



## 24 April 2009, Santa Margherita di Pula, Italy JOINT DECLARATION

We, the G8 Business Leaders, have gathered on 24<sup>th</sup> April 2009 in Santa Margherita di Pula, Italy, to address urgent issues concerning the global economic agenda. Our deliberations and recommendations are here reported for consideration by the Heads of State at the forthcoming G8 Summit to be held in July 2009 under the Italian Presidency. Our attention has been focused on three major issues: the response to the financial and economic crisis, free trade and investment and the need to tackle climate change. In addressing these issues, we are aware of our social responsibility in maintaining and creating jobs. A constructive dialogue amongst all stakeholders will help restore confidence. Our deliberations take into account the outcomes of the G8 Business Summit held in Paris on 3–4 December 2008 regarding the financial and economic crisis on which G8 Governments are called to renew their commitment. As a comprehensive process, the G8 Business Summit welcomes the results of the G20 London Summit which represent a strong signal of international cooperation. Enhanced collaboration of the G8 Business community with our partners in emerging economies will be of high importance in the future.

### **1. The response to the financial and economic crisis.**

*The financial and economic crisis is challenging international and regional organisations, national governments, business, workers, consumers, and the society at large. The global financial crisis has now led to a fully fledged global economic recession. Both short and medium to long term solutions are needed to address the recovery of the real economy by stimulating economic growth, employment, global trade and investment. The greatest and most urgent efforts must be directed at avoiding and mitigating the impact of a broader credit crunch. It is crucial to restore companies' access to finance at reasonable prices. The need to durably reinforce financial stability requires proper financial market reforms ensuring a suitable balance between better regulation and risk prevention. The G8 Business Organisations met on 3-4 December in Paris to address the financial and economic crisis and agreed on a set of recommendations that was conveyed to the G8 Governments. Those recommendations are still valid and need to be rapidly implemented. With the evolution of the current situation and the worsening of the international economic climate, the following recommendations have the highest priority and incorporate those contained in the Paris Declaration.*

**Increase international coordination on an ongoing basis.** To ensure the credibility and reliability of international financial markets as drivers for sustainable growth, G8 Governments must fine tune their coordination of economic policies and fiscal stimulus measures amongst each other more effectively and should do so on an ongoing basis. The coordination of stimulus measures, adopted this year and, where needed, in 2010, should include a shared understanding on the eventual withdrawal of the state from massive ownership of businesses. G8 Governments must also ensure closer and deeper cooperation with the leading emerging economies. In this regard, we welcome the outcome of the London G20 Summit and we renew our commitment to establish sound coordination at G20 business level.

**Public support of faltering companies and markets must be temporary and focused.** Whilst supportive of short-term fiscal stimulus measures to jump start the economy, governments must address growing public indebtedness over the medium-term to avoid future structural imbalances. Governments must adopt credible plans to reduce spending once the economic growth resumes and ensure that stimulus plans do not lead to trade distortions. Appropriate exit strategies from public interventions in the financial sector are key to restoring confidence in the financial market. Only the private sector will be able to provide our societies with sustainable and long-term growth.

**Public support must focus on key factors and not undermine competition.** To generate growth and create jobs both in the near and the medium to long term, fiscal and economic measures must support investments in infrastructures, research and innovation. Government stimulus plans should be in-line with the G20 commitments not to distort trade and investment. “Buy local” clauses, attempts to weaken international standards of intellectual property rights protections, tax changes that serve as export subsidies and other such government interventions must be firmly avoided.

**Review Basel II.** The pro-cyclical effects of the Basel II framework must be reduced. Building up anti-cyclical buffers appears as a practical way of dealing with this issue. Adjusting capital adequacy rules for banks within an internationally agreed range is crucial for limiting liquidity risk and new rules for structured loan and securities transactions are needed.

**The IMF’s role and capacities must be further enhanced.** The IMF has an essential role in resolving the existing crisis. We support proposals by G8 Governments to expand and enhance the role of IMF and its capacity to ensure sustained capital flows to countries in need of assistance. However, we call on the IMF to improve its functions by providing early warnings and rapid intervention in the most critical situations and to work more closely with the private sector.

