Hello Delegates!

Welcome to the G-20 Leaders Summit of UGAMUNC XV. This year looks to be one of great potential. I’m personally excited to be your Director as we delve into some pertinent and interesting subjects. The two topics we will be discussing this year are as follows: international financial regulation in light of the recession and cooperative international treatment of environmental issues. A cursory background of the topic follows. However, if you need any additional information feel free to contact me, Patrick Fitzmaurice (pfitzjr@uga.edu), or your Assistant Director, Alex Clark-Youngblood (alecx@uga.edu).

I’m a second year student year at the University of Georgia, hailing from Marietta, Georgia. I am pursuing majors in economics and international affairs as well as a master’s degree in economics during my time here. I am very interested in international economics, as my academic foci suggest, and am excited to spearhead your discussion at UGAMUNC. Outside of classes and Model United Nations, I am involved with Ience, a startup nonprofit aimed at providing a new media approach to building student interest in the sciences, and MathCounts! Outreach, a student organization that prepares local middle-school students for math competitions. I have also studied in Oxford, England and plan to research the World Cup as a tool for economic development in South Africa this summer. For fun I love to play intramural sports, especially flag football and softball. Once again, please feel free to contact me to address any concerns you might have.

My Assistant Director, Alex Clark-Youngblood is a fourth year international affairs major and Spanish minor. This is his second year as a member of the Model UN team. In addition to Model UN, he is involved in the Sigma Iota Rho, the international affairs honor society. He also tutors struggling second grade readers at Alps Road Elementary here in Athens. He is a big sports fan and plans to play for a local semi-professional football team within the coming months. Do not hesitate to ask him any questions you may have.

Best,

Patrick Fitzmaurice
Director, G-20
G-20 Summit Background

G-20 Creation and Composition
The Group of Twenty (G-20) Finance Ministers and Bank Governors was established in 1999 to provide a forum for systemically important economies to effect change in global economic policy. The G-20 was preceded by the G-22 and G-33, which were extensions of the G-7 aimed at the same purpose.

There are twenty permanent member economies which include the following: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, United Kingdom, United States, and the European Union. Also, to connect the G-20 with other financial international organizations, the Managing Director of the International Monetary Fund (IMF) and the President of the World Bank, plus the chairs of the International Monetary and Financial Committee and Development Committee of the IMF and World Bank serve as members on an ex officio basis.

G-20 Construction & Influence
The G-20 does not have permanent staff of its own. Instead there is a rotating chair that switches annually among the members on a regional basis. Furthermore, the past, current, and future chairs combine to form a management Troika, and the incumbent establishes a temporary secretariat. The major infrastructure of the current G-20 are the five working groups that were created at the Washington Summit: strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets, reinforcing international cooperation, and reforming the international financial institutions. The G-20 is purely an informal forum for discussion among systemic industrialized and emerging economies. It has no charter or direct international authority. As such, there are no formal resolutions or sanctions. However, the member states constitute 90% of gross GNP, 80% of global trade, and 2/3 of the world’s population. Furthermore, membership spans six of the seven continents. Due to the significance of its composition, the G-20’s conclusions can be highly influential either through promoting agreement in other international organizations or through internal reform by the member countries. It publicizes these views through communiqués, leaders’ statements, declarations, and progress reports.

Differentiation of G-20 Leaders Summits
Your committee, like many of the more recent significant meetings by the G-20, will not be composed of the G-20 members. Instead, it will be a summit of the leaders of the G-20 countries and the head of the European Union. While the G-20 proper carries out the preparation for the conference, the major players are the countries’ respective leaders. There have been three such summits so far at Washington D.C. (November 2008), London (April 2009), and Pittsburgh (September 2009). The G-20 appears to be of growing importance as on September 25 leaders announced it will replace the G-8 as the primary economic forum for industrialized nations.
Topic 1: Reforming International Financial Regulation in Light of the Recession

Introduction
The G-20 seeks to find ways to achieve its goal of preventing future economic crises on the same magnitude as the current recession. While many of the macroeconomic and capital needs have been met during the course of the past meetings, the issues of financial regulation have been addressed but still stand unresolved. Due to this reality, it is imperative that the G-20 continue to make substantive progress on the issue so as to ensure stability in global financial markets far into the future.

