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G20 UPDATE E-NEWSLETTER

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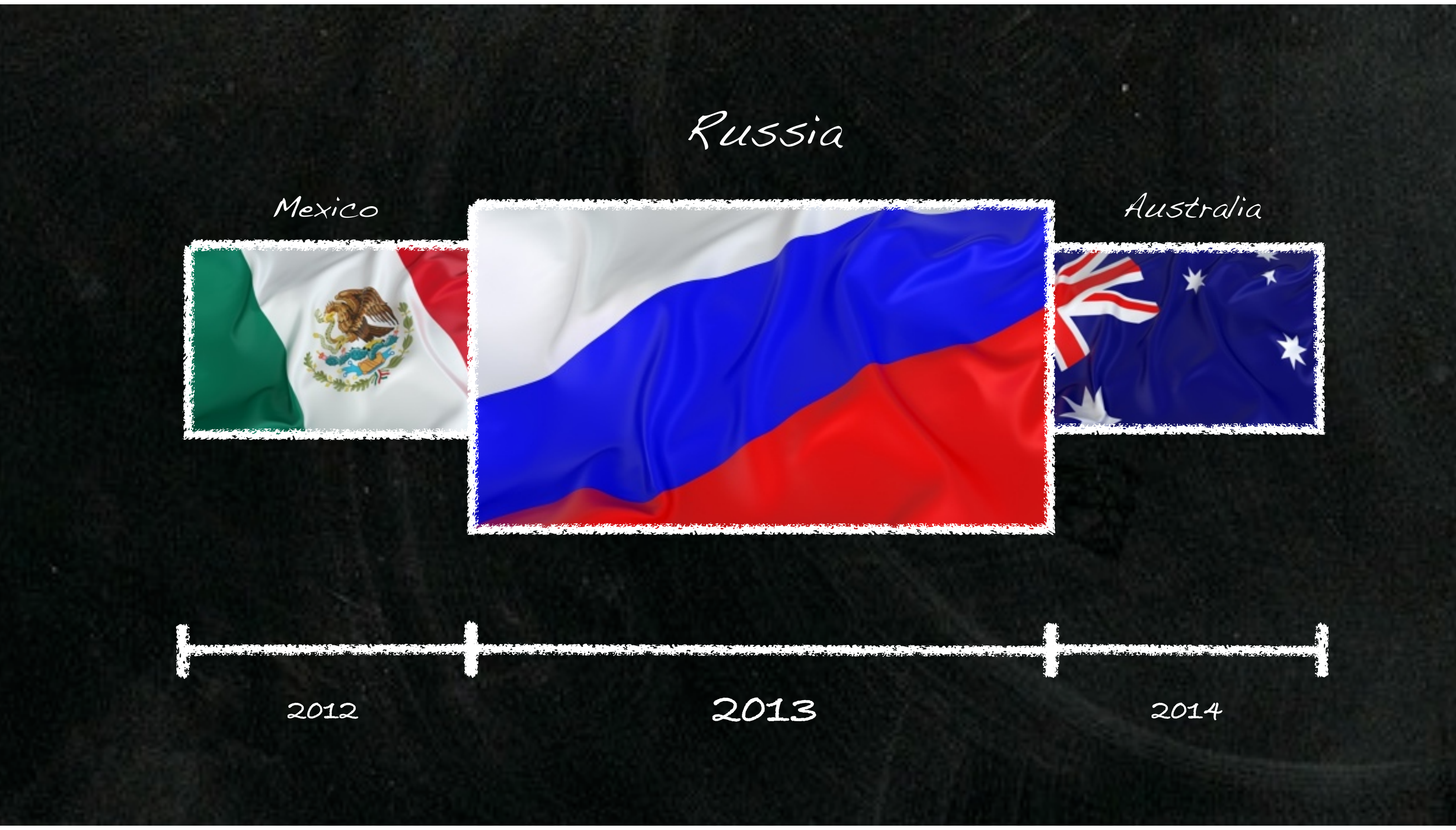
THE NEW G20 TROIKA



Introduction

The New Troika: Russia, Mexico and Australia

By Nancy Alexander, Director, Economic Governance Program, Heinrich Boell Foundation-North America

On December 1, 2012, the G20 welcomed its new leadership "troika" – Russia, Mexico, and Australia – the current, past and future presidents, respectively. The Russian G20 Presidency has announced its priorities for the 2013 Summit. (See box.) G20 Sherpas, or presidential aides, will meet in Moscow in mid-December. At the same time, civil society, think tanks, and business leaders will gather to hammer out recommendations to present to the Sherpas.

New to the G20?

To find out more about the G20's history, the power dynamics and the issues the group addresses, click on the link below.

INTRODUCTION TO THE G20

In this interview entitled, **"Civil Society's Role in the Russian G20 Presidency," Alena Peryshkina**, Director and Chair, Russian G8/G20 NGO Working Group describes the Group's work plan including the preparation of reports for the G20 Leaders and three major events: the launch of meetings of representatives of domestic and international civil society on December 11-13, 2012; the Civil 20 (C20) in St. Petersburg in June 2013; and the events at the G20 Summit on September 5-6, 2013.

In **"Ingredients for a Successful G20 Presidency – A Civil Society Perspective," John Ruthrauff** of InterAction (US) **and Rob Lovelace** of the Trade Union Sustainability Development Unit (US) emphasize that civil society groups must develop and advocate policy positions early in the cycle of each presidency before policy positions solidify. The G20 presidents, in turn, need to facilitate effective engagement by, among other things, providing access to decision-makers; granting media accreditation in a timely, clear way; publicly disclosing key information and reports; and promoting accountability (i.e., implementation of G20 promises).

In **"Discussions on the Accountability and Effectiveness of the G20's Development Agenda in Bali," Dr. Dirk Willem te Velde**, of the Overseas Development Institute (ODI) describes a seminar on 3 October 2012 – the day before the fourth meeting of the G20 development working group (DWG) in Bali, Indonesia, under the chairmanship of Mexico, Korea, France and South Africa. ODI's background paper for the seminar provides a brilliant assessment of and solutions for the challenges of the G20, particularly in its development work. The views of the seminar participants are echoed in the conclusions of the final meetings of the Sherpas and Finance Ministers under the Mexican G20 Presidency.

In **"The G20's Record in Disciplining the Financial Sector," Aldo Caliari** of the Center of Concern (US) assesses the G20's performance against its seven commitments to reform the financial sector in ways that can help prevent another world recession. Progress in many of these areas, especially reform of the IMF, feature prominently in the priorities of the G20 Russian Presidency.

In her article, **"What is the Financial Stability Board (FSB)? Why does it Matter?" Jo Marie Griesgraber** of New Rules for Global Finance (US) introduces us to the FSB, which works with a host of mandates from the G20 as it attempts to reform the global financial system. Griesgraber highlights issues, such as representation, participation, and transparency, that undercut the effective governance of the FSB and implementation of its policies.

In **"Putin Expands State's Role in Energy Policy," Michael T. Klare** of Hampshire College (US) tells the story of how President Putin is bringing the energy industry under state control. State companies, such as Gazprom, are not only a leading source of income for the Russian state, but also a major source of employment, with close to 400,000 employees This energy strategy raises questions about the depth of Russia's commitment, made at the November 2011 G-20 French Summit, to increase transparency in international energy markets.

New Publication

"PRIVATIZING THE GOVERNANCE OF GREEN GROWTH" by Nancy Alexander and Lili Fuhr, Heinrich Boell Foundation. Many powerful transnational corporations (TNCs) have growing influence over the governance of resources in sectors, such as energy and agriculture. This paper addresses the strategic dilemmas faced by civil society organizations that address corporate power in their struggles to curb global warming and achieve the human rights, including the rights to food and energy.

References (for Box 1)

1. The fifth BRICS Summit will be on March 26-27, 2013 in Durban, South Africa.
2. Read article by the South African Foreign Policy Initiative.