**Regulation must strengthen and encourage transparency while not impeding responsible innovation in financial markets.** The regulatory net should extend to all operators conducting financial activities that have a systemic impact by enhancing transparency in core businesses, strategies, risks structures and leverages. However, a balance must be struck between regulatory needs and ongoing innovation in financial instruments that enable companies to borrow, and/or price risks on financial markets.

**Increase public disclosure.** Enhanced public disclosure for market operators (investors, authorities) is key to the orderly functioning of financial markets, including short-selling transactions above a certain threshold. In addition, disclosure standards should be put in place for off-balance sheet transactions as recommended by the Senior Supervisors’ Group and the Financial Stability Forum in 2008.

**Review the cross-border supervision of rating agencies.** National/regional authorities of countries where rating agencies operate in should be able to carry out the necessary oversight. Regulations crafted should be globally consistent and non protectionist, in order to manage conflicts of interests and assure transparency and quality to the rating process. International cooperation among regulators must also be reinforced and competition in the credit rating industry encouraged.

**Establish a common system of public support for trade insurance.** In order to ensure that companies have access to the necessary levels of trade credit, state support for complementary provisions of insurance for export transactions is necessary especially in presence of wide spread constraints on access to credit. However, such measures need to be jointly defined at OECD and WTO level to avoid competitive distortions.

**Financial reporting and fair value measurement must be differentiated and harmonised.** The impact analysis of new reporting rules must take into account the different stakeholder interests, types of financial instruments and relevance of the accounting measurement model for the users of the financial statements. This will help to balance the costs of new accounting and control procedures and the benefits of disclosure. Financial reporting must express the real economic value of financial instruments held for trading. The standard-setters must consider to what instruments “fair value measurement” must apply and in particular whether it should apply to unlisted financial instruments. In view of a single set of high quality global accounting standards, the IASB guidance on the fair value measurement should be rapidly adopted, whilst allowing time for an appropriate process to consult stakeholders.

**Improve prompt payment from public bodies.** Short-term financing pressures on companies can be substantially alleviated by speeding up payments and tax refunds by public bodies. G8 Governments are called to intervene rapidly and effectively in this area to support companies in restoring their liquidity capacities.

## **2. Free Trade and investment.**

*The crisis is hitting trade flows hard worldwide, which have suffered their biggest decline since World War II. Demand in the world’s largest economies has fallen significantly and is not offset by the growth of emerging countries or major resource holders. The IMF and the World Bank are projecting that world trade activity will decline by approximately 10% in 2009. It will be compounded by falls in trade within industries and firms in global supply chain and by a marked decline in international investment flows. Open trade and sound investment policies are vital in strengthening economic growth, job creation and industry competitiveness, and are especially important to small-and-medium size companies, severely affected by the credit and liquidity crunch and by the increasing limitations on market access worldwide. The economic situation requires G8 Governments to strengthen and publicly renew their full commitment to an open global economy. The successful conclusion of the Doha Round lies at the very heart of all possible strategies since it is the most effective way to establish a level playing field at the global level and its positive conclusion would weaken the drifts towards protectionism and isolationism in the global economy. The delivery of an ambitious and balanced WTO agreement would be a concrete symbol of effective international cooperation and the strongest possible stimulus for the recovery of the global economy and for the growth of developing and less developed economies.*

**Conclude the Doha Round with an ambitious and balanced agreement in 2009.** The G8 Governments must work closely together to achieve an ambitious and balanced conclusion of the Doha Round, building on the progress already made. The importance of South-South trade and Aid for Trade must be further highlighted. The expected long term trend of a rise in the price of agricultural commodities linked to the rise of emerging markets can help key WTO players unlocking negotiations in industry, services and in the other Doha Round chapters. G8 Business also calls for the conclusion of the negotiations for the accession of Russia to the WTO before the completion of Doha Round.