Required Vocabulary
In order to comprehend the causes and actors of the recent financial crisis, a certain degree of background knowledge is required. The following words will help you understand not only the rest of the topic guide but also any other readings on the topic. While it is not comprehensive, it should provide baseline understanding of the issues at hand.

Overspeculation – This situation occurs when there is too much confidence in a market, matched with overinvestment that exacerbates the natural business cycle fall in the market. For example, if there is too much consumer confidence in fast food businesses, then a greater than natural amount of investors will buy stock in McDonald’s. Therefore, when the price of McDonald’s stock falls, the overall damage will be greater.

Credit – An item is purchased on credit when the purchaser does not have the adequate amount of cash on hand to purchase the item. As a result, he borrows the requisite amount and owes the principal amount plus interest at a later date.

Debtor – The person who borrows in a credit relationship.

Lender – The person who lends and provides credit in that relationship.

Financial Instrument – A financial instrument is some document or agreement, often called a security, that embodies monetary value. Examples abound, varying from stocks to bank loans to securities.

Derivatives – Derivatives are special types of financial instruments, whose value stems from that of an underlying asset. A pertinent example would be a mortgage-backed security, whose value is directly connected to underlying individual mortgages, which are collateralized by homes.

Leveraged - An investment is described as leveraged if it is purchased on credit. As a result, a small change in the underlying asset or price could have grave effects for the investment’s value.

Recession – Recession is an economic contraction, where production and consumption decrease. In the United States, recession conditions are determined by the National Bureau of Economic Research (NBER).
Causes of the 2007-2009 Financial Crisis

There are a myriad of causes of the global downturn; some of the most notable are the following: overspeculation in the housing market, rise in commodity prices, and lack of agency between debtors and lenders as a result of complex financial instruments. Nevertheless, at its core, it was a credit and liquidity crisis based in the United States housing market. Encouraged by the government and emboldened by a booming economy, banks and shadow banks became increasingly lenient in their lending policies, especially in the housing sector. So long as housing prices rose, these highly leveraged mortgages were stable. However, when housing prices inevitably fell, homeowners found themselves unable to pay and banks found themselves with a lack of liquidity. To make matters worse, many of these loans were packaged into complex derivatives called mortgage-backed securities (MBS’s), which were sold globally. Hence, the collapse in the United States spread rapidly as a result of global investment in these MBS’s, and the logical effect of a recession in the largest economy in the world ensued.

While the direct causes and roles of each of these influences may not be clear, the fact that more responsible and comprehensive regulation may have mitigated some of the negative affects is obvious. The question is what type of regulation is needed and which bodies should enforce

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these measures on both the national and international levels. It is this very dilemma that has plagued the G-20 meetings of the past two years and still remains pertinent today.

**G-20 Historical Treatment of the Issue**

G-20 movement on the problem of financial regulation began with the 2008 summit in Washington D.C. During this leader’s summit, the main purpose was to set out basic principles for reform, as most of the focus was placed on emergency macroeconomic incentives in order to thaw credit markets. One of the main points made on the topic of credit was the need to “exercise strong oversight of credit rating agencies,” as many blame rating agencies such as Moody’s as misrepresenting the MBS’s value. One can understand how an investor who bought what he thought was a AA security (low risk, high quality) becomes upset when he later discovered the underlying assets should have measured BB (medium risk, medium quality) at best. The declaration also stressed the importance of using the International Monetary Fund and Financial Stability Forum as regulatory bodies. Even so, the net result of the Washington Summit was a set of ideals and goals without specific benchmarks or significant action.

The next major discussion of the topic occurred at the London Summit in April 2009, where financial regulation held a greater role on the agenda. The most major development was the expansion of the Financial Stability Forum (FSF) to a newly created body, the Financial Stability Board (FSB). Based in the Bank for International Settlements (BIS) in Basel, Switzerland, it will oversee all financial markets, instruments, and institutions and conduct “early warning exercises” to catch potential problems early on. Furthermore, it provided an end of year deadline for the development of accounting standards, creation of remaining supervisory colleges for cross-border firms, and establishing a more cooperative and transparent tax construct.