Box 1:

Priorities for the Russian Presidency

On December 1, President Putin gave a speech identifying his G20 priorities as:

- "Growth through Quality Jobs and Investment"
- "Growth through Effective Regulation"
- "Growth through Trust and Transparency"

These priorities will be achieved by progress in the following areas:

1. Framework for strong, sustainable and balanced growth;
2. Jobs and employment;
3. International financial architecture reform, especially the International Monetary Fund (IMF) with the help of a special meeting with the leaders from the BRICS (Brazil, Russia, India, China, and South Africa);[1]
4. Reforming the currency and financial regulation and supervision systems;
5. Energy sustainability;
6. Development for all;
7. Enhancing multilateral trade;
8. Fighting corruption.

Two new issues on the agenda are:

- Financing investment as a basis for economic growth and job creation, and
- Modernizing national public borrowing and sovereign debt management systems.

The importance of trade and investment issues is evidenced by the recent reports in Box 2.

According to sources, Russia will hold a meeting of G20 finance and labor ministers[2] as well as a meeting of G20 energy ministers. Civil society is pleased that the Russian Presidency will also organize meetings with youth, civil society, business, and trade unions. Yet, these meetings will occur in the shadow of new Russian legislation which requires some foreign-funded NGOs to declare themselves as "foreign agents," which makes some people wonder whether democracy is "on trial."

Box 2:

Final 2012 Meetings of G20 Sherpas & Finance Ministers in Mexico

G20's meetings of Sherpas (29-30 October 2012) and Finance Ministers and Central Bankers (4-5 November 2012) in Mexico

Official Reports from the G20

- The November 2012 Communique of the Finance Ministers and Central Bank Governors
- Report of the October 2012 G20 Sherpa meeting

Reports and Statements Prepared for the G20

- "ILO calls on G20 to live up to its promise to tackle the crisis"
  The ILO chief said that "coordinated action by the world's leading economies can and must prevent a slide into what he described as a political, economic and social quagmire."
- United Nations Department of Economic Affairs: to the G20 Sherpa Meeting (29-30 October 2012 in Cancun, Mexico) by Ms. Shamshad Akhtar, Assistant Secretary-General, UN Department of Economic Affairs identified "win-win" solutions capable of "accelerating and better targeting job creation efforts, investing in green growth and sustainable agriculture, and strengthening development finance."
- International Monetary Fund (IMF): "IMF Note on Global Prospects and Policy Changes", G-20 Finance Ministers and Central Bank Governors Meeting on November 4–5, 2012. The IMF found that the political systems in the U.S. and Japan appear to be at an impasse with regard to fiscal challenges and, in Europe, "austerity may become politically and socially untenable in periphery countries, as structural and fiscal reforms will still take years to complete…"
- New Trade and Investment Reports by the World Trade Organization (WTO), UN Conference on Trade and Development (UNCTAD), and Organization for Economic Cooperation and Development (OECD):
  - "Report on G-20 Trade Measures"
  - "Report to G20 on Trade and Investment Measures"
  - "8th Report on G20 Investment Measures"

The WTO warns of trade protectionism at a time when trade frictions are increasing. It found that, "Over the past five months, the global economy has encountered increasingly strong headwinds… the WTO Secretariat has revised downward its forecast for world trade growth in 2012 from its previous forecast of 3.7% to 2.5%. … With respect to investment, in the first half of 2012, global foreign direct investment (FDI) flows fell by 8 per cent compared to the first half of 2011."

Civil Society's Role in the Russian G20 Presidency

An interview with Alena Peryshkina, Director and Chair, Russian G8/G20 Working Group by Nancy Alexander, Heinrich Boell Foundation, No. America

Nancy: As the Director and Chair of the Russian G8/G20 NGO Working Group for the Russian Presidency, you have a big job ahead of you. What are your hopes?

Alena: First, the Russian NGO Working Group hopes that there will be a high level of participation by Russian and international civil society as we formulate our positions for the G20. We will achieve this participation through key events in Moscow and St. Petersburg as well as through a technology platform which will make crowd-sourcing (input by and exchange among people on the internet) possible.
Second, we hope that our reports and interactions with G20 decision-makers will improve the outcomes of the G20 Summit in September 4-5, 2013 in St. Petersburg.

Nancy: What are the outcomes you hope to influence?

Alena: We expect to influence the key Russian priorities, which our President will announce soon. At the same time, we are beginning work on three reports:

1. **A report on the implementation of the G20's existing commitments**. This report is critical because, without implementation of policy commitments by individual G20 countries and the Group as a whole, accountability for outcomes cannot be achieved.
2. **A report on inequality**. The importance of income inequality is simply not understood or adequately factored into decision-making by the G20 and other major institutions. Yet, if growth is not inclusive and broad-based, we will not create a positive future for our societies.

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3. **Recommendations for the G20 Working Groups on at least six themes**: energy and environmental sustainability; food security; fighting corruption; the post-2015 Millennium Development Goals; financial inclusion and financial education; and jobs and employment. We are also open to requests from civil society that we work on additional themes.

Nancy: Tell me about the key events you envision in Moscow and St. Petersburg.

Alena: For Russian and international civil society, there will be three key events. On December 11-13, 2012, the Russian G8/G20 NGO Working Group and international NGOs will kick-off their work together. In June 2013, the Civil G20 will convene at the St. Petersburg International Economic Forum where we will present the final recommendations to the G20. On September 5-6, 2013, there is the Summit – also in St. Petersburg.

Nancy: Russia has a different definition of "civil society" than previous G20 Presidents. Tell us how the Russian process in unique.

Alena: For us, "civil society" includes four groups: non-governmental organizations, think tanks, business, and youth. These groups will have parallel meetings on December 11 and come together afterwards to share their findings.

Nancy: From your workplan, it looks as though you will have work streams throughout the year, too. Is that the case?

Alena: Yes, we will present our draft recommendations on the six themes to the G20 Working Groups in March. In addition, civil society groups from the Troika will meet with G20 decision-makers, such as the sherpas. The Troika consists of the current, past, and future Presidencies: Russia, Mexico, and Australia.

Nancy: How can people learn more about participating in the 2013 Russian G20 Presidency?

Alena: They are welcome to visit our website where they will learn about our work and how to join our efforts.

Ingredients for a Successful G20 Presidency

A Civil Society Perspective

By John Ruthrauff, Director of International Advocacy, InterAction, and Coordinator, G8/G20 Advocacy Alliance, US & Rob Lovelace, Senior Fellow, Trade Union Sustainability Development Unit

Since 2009, when the G20 described itself as the "premier forum for international economic cooperation," it has consistently seeded its communiqués with references to the importance of civil society participation. In turn, civil society embraced the emergence of the G20 with great enthusiasm, hopeful that it would accelerate global progress on a wide range of issues. Despite great potential, the G20 and civil society have yet to build the type of symbiotic relationship that produces "win-win" outcomes without compromising the autonomy of either.

Sustainable development is more likely to be achieved when the policy-makers who drive the work are informed by the people and organisations that carry out the work. In practical terms, this means civil society must be engaged in the G20 process year round, especially at the country level. Though this may prove challenging in a body as large and unwieldy as the G20, even gradual progress can produce promising results.

The G20 Presidency term

The G20 Presidency currently constitutes a 12 month term, beginning around the change in the calendar year; the 2013 Russian G20 Presidency began on December 1, 2012. The first six to eight months of a Presidency are occupied by meetings of the Sherpas, the working groups[1], ministerial meetings, report preparation, and drafting the G20 communiqué(s). It is during this time that civil society must be engaged, because this is when key decisions are made and policies agreed.

The Summit itself usually occurs late in the second or in the third quarter of a Presidency. Unless there is an urgent global crisis, the Summit primarily consists of announcing previously agreed-upon policies and decisions, meeting with the leaders of countries excluded from the G20 process, and media outreach. Thus, while the Summit provides an excellent opportunity for civil society to engage with the media, it is not a useful advocacy venue. The last three to four months of a Presidency are usually devoted to meetings of the Sherpas, ministers, and working groups, which wrap up unfinished business and prepare for the following Presidency.