**Refrain from raising new barriers to trade and investment.** Protectionism can only deepen and prolong the crisis by chilling companies’ trade and investment strategies. Increased tariffs, restrictions on procurement and temporary work visas, discriminatory VAT rebates and other measures to subsidise exports, market distortions through export restrictions of raw materials, trade distorting subsidies or anti-competitive operations of state-supported and state-owned enterprises can only worsen the situation.

We applaud the commitment made by G-20 Summit countries at their meeting in London to refrain from raising new barriers to investment, to trade in goods and services, or implementing WTO-inconsistent measures to stimulate exports and to extend that pledge to 2010.

**Strengthen the monitoring system on protectionist measures.** Effective and active monitoring will be crucial in ensuring that governments concretely enforce their anti-protectionist commitments. In this regard, we welcome the governmental response to the G20 Business Summit proposal to monitor protectionist measures and urge the Financial Stability Board together with WTO to carry out this task.

**Create domestic and regional demand in developing countries through effective aid.** The global financial crisis is negatively affecting developing countries and emerging economies which depend on external trade for their economic growth. Against this backdrop, a flow of funds ranging from grant aid through technical assistance to soft loans, should be mobilized to increase growth potential and expand domestic and regional effective demand in developing countries according to the guidelines of the Heiligendamm process.

**Promote non discriminatory markets for raw materials.** Raw materials and basic commodities for industry must be accessible on non-discriminatory basis to all companies worldwide as they are essential to industry competitiveness, especially of small and medium companies. Non-discriminatory measures should also apply to the price of cross-border transit of energy and raw materials and countries should commit to avoiding unjustified supply disruptions. G8 Countries should commit to full reciprocity in this field.

**Promote skilled labour market mobility in an open services market.** Restrictions to the mobility of personnel and on outsourcing often reduce the availability of skilled and talented personal and hence limit the ability of companies to innovate. Mutual recognition and transparency of skills and qualifications are key to international co-operation and must be strongly supported in all international agreements.

**Gradually eliminate restrictions to foreign investment.** Many sectors especially in emerging countries are still, partially or totally, sheltered from foreign direct investments. Any restriction should be based only on narrowly defined national security criteria, and any actions taken by governments to protect national security must reflect the OECD principles, be predictable, transparent, accountable, and no more restrictive than necessary.

**Promote the protection of investment and of investor's rights.** All international agreements must include high standards of investment protection, including non-discrimination, fair and equitable treatment, prompt, adequate and effective compensation in the event of discrimination or expropriation, and access to international arbitration to resolve disputes. In order to preserve and to foster innovation, particular attention must be given to the respect and to the concrete enforcement of the TRIPS Agreement. We call on the G8 Countries to coordinate closely in fighting illicit trade practices such as counterfeiting and piracy.

**Address Sovereign Wealth Funds in a coordinated and balanced way.** There is the need to respond to a growing public concern over losing control of strategic national assets. While SWFs can play a positive role in the financial markets by providing liquidity as long-term investors, they raise a number of concerns due to the origin of the funds invested, notably regarding the protection of strategic business in the countries where they invest. G8 Business leaders strongly encourage SWFs to undertake measures to ensure full transparency and accountability in line with the Santiago Principles.

At the same time, G8 Governments must abstain from adopting provisions that lead to discrimination against foreign investors, including SWFs, as stated in the OECD Declaration on SWFs and Recipient Country Policies.

