

### *Position Paper for the Group of 20*

The issues before the Group of 20 (G20) are: Public Debt Management in the Aftermath of the Global Financial Crisis; Implementing Financial Sector Reform, and Fostering Climate Cooperation between G20 Countries. Being the world's largest vital country, the Russian Federation is a cultural, historic and contemporary political responsible world power as well as a constantly emerging world economy with lasting financial set up that leads to an increasing involvement within the G20.

#### **I. Public Debt Management in the Aftermath of the Global Financial Crisis**

As a key role in creating a stable economic situation the Russian Federation pursues a long-term austerity policy. Russia's governmental deficit is at a level of US \$ 151.3 billion, "representing" 6.8 percent of the GDP. Yet, the Russian Government is concerned with the high debt levels of numerous countries caused by financial bailouts in developed countries and decreasing exports in developing countries.

Since stable currencies are required for sustainable trade relations, the Russian Delegation appreciates the establishment of European rescue patterns as specified in Article 136 of the *Treaty of Lisbon (TFEU)*. However, accurate regulations, such as stated in the *Maastricht Treaty*, cannot be efficient as long as governments use non-transparent financial instruments to cover their debts. Thus, the Russian Federation, referring to the IMF-released *Code of Good Practices on Fiscal Transparency* (2007), reiterates the key role of transparency in public debt management. Furthermore, the *World Economic Outlook* (10/2010) of the IMF emphasized the positive long-term effects of public financial consolidation in and for highly indebted states. Likewise, the *Global Integrated Monetary and Fiscal Model* (GIMF) highlights that lowering the debt-to-GDP ratio increases national GDP in the long run. However, the international community lacks appropriate measures to obligate states to financial consolidation. For developing states, the Russian Federation supports procedures such as the *Multilateral Debt Relief Initiative* (MDRI) under the auspices of the *International Monetary Fund* (IMF) and *World Trade Organization* (WTO). Furthermore, the implementation of *A/HRC/RES/14/4* (2010) requires the lasting extension of the *Mutual Assessment Process* (MAP) to a regional level.

In order to commit states to fiscal austerity, the Russian Delegation urges for the establishment of limits of incurring debts at a certain level to be determined by the GDP per capita ratio. Sustainable economic growth requires consolidation of national budgets. Hence, the Russian Federation calls for the establishment of the *Public Debts Task Force* (PDTF) and the appointment of independent financial experts such as university scholars. The G20 will assign at least 25 internationally renowned experts to assist states in need during the process of consolidation. However, in case of unforeseen developments such as natural disasters, further credit taking has to be permitted. The PDTF will observe that the processes shall be followed by all member states in a transparent manner by reviewing their reports. The Russian Delegation demands the establishment of the *International Court of Bankruptcy* (ICB) aligning different national bankruptcy procedures. The ICB shall be an independent institution receiving allowances from the UN General Assembly (GA) in reliance to expertise of IMF proposals. The Russian delegation recommends the UNGA and UNSC to establish the legal framework for the ICB. Headed by judges from at least eight rotating countries, the court will be responsible for orderly accusation of the debtor in cases of incurring defaults during their respective term. The main function of the ICB will be to generate a diaphanous international debt arbitration system. The court will bring the debtors and creditors together and present feasible redemption plans.

#### **II. Implementing Financial Sector Reform**

The insufficient transparency within the existing system led to the suffering of the global financial system. The resulting financial crisis caused severe damages leading to a collateral retrenchment of confidence in financial institutions. Worldwide the economy sustained losses estimated to US \$ four trillion, implicating even financially sound countries, such as the Russian Federation. At the peak of the crisis the *Russian Trading System* (RTS) lost more than 50 percent of its value, which urged the Russian Government to devote more than US \$ 100 billion to bailouts.

A stable global financial sector is crucial for sustainable international trade. The implementation of *Special Drawing Rights* (SDR) specified in *Article XV* of the *Agreement of the International Monetary Fund*, led to a common currency basis within the IMF. The *Global Financial Stability Report 2011* (GFSR) stipulated the requirement of a firm footing of the financial sector. Besides, the *G20 Financial Stability Board* reported on the progress of the *Implementation of the G20 Recommendations for Strengthening Financial Stability* (2010) in addition to the *Progress of Financial Regulatory Reforms Report*. The Russian government supports the implementation of *Basel II Accord* (2004) and the enhancement to *Basel III* (2010). Stabilizing the world economy, the *Financial Inclusion Action Plan of the G20 in Seoul*, the *Global Partnership for Financial Inclusion* and a flexible *Small and Medium Enterprises Finance Framework* are essential. Concerning *Article 9, 14, 15* and *27* of the *Seoul Action Plan*, the Russian Federation recommends implementing several financial sector reforms.