Increasing Civil Society Influence

Shortly after they assume the presidency, the host country sets the priorities for the G20 agenda, with some issues remaining on the agenda for several years. As most substantive decisions are made a few months before the Summit, it is important for civil society organizations (CSOs) to develop and advocate policy positions soon after the agenda is known and before the governmental representatives solidify their positions. In advocacy, timing is key: the longer it takes for civil society organizations to agree to positions and begin advocacy efforts, the less impact they have on the outcome.

> **The G20 and civil society have yet to build the type of symbiotic relationship that produces "win-win" outcomes without compromising the autonomy of either**

National civil society organisations in G20 member states have the greatest potential to influence G20 outcomes, so organising at home is a top priority. Identifying key policy actors –Heads of State, Finance Ministers, Central Bank Representatives, and Sherpas—is an important first step to be taken when assembling the civil society coalition. International civil society collaboration leading up to the summits can add to national strength through information sharing, coordinated messaging, and joint actions.

Improving civil society participation:

1. Access to Working Groups

Civil Society needs to have substantive input into the G20 Working Groups and peer review mechanisms. Substantial amounts of information and experience reside outside of official channels in civil society, the private sector, labour, and academia. These groups can aid in the formulation of more effective policies. Ongoing, transparent consultations are needed to permit affected communities to provide timely comment.

2. Media Work
It is essential that the G20 Presidency establish an early and transparent process for full international media accreditation for civil society organizations. Some countries, including Mexico and France, offered broad media accreditation – CSOs organized two well-attended media briefings during the Los Cabos G20 Summit in June 2012. Other countries, including Canada and the United States, have implemented very limited and opaque G20 accreditation processes.

3. Sherpa Meetings with CSOs
The G20 Presidency has occasionally allowed brief exchanges between the Sherpas and civil society just prior to a Summit (Canada and South Korea in 2010 and France in 2011). These have been less than satisfactory for both government and civil society. To improve dialogue, the meetings need to be held earlier in the process, preferably during the second Sherpa meeting. Holding the meetings in a less formal setting could prove useful. An informal reception for the Sherpas and CSO representatives following a short formal meeting is likely to be more productive than the formal meetings held to date.

4. Where's the C20?
A Civil 20 does not yet exist although a Business 20 (B20) has met in parallel to every Summit since the 2010 Canadian G20 Summit. With major support from the International Chamber of Commerce (ICC), McKinsey Global Institute and the Organization for Economic Cooperation and Development (OECD), the B20 has increased its influence by publishing proposals and meeting with leaders. For the B20, the ICC developed a "performance dashboard" to track each G20 country's implementation of its pledges. The B20's seven focus areas include: food security, green growth, trade and investment, employment, improving transparency and fighting corruption; information communication and technology (ICT); and financing for growth and development. B20 working groups have involved two civil society members: Barbara Stocking, head of Oxfam GB (food security) and John Evans from the Trade Union Advisory Committee (TUAC) to the OECD (employment).

About 300 corporate CEOs gathered during the G20 Mexican Summit in June 2012 and, for the first time, made presentations to the national leaders.

The Labour 20 (L20) is organized by the ITUC - International Trade Union Confederation and TUAC. Labour leaders assemble at each Summit with detailed position papers and meet with many of the G20 leaders.

The T20 or Think Tank 20 was convened for the first time in February by the Mexican G20 Presidency and the Mexican Council on Foreign Relations. The meeting addressed four broad topics: stabilizing and reforming the global financial and economic system; promoting green growth and food security (including through addressing commodity-price volatility); and ways that the G20 can become more effective.

National Platforms of non-governmental organizations (NGOs), alliances and individual NGOs have proposed the creation of a civil society track which would be referred to as the C20. This grouping could be an effective vehicle for CSOs to organize around and engage in dialogue at many levels. However to be useful, C20 meetings with Sherpas need to occur early in the first quarter of a G20 Presidency and involve real, dialogue rather than the traditional ritual of a single meeting with pre-packaged answers to a series of prepared questions. To be effective and representative, members of a C20 group need to reach beyond the G20 countries to ensure broader based input.

5. Transparency
Civil society insists that the G20 and the bodies that report to it work in a transparent way, which means:

- Making public the terms of reference, names and affiliation of members of Expert and Working Groups and peer review mechanisms six to eight months prior to the Summit.
- Releasing meeting notices and agendas 20 days prior to meetings.
- Disclosing commissioned reports, assessments and recommendations of each Expert and Working Group 60 days before each Summit to encourage public comment to the Working Groups.

6. Accountability
The institutional credibility of the G20 is inevitably tied to its ability to collectively and individually implement their commitments. Since 2009, civil society has pressed the G20 to establish an accountability mechanism because there is no greater incentive to keep its commitments other than annual stocktaking exercise that publicly reports on the G20's progress or lack thereof in keeping its promises. Possibly heeding civil society's call the 2012 Mexican Summit, adopted the Los Cabos Accountability Assessment Framework. In doing so, G20 Leaders outlined a process of conducting an on-going self-assessment of progress in meeting its commitments including the G20's

goal of strong, sustainable, and balanced growth[2].

The Framework is based on three pillars: 1) a concrete and consistent country-owned "comply or explain approach;" 2) a peer review process including a review and discussion of members' policies and in-depth assessments from the international organisations; and 3) annual reporting to G20 Leaders summarising the assessments of each country's performance.

Precisely how this Framework mechanism will function remains a work in progress, but at a minimum the G20 should use it to produce a comprehensive report that assesses the progress of its members in meeting the G20's commitments. The credibility and, ultimately, the usefulness of the Framework's findings will be strengthened if the process associated with each of the three pillars— at country-level, within international organisations and in the publishing of annual reports—is transparent and inclusive.

The process for implementing the G20 Accountability Framework and how it will function thereafter should be clear. The credibility of its assessments and the usefulness of its reports can be ensured when they are produced in a transparent, rigorous, and inclusive fashion that extends to the peer review process and draws on evidence and comparable analysis to reach conclusions. The G20 can ensure the diversity of the process of assessing its performance by involving international organizations, governments, civil society, and the private sector at both the international and country-levels.

The G20's performance needs to be evaluated against consistent and specific indicators with timetables and recommendations for future action including resources. Given the "country-owned and country-led" foundation of the Assessment Framework it is imperative that non-governmental contributions to the report be welcomed. Whenever possible on-the ground monitoring of program implementation and outcomes should inform reporting.

Conclusion

Because there is no standard protocol for civil society input, each G20 Presidency is unique in this regard. The Russian G20 Presidency is beginning on a strong note with an active G8/G20 NGO Working Group and three planned events in the first month of the Russian Presidency. In Australia ACFID (the Australian Council for International Development, a national NGO Platform) has made a strong proposal to the government for civil society involvement during that country's Presidency in 2014. We hope that three successful G20 Presidencies will enshrine strong civil society input in the tenure of future Presidencies.

References

1. The Mexican Presidency had 10 working groups: employment, food security, development, anti-corruption, multilateral trade, framework for growth, strengthening of the international financial system, international financial architecture, energy and commodity markets, and climate finance.
2. It should be noted that there are several civil society organizations that are independently documenting G20 progress or lack thereof including work being led by Marina Larionova at the Higher School of Economics in Moscow.

MUST READ

G20: Promotion of Trade and Investment

A corporate scorecard gives the G20 an "incomplete rating" for its work in trade and investment – criticizing its failure to adopt a "framework agreement on investment," among other things.

To address this matter, the G20 Finance Ministers have adopted a work plan to implement the Group's "Framework on Strong, Sustainable and Balanced Growth" which includes an emphasis on investment (including in infrastructure). Moreover, President Putin is making investment issues a top priority for his G20 Presidency.

In addition, the G20 held a Trade and Investment Promotion Summit on November 5-6 in Mexico City in order to "begin an on-going dialogue between both the trade and the investment promotion agencies of the G20 countries." The goal is to develop a "common call to action" to present to the 2013 G20 Summit in Saint Petersburg.

