NOTE

17 March 2009

G20 BUSINESS EVENT, LONDON 18 MARCH

1. The financial crisis is harming non-financial companies

The financial crisis is having a devastating impact on companies as the major drivers of growth have been hit by limits on access to finance. This is leading to the breakdown of business activity across Europe – also affecting companies that were not linked in any way to the banking crisis. Consequently, corporate investment is declining, trade is receding and unemployment is rising rapidly. The economic and social consequences will be dire unless appropriate action is taken to restore confidence in the system.

BUSINESSEUROPE's priority is to restore access to finance for companies at competitive rates. Inevitably, there is some risk in any business activity. Therefore, the current wave of reforms of the financial sector should aim to do more than restore financial stability. They must also restore financial support for investment by companies, which in turn will drive economic growth and create jobs.

What can the G20 do to restore access to affordable finance for companies?
Access to finance is a major concern of business today. Measures that could be taken to restore access to finance are as follows:

- G20 Central Banks should engage in the purchase of short term debt instruments issued by non-financial corporations (e.g. Commercial paper, certificate of deposits, etc...) in order to reduce the cost and restore access to financing for a broad range of companies.
- Governments, regulators and central banks to improve the clearing process for over-the-counter markets at international level. It is vital to restore confidence in some of these unregulated markets, such as the Credit Default Swap markets which play today a vital role in defining the cost and access to financing for corporations.
- Governments, and where appropriate regional or multilateral institutions, should provide co-insurance and re-insurance of trade credit when the coverage of private insurers has been reduced;
- Governments should alleviate short-term financing pressures on companies by speeding up payments and tax refunds by public administrations;
- Public interventions to reduce systemic risks in the financial sector should be proportionate, transparent, sufficiently coordinated and conducive to a rapid return to self-supported activities by commercial banks and capital markets. A level playing field at the international level must be maintained and financial protectionism strongly combated.
- Governments should prepare exit strategies to their interventions in the financial sector. This will be important to restore faith in the viability of the

THE CONFEDERATION OF EUROPEAN BUSINESS a.i.s.b.l.
AV. DE CORTENBERGH 168
BE-1000 BRUSSELS
BELGIUM
VAT BE 863 418 279
TEL +32(0)2 237 65 11
FAX +32(0)2 231 14 45
E-MAIL: MAIN@BUSINESSEUROPE.EU
WWW.BUSINESSEUROPE.EU

financial sector and will help governments reduce pressure on public indebtedness.
- Strengthen financial market supervision: Clearly one of the lessons of this crisis is the need for regulation of financial markets in a smart way. There will need to be more regulation for previously unregulated markets as well as improved cooperation between regulators at international level. The EU will most likely introduce a college of regulators for the banking sector in the near future (to avoid problems similar to the Fortis or Islandic banking collapses). The De Larosière report offers some insights into what can be done at the international level.

2. Economic Stimulus is needed to prevent a global economic meltdown

The financial crisis has led to a major slump in global demand which must be temporarily absorbed by government spending or fiscal stimulus plans. However, several issues must be addressed to ensure that money is well spent and that it truly contributes to restoring global economic growth. Some developing countries are also suffering from reduced credit ratings and from capital flight. International financial institutions can play a key role here to avoid major financial meltdowns.

What can the G20 do to coordinate stimulus packages?

- G20 countries must ensure that stimulus plans do not lead to serious trade distortions. “Buy local” clauses, tax changes that serve as export subsidies and government bailouts that distort trade and investment should be outlawed from stimulus packages.
- G20 countries must recognise the role that economic imbalances have played in the crisis. The means that the crisis response should seek to alleviate these imbalances rather than reinforcing them..
- To maximise the efficiency of stimulus packages, some emerging countries will need technical assistance to prevent widespread corruption and waste. By helping countries with large reserves like China or Russia join the WTO Government Procurement Agreement and by providing multilateral or bilateral technical assistance on public-private-partnerships for infrastructure development, G20 countries can work together to ensure that stimulus packages contribute to both local and global growth.
- G20 countries must consider the long term costs of stimulus packages and put forward credible plans to reduce spending once the economy picks up again.