The Russian Federation favors a reform of the SDR to balance global financial markets. US-Dollar based financial

and trade markets fall short of reality, whereas a broader weightage of currencies within the SDR mitigates the risk of respective domestic deficits. Thus, the national currency shall be reformed by the IMF as weighted average of the following currencies: Euro, Russian Ruble, Chinese Yuan, US Dollar, Indian Rupee, Pound Sterling, Japanese Yen, and South African Rand. The IMF Board of Governors shall regulate concrete weighting and balance the composition of economic power, gold and monetary reserves. To enhance flexibility of the SDR system, a revision shall be undertaken every two years to ensure both stability and flexibility. Further, the Russian delegation urges for establishment of a *Financial Market Transaction Insurance* (FMTI), implemented by the electronic systems of stock exchanges. Countries having adapted FMTI shall set incentives for companies not to place their stocks on non-FMTI bourses by introducing a standardized Risk Seeker Tax on companies placing their shares on such. The IMF will categorize the FMTI into different sectors according to the risk of investment from 0.01 percent to 0.5 percent of the investment. Further, the IMF will continuously monitor FMTI finances. In cases of system relevant failures the insurance will be disbursed to the respective national financial institutions. In order to ensure the incentive of risk-averse behavior within the financial markets, payoffs shall compensate approximately 75 percent of the total damage. The Russian Delegation demands the valorization of standardized guidelines for credit rating institutions to strengthen the reliability of the credit rating agencies examining the likelihood of defaults and to foster diversity of the respective origin countries. Consequently, these institutions have to examine not only the default probability of a financial product e.g. *Collateralized Debt Obligations* (CDO), but also of the pool, which hedges the product. The Russian Federation advocates equispaced credit rating levels.

### **III. Fostering Climate Cooperation between G20 Members**

The global climate change hovers like the sword of Damokles above each human being. Incremental disasters around the world, such as forest fires caused by the northern hemisphere summer heat wave in 2010, destroyed more than 500,000 hectares of land and more than 2,000 houses in the Russian Federation.

The *Fourth Assessment Report: Climate Change 2007* (AR4) of the *Intergovernmental Panel on Climate Change* (IPCC) showed technological potential to reduce emissions. Having the second largest forest resources in the world, the Russian Federation appreciates the inclusion of the avoidance of deforestation within the catalogue of environmental protection, *FCCC/CP/CMP/2005/8/Add.3* (2006). Moreover, the Russian Federation supports further implementations of the *United Nations Collaborative Program on Reducing Emissions from Deforestation and Forest Degradation* (REDD+). The year 2011 became year of the forests (*A/61/422/Add.1 20/12/2006*). Within the scope of the *United Nations Framework Convention on Climate Change* (UNFCCC), Russia aims at further progress in the reduction of National Greenhouse Gas emissions (GHG) with respect to the progresses achieved since the regime change in 1990. Thus, the Russian Government has ratified the *Kyoto Protocol, FCCC/CP/1997/L.7/Add.1* (1998). Up to now, the Russian Federation has already exceeded the target of the protocol by at least 31.2 percent.

To further promote the international cooperation against climate change, the Russian Federation aims to restructure the guidelines of the environmental pollution regulations. In comparison to the current baseline of 1990, the new approaches of environmental policy are considered as being inefficient. Especially in countries with an emerging economy the risk of resulting stagnation of development shall be prevented. Therefore, baselines shall further consider the following factors: GDP, economic growth, population, and the Human Development Index to ensure a continuous development with respect to the environment. The reform of the baselines will thus lead to an increase of efficiency concerning trade of emission amounts. In addition, the Russian Delegation stresses the importance of technology transfers via investments and donations. The Russian government requests the international community to invest in compliance with a technological priority list that shall be developed and controlled by the UNFCCC. This priority list shall be based on a structural analysis of sector specific emissions in the countries. Indigent states shall receive additional technological support in form of investment assistance focused on sectors, which cause disproportionately high emission. These investments could partly be realized within the programs of *Joint Implementation and Clean Development Mechanism*. Furthermore, we emphasize the importance of cooperation for the improvement of energy efficiency in highly developed areas such as the expansion of joint pipeline projects and technique using existing energy sources at the highest effectiveness to meet sustainable medium-term goals. At the same time, the Russian Delegation proposes greater investment in projects that increase the awareness in handling of energy to be carried out by the respective governments and NGOs. The G20 shall recommend developed states to implement a legal framework, which ensures the setting of a smart meter measurement tool in each new building. Home appliances of any kind have to provide customers with concrete data on the energy use. Under the umbrella of the REDD+ program, a coordinating and monitoring system shall be established. Furthermore, countries and public investors shall establish anti-deforestation trust funds traded on free markets. The volume of individual funds shall correspond to the size of the area to be protected. Developing states will be able to access these funds in case of a stopped deforestation. The presence of such funds will create a lasting decrease of incentives for cut-and-burn of forests and thus keep hold to the sword of Damokles.