The Summit recognized that trade and investment issues are usually dealt with in different venues and, therefore, it built bridges between Trade Promotion Organizations and Investment Promotion Agencies in the same forum for the purpose of identifying opportunities to advance the B20 recommendations, including those that call for the G20 to create a "working group on investment" and broaden the dialogues on investment agreements in relevant institutions (i.e., OECD, UNCTAD and WTO).

The G20 Development Working Group (DWG) is particularly focused on trade and integration processes in Africa and the role of infrastructure in advancing these processes. This African Development Bank publication, "Economic Integration: to Expand or Deepen?" describes the types of Free Trade Agreements (FTAs) which negotiators are reviewing.

While the G20 is focused on expanding the rights of investors through trade and investment agreements, it should also ensure that any such agreements do not undermine human rights and environmental protection.

Discussions on the Accountability and Effectiveness of the G20's development agenda (Bali, October 2012)

By Dr. Dirk Willem te Velde, Head of Programme, Overseas Development Institute (ODI), UK

The fourth meeting of the G20 development working group (DWG) met in Bali, Indonesia in early October under the chairmanship of Mexico, Korea, France and South Africa. One day before the DWG formally convened, it held a one-day workshop on 3 October 2012 to discuss the mandate from the Mexican G20 Leader's Summit to "explore putting in place a process for ensuring assessment and accountability for G20 development actions by the next Summit".

The Overseas Development Institute (UK) circulated a paper and made a presentation on accountability and effectiveness of the G20's development agenda that was based on an input from officials, academics and civil society at a workshop earlier in 2012. We suggested that a G20 accountability report on development needs to include three areas:

- **Implementing the MYAP**. The G20 has put in place the Seoul multi-year action plan (MYAP) for 2010 to 2012. An accountability report could compile the input by each G20 country on the actions it has taken to implement the MYAP using a scorecard methodology.

- **Adding Value**. But the G20 also needs to go beyond technical assessments and explain how it works and adds value (e.g. identifying governance gaps, providing policy direction, putting a spotlight on issues, knowledge sharing, trust building and developing standards). This is the softer dimension of the DWG. For instance, Mexico decided to put inclusive green growth on the agenda which provides a signal that this issue is to be taken seriously; or simply, improving the exchange of views between traditional G8 countries and the emerging economies in the G20 can be a helpful activity, although there may not be immediate results.

- **Implementing the core agenda**. Finally, the report should outline how the G20 will be held accountable for its commitments in the future, including the policy commitments in its core agenda (the financial and structural policies contained in the Framework for Strong, Sustainable and Balanced Growth). The potential of these core issues to affect development is very substantial.

There were frank and open discussions on these and other issues during the workshop in Bali, touching on fundamental issues such as who needs to be accountable to whom? In the end, the meeting agreed to report to the Sherpas on the need for an accountability process which is Presidency-led (i.e., Russia) and member driven; simple and efficient, capturing the feedback of low income countries, and drawing from and not duplicating existing accountability systems within international organisations and other G20 tracks. It suggested an initial report on the multi-year action plan and a later report that would cover all G20 commitments.

Of course, this plan needs further elaboration during the Russian presidency. So far the communiqué of the G20 sherpa meeting on 31 October 2012 mentions that "The Sherpas also discussed the commitment of the G20 leaders to provide the G20 with accountability mechanisms in order to better evaluate and communicate the group´s various activities." It also mentions that "They emphasized the importance of consulting and including the views of LDCs in the group's work". So watch for future developments!

G20 DWG discussion of participation by low-income countries

By Steve Price-Thomas, G20/BRICSAM Strategy Manager/G20 Summit Team Lead Oxfam International

At the G20 DWG meeting in Bali in October 2012, there was some discussion of whether the DWG has the power to decide who to invite to their meetings or whether this had to be left to the sherpas and/or the Presidency. The DWG decided that they do have the power to decide who comes to their meetings and they would use this power to institutionalize a permanent presence of low-income countries [most likely for the New Partnership for Africa's Development (NEPAD) and the African Union (AU)] at their meetings. Thanks to civil society pressure, these representatives were invited to G20 events in 2013.

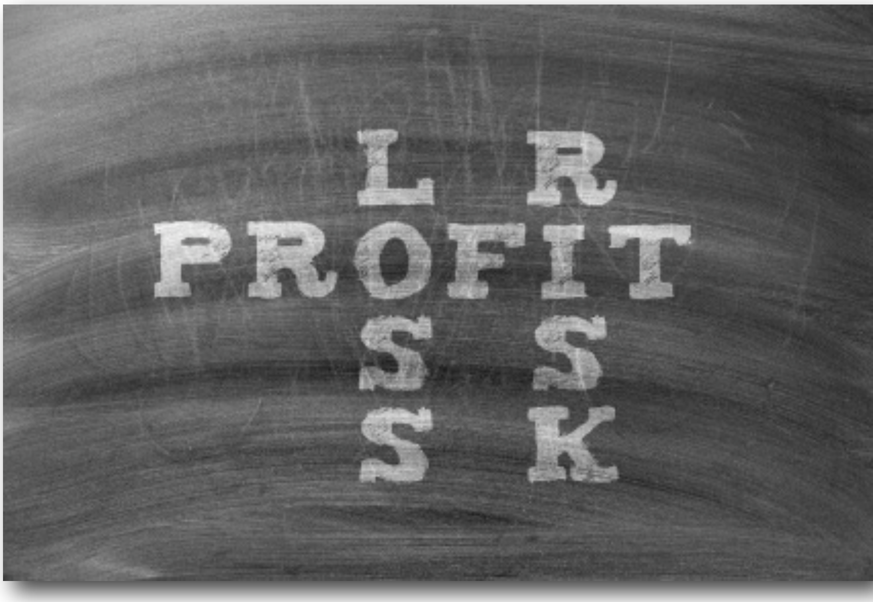
The G20's Record in Disciplining the Financial Sector

By Aldo Caliari, Rethinking Bretton Woods Project, Center of Concern, US

This article assesses the G20's performance against its seven commitments to reform the financial sector. The Financial Stability Board (FSB) has significant responsibility for carrying out the mandates of the G20 in this sector. (For more information about the FSB, see the companion article, "What is the FSB?")

1. Financial Institutions which are "too big to fail"

Since 2008, governments have mobilized public support (i.e., taxpayers' money) to bail out financial institutions which had become "too-big-to-fail." That is, the bankruptcy of these institutions could wreak havoc on the provision of vital banking services and negatively impact whole economies. In the absence of policy tools to wind down these financial institutions in an orderly way, governments have felt forced to prop them up or face certain disaster.



> **The G20 committed to strengthening supervisory and regulatory oversight of the "systemically important financial institutions" – a term that refers to firms that are "too big to fail"**

The G20 committed to strengthening supervisory and regulatory oversight of the "systemically important financial institutions" (SIFIs)– a term that refers to firms that are "too big to fail". They also agreed that SIFIs should develop plans for: a) orderly winding down ("resolution") in case of emergency, b) winding down cross-border firms, and c) reducing firms' excessive risk-taking, especially through requiring them to hold more capital.

Progress assessment

As a result of mergers and acquisitions that took place in response to the crisis both in the United States and Europe, the financial sector is more concentrated than it was before 2008, with firms becoming bigger and more interconnected. The Financial Stability Board (FSB) has identified less than 30 firms that it defines as SIFIs, but these firms have not yet filed their plans for winding down in case of crisis. The FSB has also issued guidelines for how to implement resolution systems when financial institutions fail. Although all countries are expected to adopt these guidelines, few have begun to do so. Currently, analysts agree that there is nothing to stop governments from bailing out financial firms which collapse in the future.

Importantly, the G20 explored the financial transaction tax (FTT), which could help reduce financial risk-taking, but to date, there is no agreement to adopt the FTT on a coordinated basis.

