on female empowerment. Some of these meetings, as explained below, have resulted in important agreements, for instance on taxation issues, whereas others have fallen short of expectations, for instance on sustainability objectives.

This year's summit was expected to be the first face-to-face meeting of leaders of all major economies since the beginning of the pandemic, in a global environment that is characterised by multiple tensions – both geopolitical and economic. Several leaders (of Russia, Japan, Mexico and China) have however announced that they will not attend in person. While this is not expected to impact the outcome of the summit significantly, it reduces the number of opportunities to hold bilateral meetings in the margins of the summit that could help to ease existing tensions.

Priorities in 2021 and issues to be discussed at the summit

Pandemic and health

Ending the current pandemic and preventing future ones is high on the G20 agenda, and has already been addressed during this year at the level of national leaders and ministers.

On 21 May 2021, as chair of the G20, Italy co-hosted the Global Health Summit with the European Commission, in Rome. The summit, a videoconference, brought together G20 and third countries' heads of state or government, heads of international and regional organisations, and representatives of global health bodies. The outcome of the summit was the Rome Health Declaration, in which G20 and other leaders committed to common principles to end the pandemic and to prevent future ones. The 16 agreed principles have a guiding role and are aimed, among other things, at supporting the multilateral health architecture, promoting open and resilient global supply chains for health emergencies, building local and regional health-related manufacturing capacities in developing countries, improving data sharing, and investing in cooperation at different levels on research and innovation.

The G20 health ministers then met in Rome in September and issued a further declaration on health. This declaration emphasises the need to prepare better for health emergencies, to strengthen the resilience of health systems, and to pursue universal health coverage. The G20 health ministers committed to work towards enhancing equitable access to Covid-19 vaccines, therapeutics and diagnostics (VTDs). In this respect, they will seek to strengthen local and regional manufacturing capacity and support the Access to Covid-19 Tools Accelerator (ACT-A) – a global collaboration platform to accelerate development and production, and ensure access to Covid-19 tests, treatments, and vaccines) and its vaccine pillar the COVAX facility. The establishment of early warning and detection systems is another jointly agreed priority. At the meeting, EU health Commissioner Stella Kyriakides emphasised that the EU and its Member States remained a major donor of vaccines worldwide. She also pointed out that the EU had exported around half its vaccine production and supported setting up vaccine manufacturing capacities in Africa.

The G20 is the forum that is best placed to take important decisions on the fair distribution of vaccines at global level. As the World Health Organization (WHO) chief Tedros Ghebreyesus emphasised in his speech to the health ministers meeting in September, the largest producers, consumers and donors of Covid-19 vaccines – the G20 countries – hold the key to achieving vaccine equity and ending the pandemic. The multilateral leaders task force on vaccines, made up of the heads of the International Monetary Fund, World Bank Group, World Health Organization and World Trade Organization, has observed that not enough vaccines reach low- and lower middle-income countries despite 'adequate total global vaccine production in the aggregate'. To realise the objective of vaccinating 40 % of the global population by the end of 2021, governments and manufacturers must do more.

Since the Rome Health Summit there has been significant progress on global vaccination, with half of the world population receiving at least one vaccine. Several non-governmental organisations remain critical, however, of the G20 approach, which has focused on channelling financial donations to developing countries to acquire vaccines and making voluntary technology transfers, as opposed to endorsing the patent waiver proposal. The EU has been behind the G20 approach, taking the view that the issue of vaccine distribution can be resolved by other means than the patent waiver, namely by addressing critical supply chain bottlenecks, avoiding exports bans and improving manufacturing capacity in developing countries. For the EU it is also essential to have 'multi-actor, multi-technology vaccine production sites that can be activated in … a crisis in an autonomous way' in the words of the EU Commissioner for the internal market, Thierry Breton. In its conclusions, looking ahead to the upcoming G20 meeting, the European Council meeting of 20-21 October 2021 expressed its support for a strong, central role for the World Health Organization and for the objective of agreeing an international treaty on pandemics.

Financial and economic issues

Global tax proposal

The proposal on a global corporate tax that was first endorsed by the G7 at its summit in May 2021 constitutes a major issue that the G20 Summit is expected to endorse through a political agreement. The Organisation for Economic Co-operation and Development (OECD) has been helping to prepare the proposal in the framework of a joint initiative with the G20 (the OECD/G20 inclusive framework on base erosion and profit shifting – BEPS) in which 140 countries and jurisdictions are participating.

The agreement reached is structured around two pillars:

- pillar one aims to ensure a fairer distribution of profits and taxing rights among countries with respect to multinational enterprises with a global turnover above €20 billion and a profitability ratio (profit before tax/revenue) of over 10 %;
- pillar two seeks to introduce a global minimum corporate tax rate of 15 %.