### **3. Tackling Climate change: the road to Copenhagen.**

*Climate change stands as one of the main challenges of the 21<sup>st</sup> century, associated as it is with meeting real needs for energy, development, and economic growth. Only a concerted global effort based on long-term cooperative action will succeed in tackling this issue effectively. From this viewpoint, the forthcoming COP of the UNFCCC in Copenhagen constitutes a great opportunity to reach a global agreement. Business accepts its share of the responsibility and has already made major changes in operations including introducing new processes, products and services to reduce GHG emissions and will continue to tackle climate change. However the full burden of emission reduction must be shared among all emitters. Tackling climate change can unleash numerous business opportunities, provided that innovation and technological development are properly encouraged. In order to effectively achieve emission reduction targets, business needs to remain competitive. Clear, predictable and stable frameworks are essential for long-term planning and investments at national, regional and international levels. To this end, policies must be balanced to avoid diverting resources away from innovation and encouraging protectionist barriers to trade.*

#### **Agree on clear, equitable and firm worldwide commitments to emission reductions at COP15.**

The Copenhagen Process should establish a long-term goal for emission reductions that is equitable and achievable in accordance with the principle of common but differentiated responsibilities and respective capabilities. All large emitting countries, regardless of their status as developed or emerging, must assume clear, measurable and verifiable reduction targets and adopt effective policies to share in the global burden of combating and adapting to climate change.

**Share the burden of emission reductions among all sectors of society.** G8 Business calls on all non-industrial economic contributors including transportation, housing, farming, consumers and public sector to contribute to emission reduction.

**Balance the return to economic growth, with environmental needs, energy security and industry competitiveness.** National and regional stimulus measures should include climate and energy oriented investments and climate policies should contribute positively to economic growth and energy security. Governments should also promote investments on construction and operation of environmentally sound energy infrastructures.

**Reject discriminatory measures.** With a view to ensuring a level playing field while supporting economic recovery, G8 Business rejects any proposal linked to climate change that is not WTO-compliant and that could lead to competition distortions. A well-functioning international trade system will be indispensable for disseminating low carbon technologies and innovation.

**Support innovation.** Low carbon and other clean technologies are key to combat climate change. The private sector has a crucial role to develop and deploy these technologies. To this aim, G8 Governments have to support greater investment in research and development, as well as to ensure appropriate overall policy frameworks.

**Explore the potential of sectoral approaches.** Sectoral approaches are voluntary agreements and initiatives based on internationally agreed criteria aiming at the participation of all industry sectors' players.

The bottom-up voluntary initiatives underway in some sectors should be further encouraged and be incorporated into the UNFCCC architecture. Sectoral approaches could also provide viable tools to promote energy efficiency.

**Explore the full variety of policies to address greenhouse gas emissions.** Policies should be tailored to work with national priorities and capabilities. In addition, we should encourage close international cooperation. Carbon trading, among other policies, such as tax incentives, financial support and voluntary agreements, may help achieve emission reductions in a cost effective way, but must be properly regulated in order not to create distortions. Carbon trading will only ever be fully effective if adopted by all major economies. In the meanwhile, as individual carbon markets develop, they should do so on a compatible basis.

**Strive for full exploitation of energy efficiency.** Energy security and climate protection policies must be mutually reinforcing. Increasing energy efficiency and diversifying energy-mix are of key importance for any future climate strategy. Under this framework, all energy options have to be pursued to promote a neutral, balanced and non discriminatory energy-mix, including traditional, renewable and nuclear energy sources.

**Provide the necessary technological and financial assistance to developing countries.** Supporting mechanisms need to be efficient and therefore linked to effective results in terms of limiting the growth of emissions. Furthermore, flexible mechanisms such as Joint Implementation Mechanism (JI) and Clean Development Mechanism (CDM), should be simplified, improved and expanded to encourage the deployment of clean technologies in developing countries. The identification of effective technologies and appropriate measures for technology diffusion and International cooperative initiatives such as that created by the Major Economies Meetings and by the Asia Pacific Partnership, including data gathering and sharing, should also be encouraged.

**Protect intellectual property rights.** The diffusion of clean technologies is key to tackling climate change. Business needs a secure investment framework to develop and to commercialise these technologies. The protection of intellectual property rights must be soundly enforced worldwide to improve business incentives and maximise technology deployment related activities.

**Liberalize trade in environmental goods and services.** Freer trade in goods and services that contributes favourably to the environment should be included in a Doha Agreement. Environmental goods negotiations should be pursued on the basis of agreed objective criteria to avoid unnecessary discrimination.