2. Derivatives

The derivatives markets had reached the staggering size of more than USD 600 trillion before the crisis. A majority of the transactions in this market were conducted in opaque and non-transparent ways, and without the posting of collateral. As a result, the exposure and vulnerability of financial institutions and the financial sector, as a whole, increased to a dangerous extent. At the same time, there were few controls to prevent the use of derivatives to speculate on prices of commodities, such as oil or food staples. This speculation has led to higher and more volatile commodity prices.

To increase transparency, the G20 made a commitment that all "standardized" derivatives would be traded on public exchanges and centrally-cleared. Central clearing would allow the "netting out" of the exposures among different firms. Clearing houses would also enforce the posting of adequate collateral for such transactions. When derivatives could not be "standardized" (to allow for public trading and clearing), trades would still have to be reported to authorities. Finally, the G20 also encouraged "position limits" on traders –an important device to ensure traders cannot engage in large transactions for purely speculative purposes.

The agreed reforms do not prevent banks from profit-taking or enjoying the implicit subsidy to their operations

Progress assessment
The 2012 deadline for these reforms will be missed in most countries. Even where reforms are implemented, many derivatives that are traded bilaterally (between two financial institutions) will not be subjected to the new rules. This is because banks claim (often with little justification) that such derivatives should be exempt from the rules because they cannot be standardized.

Only a few countries adopted rules that impose "position limits" on traders and at levels not significant enough to change the dynamics that lead to price volatility. The trading of derivatives continues to obscure the real risk exposure of banks and can highly distort the "weighting" of risks for the purpose of determining capital reserve requirements. The agreed reforms do not prevent banks from profit-taking or enjoying the implicit subsidy to their operations derived from mixing deposit-taking (which is government-guaranteed) with risky derivative transactions (which should not be government-guaranteed).

3. Bank capital requirements

Regulators are in charge of setting and monitoring requirements regarding the amount and type of capital reserves which banks must hold in order to absorb any risks that arise from lending and other transactions. Since the 1970s, regulators in different countries have coordinated such requirements on the basis of an international agreement, the "Basel Agreement." However, the Basel Agreement did not prevent banks from profiteering by making increasingly risky transactions with inadequate capital backing.

The G20 committed to a reform of the Basel Agreement in order to require banks to hold larger capital cushions to absorb losses in case of crisis. Some reforms to the Basel Agreement were effectively approved which would raise the level of equity that banks must hold. (Equity is the most loss-absorbing type of capital.) The reforms also require banks to hold reserves to counteract bad times (a "countercyclical buffer"), limit their leverage (debt-to-equity ratios) and protect a certain level of liquid (cashable) assets over time. Finally, banks considered "systemically important" were also required to hold an extra capital, as a cushion.

Only some countries are reforming and these reforms are often piecemeal

Progress assessment
Most of the reforms of the Basel Agreement have yet to enter into effect – as they have long phase-in periods. Also, only some countries are reforming and these reforms are often piecemeal. The new version of the Basel Agreement, even while requiring that banks hold more capital, still allows banks to report risks based on subjective internal models, which tend to minimize the quality of capital buffers, as experience has shown. The extra capital charges on systemically important banks are too small to have any impact on the growth and complexity of the institutions – factors that make them riskier and harder to regulate.

4. Credit rating agencies

Credit rating agencies (CRAs) were responsible for grossly underestimating the risks attached to certain assets (such as Collateralized Debt Obligations and Mortgage-Backed Securities). Many investors – including managers of pension funds – invested in these assets because they trusted their high ratings. Legislation authorized these investors to consider an asset "safe" when it obtained a high rating by a CRA. When assets proved riskier than anticipated, the CRAs were able to deflect any accountability by claiming that their ratings were mere "opinions" based on erroneous mathematical models. However, CRAs were subject to conflicts of interest because they were rating the assets issued by the same institutions that paid them to determine such rating (something termed the "issuer-pays" model). They were also under pressure to give high ratings to assets in order to compete with other rating agencies.

The G20 committed to a stronger regulation and oversight of credit rating agencies on the basis of an existing (2008) Code of Conduct designed to improve governance and transparency of the agencies, including prevention of conflicts of interest. It also pledged to diminish the regulatory and legal requirements for investors to rely on the opinions of credit rating agencies for evaluating the risk of their assets.

The G20 never challenged the status of the CRAs – that is, their privileged position compared with other sources of expert opinion

Progress assessment
Governance of CRAs: In 2009, at the behest of the G20, the International Organization of Securities Commissions (IOSCO) reported that CRAs were largely implementing the Code of Conduct and then, reports on compliance ceased to be issued. But, the Code of Conduct does not provide

a meaningful alternative to the "issuer pays" model which was at the basis of failures in rating.

Alternatives to CRAs: The G20 stressed that investors must reduce their reliance on CRAs and agreed to a "roadmap" to achieve that goal. Historically, the legal and regulatory reforms prescribed by the "roadmap" have proven difficult to implement, especially for complex products. This perpetuates a dangerous situation since most investors simply lack the capacity to judge the creditworthiness of such products.

Exemption from Liability of CRAs: The G20 never challenged the status of the CRAs – that is, their privileged position (exemption from liability for negligence or lack of due diligence) compared with other sources of expert opinion, such as accountants or investment banks. Such a privileged position is not appropriate given the great impact CRAs have on the market.

5. Shadow banking system

The "shadow banking system" refers to the world of financial agents that operate in a bank-like manner, this is, intermediating funds between savers, investors and borrowers, but without being subject to as high a level of oversight as banks are. The shadow banking system is comprised of investment banks, finance companies, money market funds, some hedge funds, special purpose entities and conduits, among other vehicles. In 2011, the system held about USD 67 trillion, according to the Financial Times, which is equivalent to about a quarter of the financial assets in 25 major jurisdictions[1]. The crisis highlighted the fact that entities operating in the "shadow banking system" can generate risks that ultimately impact the formal banking system and can lead to bail-outs of unregulated shadow banking firms as well as regulated financial institutions.

The G20 has only recently focused on the danger posed by a growing shadow banking system. Now, it has acknowledged that new regulations could drive risky activities into the unregulated world of shadow banking unless bold steps are taken to strengthen the regulation and oversight of this system.

Does the G20 have the necessary consensus to address the risks created by the system?

Progress assessment

It is too early to judge the outcomes of the G20's work on shadow banking. The G20 has commissioned the FSB to conduct studies regarding data gaps and the risks posed by a range of shadow banking activities and entities, including securitization, money market funds and repos. Does the G20 have the necessary consensus to address the risks created by the system? This is unclear. There are early indications that the G20 is seeking a "balanced" approach – that is, it will address some risks, but avoid regulations that could inhibit "innovation" in the shadow banking system. Such thinking is problematic, as many apparent "innovations" are deliberately designed in a complex way in order to mask risk. They, thereby, deceive consumers and endanger the economy.

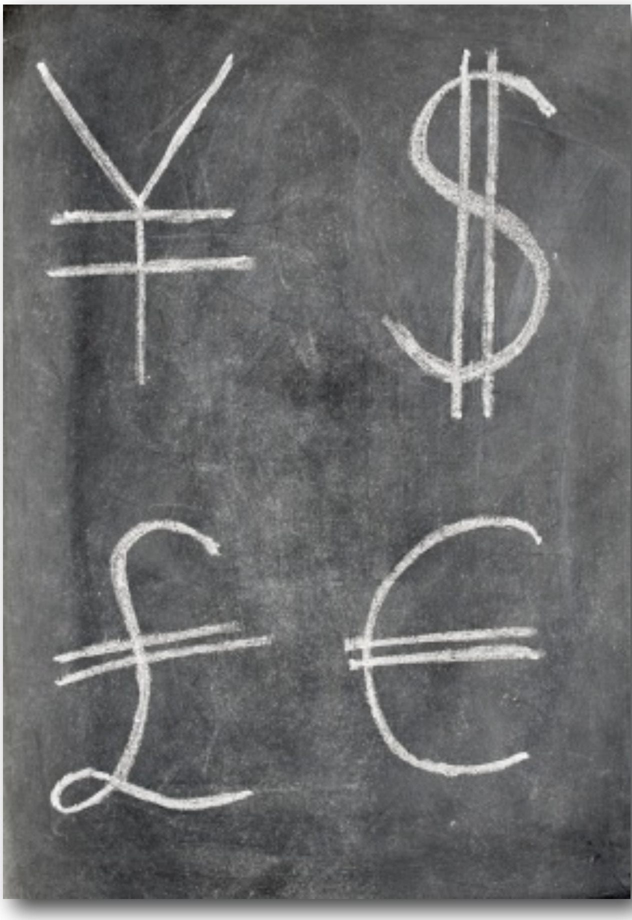
6. Financial transparency, bank secrecy and tax havens

The integrity of financial markets was highly compromised by opacity and lack of transparency. Tax evasion and avoidance thrived, enabled by a web of jurisdictions with inadequate accounting rules and bank secrecy laws. Illicit financial flows reach near USD 2 trillion, according to some estimates.