By 8 October 2021, the deal had been agreed by 136 countries and jurisdictions representing more than 90 % of global GDP. All G20 and OECD member countries have endorsed it. Kenya, Nigeria, Pakistan and Sri Lanka are the four counties participating in the framework that are still abstaining. All EU countries have endorsed the framework, despite initial reluctant by three Member States – Estonia, Ireland and Hungary, with traditionally low tax rates – which insisted that taxation is a sovereign issue. After a compromise emerged on a deduction from the minimum 15 % rate for multinationals with physical business activities abroad, these three countries dropped their objections to the deal, paving the way for its adoption on 8 October. The deal was endorsed by the G20 finance ministers on 13 October and will be submitted for final approval at the leaders' summit. Developing countries and some civil society organisations have however criticised the deal for not going far enough and representing a watered down version of the initial ambitions, that makes too many concessions to tax havens and large corporations. The extension of the transition period allowing for the progressive reduction of income excluded from the global anti-base erosion (GloBE) rules over 10 years as opposed to 5 years as initially proposed is also the focus of criticism. Oxfam, for example, further points to the 'complex web of exemptions', to the small benefits accruing to developing countries in terms of additional revenue, and to the risk that wealthy nations could cut domestic corporate tax rates. While the Biden Administration has already launched the procedure to pass the deal through Congress, some uncertainty lingers as to whether there will be enough bipartisan support for the required congressional approval. The US considers that taxes on digital services would be incompatible with global tax reform, and therefore insists that the EU and some of its Member States should scrap planned or existing digital taxes. In July 2021, the Commission put its work on a digital levy proposal on hold to support the finalisation of the agreement on international tax reform. According to one voice of criticism, this trade-off is not beneficial to the EU, which is giving up its plan to impose a digital services tax in exchange for what could be seen as an imperfect taxation deal.

Climate action and environment:

A strong common position by the G20 could give an important boost to negotiations at COP26, due to take place in Glasgow, Scotland, immediately after the G20 Summit. The G20 climate and energy ministers, who met at their first joint meeting under the G20 framework on 23 July, made several important commitments, but fell short of the ambitions stated by civil society. The commitments include pledges to finance the efforts of developing countries, to make full use of the potential of existing clean energy solutions, to invest in clean carbon technologies (such as capture and storage), to phase out inefficient fossil fuel subsidies, and to drive a green recovery from the pandemic, among other things. A final presidency communiqué was published to highlight issues on which ministers had not been able to reach agreement: phasing out coal power and removing fossil fuel subsidies by 2025 (with opposition from Russia, China, India and Saudi Arabia). Several countries were also against lowering the binding objective for global warming to 1.5 degrees Celsius as opposed to the 2 degrees agreed in the Paris Agreement. G20 countries are responsible for 81 % of the world's greenhouse gas emissions (as of 2018), and provide substantial support for fossil fuels (with subsidies totalling US$3.3 trillion since 2015, and decreasing only very slowly). According to the 2021 Climate Transparency Report, with US$298 billion committed between January 2020 and August 2021, G20 fossil fuel subsidies almost equal the G20's total green recovery allocation of US$300 billion. The biggest providers of such subsidies are, in decreasing order, the US, the UK, Canada, India, Germany, France and China. While in the US and the UK, such subsidies have no strings attached, in Germany roughly one third and in France roughly two thirds of subsidies come with green targets and pollution reduction requirements.

On 22 July 2021, one day before the joint meeting with their energy counterparts, the environment ministers agreed on a communiqué that emphasised the interconnectedness between climate change, biodiversity loss and pollution and habitat loss, land degradation and desertification. The statement includes calls for action to protect, conserve, sustainably manage and restore degraded lands, and promote sustainable water management of ocean and seas, renewing efforts on marine plastic litter, and sustainable and circular resource use. The statement encourages the provision of financial, technological and capacity building support for developing countries in order to build sustainable economies.

Other issues to watch

The **recovery** after the pandemic has been a cross-cutting issue in the various policy fields covered by the ministerial meetings. Exploiting the potential of digitalisation as the main driver of economic recovery is one of the priorities established by the Italian presidency. The fourth meeting of finance ministers and central bank governors, held in October, resulted in a commitment to avoid 'any premature withdrawal of support measures', while acknowledging the need to preserve financial stability and 'monitor current price dynamics closely'.

Relieving the debt burden of vulnerable developing countries is another issue of interest. In their communiqué of 9-10 July 2021, the finance ministers reiterated the G20 countries' commitment to implementing a common framework for debt treatments beyond the relief mechanism established in 2020 (which expires at the end of 2021) to 'address debt vulnerabilities in a coordinated manner'. This common framework for debt treatments could offer a remedy for debt sustainability problems. The G20's impact is limited, however, because its initiatives include only state-owned debt, and not private creditors, who are responsible for a major share of the lower income countries' debt. These creditors suspended only 0.2 % of payments during the pandemic.

The French President, Emmanuel Macron, made an appeal to the G20 to establish a **coordinated position on Afghanistan**, not least on conditions for the international recognition of the Taliban government. On 12 October an extraordinary G20 leaders' videoconference meeting on Afghanistan reached a consensus on the Group's commitment to providing the country with humanitarian assistance, but fell short of mentioning any conditions for the recognition of the Taliban government. It did however emphasise that the human rights of women, children and minorities, including the right to education, should be upheld. It also called on the Taliban 'to rescind their links with terrorist groups'.

European Parliament position

In a resolution of 29 April 2021 on digital taxation, the European Parliament called for an international agreement 'aiming for a fair and effective tax system', and welcomed the efforts in the G20/OECD framework to reach a global consensus on international tax system reform. Parliament called on the Commission and Council to make sure that 'the future compromises of the G20/OECD IF [inclusive framework] negotiations take into account the EU's interests and avoid adding more complexity and any supplementary red tape for SMEs and citizens'. According to the Parliament, 'the EU should have a fall-back position and stand ready to roll out its own proposal for taxing the digital economy by the end of 2021, especially as the OECD proposals apply only to a small group of companies and may not be sufficient'. In a June 2021 resolution on the role of the EU's development cooperation and humanitarian assistance in addressing the consequences of the Covid-19 pandemic, the Parliament welcomed the G20 initiative to suspend debt service payments temporarily for the poorest countries.

The Parliament held a debate in plenary on 20 October 2021 on the global tax agreements to be endorsed at the G20 Summit in Rome.

MAIN REFERENCES

G20 Rome Summit webpage.

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