What can the G20 do to boost financial support to countries in need?

- The financial crisis has also put a number of emerging economies on the brink of insolvency (Ukraine, Hungary). Without exaggerating the extent of insolvencies (e.g. don’t put all of Eastern Europe in the same boat), sufficient funding of multilateral or regional financial institutions like the IMF is needed to take preventive action. This should take priority over G20 discussions to reform the IMF and the World Bank which will necessarily take a long time to work out.

- The global community will face a real challenge in meeting the Millennium Development Goals regarding development aid for the world's least developed countries (LDCs) as a result of the financial crisis. Combined with falling commodity prices, lower global foreign direct investment and declining remittances from foreign workers, this could worsen an already dire economic situation in the LDCs. Multilateral and national aid agencies could boost capital flows to the LDCs by providing more risk coverage to companies willing to invest in these regions.

3. The siren calls of protectionism

In the last quarter of 2008 and the first few months of 2009, international trade flows have suffered their biggest decline since World War II (roughly 10% decline per month as compared with 2007-2008). The underlying causes of this decline are to be found in the financial crisis.

Demand in the world's largest economies (the US and the EU) has fallen significantly and has not been offset by the growth in emerging countries or major resource holders. Major industrial or commodity exporters like China or the Gulf countries are much more dependent on international trade than has been previously thought. Trade finance (which covers 90% of world trade) has dried up with the rest of the finance destined for companies making it much more difficult for companies to engage in normal transactions. Protectionist rhetoric and some very real protectionist measures have had a chilling effect on the trade and investment strategies of companies. Russia has increased tariffs on automobiles and agricultural products. The US has imposed restrictions on procurement and temporary work visas in the banking sector. China has used VAT rebates to boost (some say to subsidise) exports on the world market. Korea has used public export financing to expand export market share in the electronics sector (at the expense of EU companies in Russia for example). Anti-dumping measures are almost certain to flourish around the world as prices for commoditised goods fall through the floor.

What can the G20 to fight against protectionism?
The G20 should not adopt a rhetorical statement against protectionism as it did on 16 November 2008 in Washington which almost all G20 members subsequently violated. The G20 should also avoid making another bland statement about concluding the Doha Round which will then be subsequently ignored by Trade Ministers. Rather, the G20 should:

- Adopt a temporary legally binding plurilateral WTO Standstill Agreement applicable to all G20 countries which would therefore cover approximately 90% of global trade. The Standstill Agreement should enter into force immediately and last until the entry into force of the final Doha Agreement. It should also provide assistance for least developed countries (LDCs) to raise their export concerns.
- Adopt a temporary legally binding WTO Agreement against abusive initiations in anti-dumping to avoid the worst protectionist abuses while respecting each

nation's right of recourse to trade defence measures.

- Clarify the G20 position on the two key outstanding issues in the Doha Round – namely the commitment to sector-specific free trade agreements, the use of a special safeguard mechanism in agriculture and the elimination of cotton subsidies. Based on a G20 compromise on these items, the Doha Round could move toward its final conclusion rather quickly.
- Ensure the availability and affordability of import and export finance. For developed economies, rules for the provision of finance by public agencies should be relaxed while maintaining a level playing field through the respect of WTO and OECD rules. For developing countries, the WTO has estimated that the shortfall in credit was US$ 25 billion. Although the World Bank's IFC announced a tripling of the ceiling of its trade finance guarantees and regional Development Banks, including the Asian Development Bank, also stepped in, there are still problems.
- Bailouts of insolvent nations by the IMF or other financial institutions should strictly adhere to WTO rules pertaining to trade measures to address balance of payments crises.

___