The G20 pledged to take action against "non-cooperative" jurisdictions, which are unwilling to implement requirements for "exchange of information" about financial transactions – and end bank secrecy. They also set out to assess the performance of countries against standards for "exchange of information."

The G20 has promoted adherence to the Multilateral Convention on Mutual Administrative Assistance on Taxation and committed to lead by example in adopting automatic exchange of information practices. This is a big step forward because, if information is exchanged automatically, wrong-doing will be easier to detect.

They have also encouraged support of efforts of developing countries to combat transfer pricing by transnational corporations (TNCs). For accounting



purposes, a transfer price is the price assigned to the cross-border provision of goods and services between related companies (e.g. parent and affiliate of the same transnational conglomerate). By inaccurately pricing these transfers, global companies manipulate the location of profits and losses in order to reduce tax payments. Through such means, countries are deprived of tremendous amounts of revenue that rightfully belong to their citizens.

Out of 79 peer reviews conducted to date, it appears that 32 countries lack some essential elements for the effective exchange of information

Progress assessment

Transparency: The Global Forum on Transparency and Exchange of Information for Tax Matters was established with a Secretariat at the Organization for Economic Cooperation and Development (OECD) which conducts peer reviews of countries' standards for the exchange of information. Out of 79 peer reviews conducted to date, it appears that 32 countries lack some essential elements for the effective exchange of information.

The G20 set the "bar" (or the level of requirements for a jurisdiction to be listed as "non-cooperative") too low. The Multilateral Convention contains significant loopholes so, even if adopted, it will not be a panacea.

Transfer Pricing by Transnational Corporations: Measures to combat transfer pricing fall short of an adequate regime to regulate financial flows world-wide, such as a global agreement to reform accounting rules and require country-by-country reporting on the part of companies. Country-by-country reporting requires that companies report profits, payments of taxes and salaries and other revenue and expenses in a disaggregated way for each country in which they operate, rather than on a globally consolidated basis as is the case now.

7. Reform of the International Monetary Fund (IMF)

The IMF failed to see the risks looming in the financial system before the crisis. Even if it had it seen the risks, it may have been powerless to do much about them. The institution lacks "teeth" to enforce policy prescriptions - especially on the Group of 7 (G7) member countries which significantly control its governance. Indeed, its governance is largely based on arcane Western conventions that have prevailed since the post-World War II founding of the institution.

Even worse, many borrowing countries felt (and still feel) that IMF policy prescriptions are "bad medicine" that fail to balance the need for austerity and fiscal discipline, on the one hand, with the need for growth and employment, on the other. These countries felt stigmatized when submitting to the IMF and inconvenienced by the need to "jump through hoops" to obtain IMF financing. Finally, it was widely recognized that the IMF lacked adequate capitalization to deal with crises of great magnitude.

The G20 committed to: a) a significant increase in IMF lending resources, b) the reform and streamlining of lending mechanisms; c) the reform of the IMF's governance and mandate; and d) more objective surveillance (i.e., review) of member country policies.

Critics contend that the IMF was given a "free ride"

Progress assessment

At the behest of the G20, IMF members initially raised the institutions' capacity to lend to approximately USD 875 billion and, then, an additional USD 450 billion. But conditions to consolidate some of these increases, currently in the form of bilateral lines of credit by members, into capital, have yet to be met.

Critics contend that the IMF was given a "free ride" – that is, considerable resources without the mandate for the deep institutional reforms needed to ensure the responsible use of these resources. For instance:

- Governance reforms have been completely inadequate. The voting share of developing countries in the institution have seen a small increase, but deeper reforms (i.e., to the quota formula) are being avoided by powerful countries. Only deep structural change through an overhaul of the anachronistic variables used for allocating capital and voting power can give emerging and developing economies their fair share of power.

- Leadership traditions are unchanged. In 2011, a French woman was chosen as the Managing Director of the IMF. By this action, the IMF re-affirmed its out-dated tradition by which the leader of the institution is always a European.

- Problematic process and quality of lending. Although the IMF streamlined some lending mechanisms, critics claim that these measures were insufficient to remove stigma for applicants. Also, the IMF still tends to require borrowing countries to implement excessively contractionary policies. We need an IMF that balances the growth and employment imperative with the need for fiscal prudence.

To safeguard the international financial and economic system from future crises, the G20 will need to improve its effectiveness.

References

1. November 19, 2012, page 19.

What is the Financial Stability Board (FSB)? Why does it Matter?

By Jo Marie Griesgraber, Chair, New Rules for Global Finance (US)

At its 2009 Summit in London, the G20 realized that they needed a strong international institution capable of regulating financial institutions in ways that would prevent future global crises of the type that exploded in 2007. At that point, the world had only the Financial Stability Forum (FSF) – a gathering of Finance Ministers and Central Bank Governors of the Group of 7 (G7) and a few other major economies, which had been meeting biannually over the course of a decade (since the East Asian Financial Crisis). The FSF lacked power and the legitimacy.

Therefore, at the London Summit, the G20 elevated the status of the FSF, renamed it the "Financial Stability Board" (FSB), expanded its membership, and gave it a hefty mandate. Today, the membership of the FSB consists of 25 member states (the G20 plus additional financial centers such as Switzerland, the Netherlands and Singapore) and the pre-existing Supervision Setting Bodies [e.g., the Basel Committee on Banking Standards (BCBS) and those dealing specific issues such as securities, insurance and accounting]. The FSB's mandate[1] requires it to:

- Strengthen the capacity of banks to deal with risk, including by enhancing capital and liquidity standards;
- Address systemically important financial institutions (SIFIs) and ways to "wind down" in the event of their collapse (i.e., resolution);
- Effect changes in the role and uses of credit ratings, which grossly miscalculated the risk of financial products in the years preceding the global financial crisis;
- Improve the transparency of the over-the-counter (OTC) market in derivatives[2] – a market that is so large and opaque that it de-stabilized the world economy;
- Reform the practices of compensating executives of financial institutions to support financial stability and avoid excessive risk-taking; and
- Strengthen adherence to international supervisory and regulatory standards.

The FSB Plenary meets twice a year to approve, by consensus, the work of the standing committees and working groups staffed largely by national regulators. The FSB depends on voluntary national implementation of all agreed regulations not only by its member countries, but also its non-member countries!

This situation reveals two fundamental flaws in the FSB: its governance (including membership, transparency and participation) and its implementation processes.

Governance

The FSB[3] is a self-selected group in which member states have unequal power. Moreover, it functions without meaningful transparency and public scrutiny. It has begun to invite public comments on draft proposals and its working groups release reports and updates, but this is insufficient.

The Charter of the FSB describes how the institution should relate to non-member states and constituencies. Specifically, it stipulates that the FSB "should consult widely amongst its Members and with other stakeholders including private sector and non-member authorities. This process shall include engaging with the FSB Regional Consultative Groups (RCGs) and include an outreach to countries not included in the Regional Consultative Groups." Six RCGs were established in 2011 and most groups have held two or three meetings since then.

The RCG processes could enhance the democratic character and legitimacy of the FSB. However, to date, the RCGs lack transparency and participation:

- **Transparency**. The RCGs do not release regional reports or recommendations. Indeed, the agendas, conclusions, and attendees of these RCGs are all secret – except for a short, vague press release. The members of each RCG are posted online.
- **Participation**. Importantly, RCGs are not part of the FSB's policy development process! That is, parties that are not members of the FSB are informed of the FSB's decisions and consulted, but they do not participate in decision-making. As a result, RCGs remain the six unused "cogs" of the FSB machine. To democratize the FSB, the RCGs need an expanded role.

Implementation

Regarding implementation, proposed financial regulations are approved by a group of Central Bank Governors, Finance Ministers, and senior regulators, with neither national legislative nor treaty-based authority. Then, each nation decides whether and how to implement any agreed regulations, such as requirements to rein in systemically important financial institutions (SIFIs). The weak, voluntary nature of this process dooms the effectiveness of the FSB.

In conclusion, the FSB is a quixotic attempt to tame gigantic financial earthquakes or tsunamis. Policy leaders, think tanks, and civil society should urgently press the FSB to become a more democratic, participatory and transparent body. Unless the FSB takes this path, it will suffer the fate of its predecessor the FSF – that is, it will lack the power and legitimacy to prevent another global financial crisis.

References
1. This mandate is further described in a 2010 FSB document.
2. A derivative is a security whose price is dependent upon or derived from one or more underlying assets. The derivative itself is merely a contract between two or more parties. Its value is determined by fluctuations in the underlying asset. The most common underlying assets include stocks, bonds, commodities, currencies, interest rates and market indexes. Most derivatives are characterized by high leverage. Read more.
3. The FSB is not yet even incorporated under the laws of Switzerland (where it is headquartered in Basel).

MUST READ

"Infrastructure for Development: Meeting the Challenge,"

By **Amar Bhattacharya** (Director of the Secretariat of the G24), **Mattia Romani** (Fellow at London School of Economics (LSE) and Director of the Global Green Growth Institute), and **Nicholas Stern** (Professor at LSE and Chairman of the Grantham Research Institute on Climate Change). **Joe Stiglitz**, the Nobel Prize winning economist, also gave input to the authors.

This paper is timely because it proposes a new "Development Bank for Infrastructure and Sustainable Development" when, reportedly, the BRICS are preparing to launch a new development bank at their next Summit in Durban, South Africa in March 2013.

It makes the case for a new bank by describing the growing consensus that infrastructure spending should more than double (to between $1.8 and $2.3 trillion) by 2020. This estimate takes into account the projected incremental cost for ensuring that investment is of "lower emissions, higher efficiency and more resilient to climate change."

The authors suggest that the new bank will:

- Channel 45-60% of the investment to the electricity sector, while the remainder would be split between the transport, telecoms and water sectors.
- Act as "convener and syndicator of programs in a way that closely involves the private sector and other public institutions such as national development banks and sovereign wealth funds."
- Produce returns on investment that correspond to the level of project risk (e.g., preparation, construction, and operational risk). In Africa, "investors may require a 20% return on equity… whilst commercial lenders might demand up to 10%. In some cases, returns demanded can be even higher."

They view the proposed bank as necessary for many reasons, including the lack of effective project preparation facilities, especially in low-income countries; shortcomings of the existing development banks (e.g., risk averse nature, poor risk-return profiling; failures to adequately engage the private sector; lack of capacity to address uncertainties related to revenue streams and hold assets in appropriately diversified portfolios); and rejection of the Debt Sustainability Framework (DSF). The authors believe that the DSF of the IMF and World Bank too sharply limits the level of debt and debt servicing that borrowing countries are allowed to assume.

In addition to the weaknesses in the existing financial "architecture," the authors underscore the need for a new destination for savings. Instead of getting "very low returns from allegedly safe investments in developed country bonds," the authors assert that "these savings from developing and emerging countries should be used for developing and emerging countries" via institutions such as the proposed development bank.

In presenting the case for a new development bank, the Financial Times suggested that it could fill a niche in promoting green technologies (as proposed by Stern and Stiglitz) or it could finance projects such as biofuels, large dams and nuclear power plants that do not meet the World Bank's social and environmental standards.[1]

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1. Financial Times, "The Future of Development Banks." September 24, 2012.

Putin Expands State‘s Role in Energy Policy

By Michael T. Klare, professor of peace and world security studies at Hampshire College and the author, most recently, of „The Race for What’s Left“

Ever since he first assumed the presidency in 2000, Vladimir Putin has sought to bring Russian energy production under state control, reversing the effort made by his predecessor, Boris Yeltsin, to transfer state assets into private hands. Putin made considerable progress in implementing this goal during his first two terms, when the Kremlin employed questionable tax litigation to seize the assets of privately-owned Yukos (then the largest oil company in Russia) and transferred them to state-controlled Rosneft, and has continued with renewed vigor after he regained the presidency in May. Already, Putin’s quest has been rewarded by Rosneft’s acquisition of BP-TNK, Russia’s third-largest oil firm, bringing more than half of the country’s oil production under state control for the first time since the 1990s. But while applauded by some in Moscow, this effort has caused increasing concern in Europe, which relies to a considerable degree on Russian oil and gas and so fears the political implications of Putin’s growing sway over Russian energy policy. The Kremlin’s growing control over energy policy also raises questions about the depth of Russia’s commitment, made at the November 2011 G-20 Summit in Cannes, to increase transparency in international energy markets – questions made all the more salient as Russia assumes the G-20 presidency in 2013.

Even before he assumed the presidency, Putin indicated that state control over oil and other natural resources was essential to the restoration of Russia’s status as a great power. In the years immediately following the disintegration of the Soviet Union, when Russia’s power was at its lowest ebb, Putin – then a functionary in the St. Petersburg municipal government – began arguing against the sell-off of state-owned oil and natural gas fields to private firms and wealthy individuals (the so-called oligarchs). Such sales, he claimed, were depriving Russia of the resources it needed to fuel its comeback as a major world contender; only by renationalizing these assets could Russia acquire the wherewithal to command respect on the international stage.

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Putin’s position on the necessity for state control of energy assets was spelled out in the dissertation he wrote for his doctorate from the prestigious St. Petersburg Institute of Mining. “The structural reconfiguration of national economy on the basis of the country’s existing raw materials will be a strategic factor of Russia’s economic growth in the near term,” he wrote in a summary of the dissertation. This “reconfiguration,” he insisted, must be undertaken by the national government, acting on behalf of the Russian people. “The state,” Putin asserted, “has the right to regulate the process of the acquisition and the use of natural resources, and particularly mineral resources, independent of on whose property they are located.” (It should be noted that for geologists, “mineral resources,” include oil and natural gas.)

Once in power, Putin moved with dispatch to implement this policy. His most aggressive – and still controversial – move was to unleash the country’s tax authorities on Mikhail Khodorkovsky, then the CEO of Yukos and the richest man in Russia. Arrested in 2003, Khodorkovsky was sentenced in 2005 to a nine-year prison sentence for tax evasion. (Putin has denied any responsibility for the arrest or sentencing, but most observers believe he played a key role behind the scenes.) Yukos was broken up, and its most valuable oil assets were transferred to Rosneft. Putin scored another victory for state control in 2006, when Royal Dutch Shell was forced to sell its majority share in the Sakhalin-II oil and gas project to state-controlled Gazprom after the state environmental organization, Rosprirodnadzor, charged Shell with multiple environmental infractions.

Gazprom, too, had been largely privatized under Yeltsin, with the state retaining a minority share of 39.4 percent. In 2005, however, Gazprom – by then dominated by Putin appointees – agreed to sell another 10.7 percent of its shares to the state, giving the Kremlin a majority share. With control over the world’s largest supply of natural gas and a vast network of pipelines – many stretching into Western Europe – Gazprom is a leading source of income for the Russian state and also a major source of employment, with close to 400,000 employees.

By seeking control over Gazprom, Putin no doubt sought above all to increase the state’s revenues from exports of oil and natural gas to Europe. The larger the state’s holding in Gazprom and the bigger its export earnings, the more money Putin could dispense to the military, the security services, science and technology, infrastructure, and other endeavors he deems essential to Russia’s reemergence as a great power. But Putin saw other advantages in controlling Gazprom: Because so many countries on its

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periphery – especially the former republics of the USSR – depend on Russian gas for their vital energy needs, Moscow's ability to open or close the spigot on gas deliveries provides it with a powerful tool it can use to influence political developments in major client countries. This was vividly demonstrated in January 2006, when Gazprom cut off gas deliveries to Ukraine in what was described by Moscow as a dispute over prices, but was widely interpreted in Europe as an expression of Russian displeasure with the Ukrainian government's Westward-leaning proclivities.

Gazprom's use of the "energy weapon" to pressure Ukraine in 2006, along with several other former Soviet republics in succeeding years, produced significant dismay in Europe and led some European leaders to call for the "diversification" of Europe's natural gas supplies, in particular through the construction of pipelines connecting Europe to supplies in the Caspian Sea region, bypassing Russia. One such endeavor, the Nabucco pipeline, has received strong support from the European Union and some EU member states. However, not all EU members share this concern, and Gazprom has succeeding in extending its reach to Western Europe by establishing joint ventures with various European energy firms and building a new pipeline, Nord Stream, that connects Russia and Germany via the Baltic Sea.

Although successful in bolstering Russia's ties with European energy firms, Dmitry Medvedev was not unaware of Europe's concerns over Gazprom's monopolistic behaviors, and so sought, during his four years as president, to promote greater transparency and competitiveness in the energy industry. Many Russian liberals hoped that he would accelerate these efforts during a second term, but he meekly stepped aside to allow Putin to run. Now back on the throne, Putin has sidelined Medvedev's efforts and resumed his own drive to bring the energy industry under state control.

As noted above, by far the most significant outcome of this drive is the acquisition of BP-TNK by Rosneft, announced on October 23. Russia's third biggest oil company, with daily production of 1.4 million barrels per day, BP-TNK is a 50-50 joint venture of London-based BP and TNK, a holding company owned by a trio of Russian oligarchs. BP has profited very handsomely from its half-ownership of the joint venture, but it has feuded endlessly with the three oligarchs in control of TNK and was widely reported to be seeking a divorce (under terms of its sale of half ownership in BP-TNK to Rosneft). Moreover, it will receive shares representing a 12.84 percent interest in that company, giving BP a significant stake in Russian energy output. This, BP's executives evidently believe, will foster their plans to develop new oil and gas fields in the Russian Arctic, enhancing the company's future prospects. For the three oligarchs, the transaction seems largely motivated by greed: they will receive an estimated $28 billion in cash for their half of BP-TNK.

Rosneft's acquisition of BP-TNK will produce an energy behemoth with combined output of some 4 million barrels per day – more than any other oil firm company except for Saudi Aramco. If oil prices remain high, as most analysts believe is likely, this will provide the Russian state with additional revenues to finance military modernization, infrastructure development, and other projects embraced by Mr. Putin. It will also give the Kremlin control over a majority of the country's oil output, strengthening its bargaining position in ties with the major oil-importing countries and with such bodies as the Organization of Oil-Exporting Countries (OPEC). When combined with the Kremlin's successful drive to acquire a majority stake in Gazprom, it also represents the culmination of Putin's drive to bring Russia's prime energy assets back under state control.

If oil prices remain high, as most analysts believe is likely, this will provide the Russian state with additional revenues to finance military modernization, infrastructure development, and other projects embraced by Mr. Putin

But while no doubt applauded by Mr. Putin and his associates, the Russian state's growing power over energy is raising concern in Western Europe over perceived threats to the region's energy independence and competitiveness. In particular, officials fear that Europe is becoming excessively dependent on a single supplier, Russia, which effectively excludes competitive participation in its massive energy sector. As a signal of this concern, the European Commission (the executive arm of the EU) has launched an anti-trust investigation of Gazprom's operations in EU countries, claiming that Gazprom and its partners are suspected of having have engaged in "exclusionary" and "exploitative" monopolistic practices in violation of EU rules. In response, Putin has insisted that these charges stem from a failure by EC bureaucrats to fully grasp the distinctive nature of the gas business and that he hopes the matter will be cleared up soon. However, he has also decreed that "strategic" companies, such as Gazprom, cannot divulge sensitive financial data to foreign regulators without Kremlin approval, suggesting deep concern over the EC investigation.

Putin's decision to counter the EC investigation by creating a category of "strategic" companies whose key financial data cannot be divulged to foreign regulators is deeply worrying in the European context, as it suggests a determination to resist compliance with the legal and regulatory practices that all other companies operating in that arena are obliged to abide by. But it is equally troubling in terms of Russia's compliance with its G-20 commitments, particularly in the energy realm. At the 2011 G-20 Summit in Cannes, Russia, along with other member countries, endorsed a final communiqué containing the words, "We commit to more transparent physical and financial energy markets." Various measures – such as the Joint Organisations Data Initiative (JODI Oil) – were also approved to facilitate the sharing of data on these markets. However, by shielding Gazprom – and possibly other energy firms – from release of critical data, it appears that Russia is moving in the opposite direction.

Officials fear that Europe is becoming excessively dependent on a single supplier, Russia, which effectively excludes competitive participation in its massive energy sector

For now, it appears unlikely that anything will impede the further centralization of power over the Russian energy industry in Mr. Putin's hands. He has made no secret of his belief that this is necessary for the continued health and vigor of the Russian economy and for the preservation of Russia's status as a major world power. Some analysts question whether this drive will prove self-defeating in the end – whether by inviting hostile action like the EC investigation or driving away participation by tech-savvy foreign firms – but Putin seems determined to proceed on this course.

RECOMMENDED NEWS SERVICES

If your worldview is shaped by news published in Western capital cities, try an antidote – one of the first two newsletters below. Or, if you are frustrated by the superficial coverage of the European Union financial crisis, try the quarterly EU Financial Reforms Newsletter published by SOMO (Netherlands) and WEED (Germany) and their colleagues.

The South African Foreign Policy Initiative (SAFPI) daily newsletter. Sign up here.This newsletter provides a rich menu of information on relations among the IBSA countries (India-Brazil-South Africa) and the BRICS (Brazil-Russia-India-China-South Africa) countries; and news from the African continent, including ways that emerging market countries are working in Africa.

Recent news from SAFPI includes:

- a lecture by South African Deputy Minister Marius Fransman, "South Africa: a strong African brick in BRICS"
- describes not only the rationale for inclusion of South Africa in the BRICS, but also the country's types of engagement with the BRICS. South Africa is promoting the new BRICS Bank and the African Union's Presidential Infrastructure Champion Initiative (PICI), which is chaired by President Zuma.
- "Australia: An Aid Superpower? and
- "Structural change, poverty reduction and industrial policy in the BRICS which is described in the "Introduction" to this "G20 Update."

BASIC South Initiative's quarterly newsletter

Sign up with: sunita@groundwork-usa.org. The lead article by Jayati Ghosh, Professor of Economics at Jawaharlal Nehru University (India) describes how the each of the BRICS countries can learn from the others and work together, for instance, to develop technology, diversity exports and generate employment. She also suggests the democratization of the corporate-led South-South interaction (including amongst BRICS), which has determined the focus on and the patterns of trade and investment.

The BASIC South Initiative (BSI) is led by civil society organizations in the global South, which amplify Southern voices. It urges the BASIC countries (Brazil, South Africa, India, and China) to take a joint responsibility for their ecological footprint in socially-just ways and to demand transparency and accountability in the national and international institutions, and decision making processes at all levels of governance.

The EU Financial Reforms Quarterly Newsletter. Sign up here. Learn about the Euro crisis and the "cast of characters," including the European Central Bank, the European Parliament, and the European Commission, and how these actors are affecting the future of banking regulation, tax evasion, the Financial Transactions Tax (FTT), and the solvency of nations. As the newsletter editor writes, "the fate of the Euro, the European banks and economy as well as democracy and welfare states in Europe are still under threat."

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