The final meeting during the 2009 year, the Pittsburgh Summit, continued where the London Summit left off. One of the main problems was how to deal with non-cooperative jurisdictions (NCJ’s). These countries could cause a plethora of problems, from serving as tax havens to refusing to follow basic derivate standards as set by the International Organization of Securities Commissions (IOSCO). The conflict of creating regulatory agencies with teeth for enforcement while respecting national sovereignty becomes ever-important. Nevertheless, the issue was not resolved. Furthermore, the FSB basic standards and new IOSCO standards were given deadlines of November 2009. It appears that the Pittsburgh Summit merely pushed back the bulk of substantive reform to late 2009 and early 2010.

**Conclusion**

While significant progress has been made on the issue of international financial regulation, the details have still not been completely ironed out. Delegates of UGAMUNC 2010 will have the unique opportunity to tackle these issues head-on. Major considerations of new accounting standards, enforcement of regulatory policies, and the use of existing International Financial Institutions (IFIs) to achieve the already established goals still remain pertinent. It would behoove delegates to delve into the challenges confronting the implementation of these goals and analyze ways existing institutions could be tweaked to meet the desired ends.

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[http://www.guardian.co.uk/world/2009/apr/04/financial-stability-board-g20](http://www.guardian.co.uk/world/2009/apr/04/financial-stability-board-g20)
Questions to Consider
As you prepare for UGAMUNC and this topic in particular, you would be well served to analyze the following questions:

1. To what degree should standards for financial regulation be set international?
   a. Specifically, what should be the future of the International Accounting Standards Board (IASB), especially in comparison with the Financial Accounting Standards Board (FASB) of the United States?
   b. Should executive compensation policies be standardized?
   c. Should international standards for rating financial instruments be enforced?

2. What role should the newly created FSB play in international financial regulation and the enforcement of those rules?

3. How can and should NCJ’s be dealt with?

Suggested Additional Reading
G-20 Publications Website.  [http://www.g20.org/pub_index.aspx](http://www.g20.org/pub_index.aspx)
This website contains all publications made by the G-20. Refer to these to see the G-20’s historical treatment of the issue. Furthermore, delegates should check the progress reports to see how the G-20 has self-gauged its recent reforms.

This collection of experts met on October 30, 2008 to discuss the issue on a global scale. They provide good insights into what are the challenges that need to be met and offer possible international solutions to these issues.

*The Wall Street Journal*
This daily newspaper discusses the business and international issues of the time. Even the opinion articles can be particularly enlightening. If delegates can get their hands on some of the archives through databases such as factiva it could prove useful as background information.

*Banking on Basel: The Future of International Financial Regulation* by Daniel Tarullo
Serving as a scholarly exploration of the current international financial regulatory construct, this book questions the effectiveness of the Basel II paradigm.
Topic 2: Addressing Environmental Issues in a Proactive Manner

Introduction

One of the most pressing issues on the agenda of both developed and developing nations of the modern era is human effect on the environment. Beyond the myriad of environmental issues, global climate change has served as the focal point. This development has occurred following assertions such as that of the Intergovernmental Panel on Climate Change: “Most of the warming observed over the past 50 years is attributable to human activity.”\(^5\) Despite scientific dissent, there seems to be sufficient reason, on both philosophical and scientific grounds, to place climate change on the agenda. While G-20 member states have placed climate change policy formulation on the negotiation docket, little substantive action has been taken on the issue thus far.

The primary concern of discussions for the G-20 is the financial implications of climate change reform. As Nordhaus and Boyer effectively show in *Warming the World: Economic Models of Global Warming*, the benefits of the Kyoto Protocol fall noticeably short of the benefits. Therefore, the challenge for global leaders is how to induce emissions reductions and general environmental responsibility in a way that is not economically detrimental. Attacking the efficiency aspect of this dilemma, the G-20 has coined “climate finance” with the accompanying tagline, “To help turn despair into opportunity.” The G-20, removed from the consensus nature of the United Nations, could make huge strides in the climate change arena by coming to an agreement, specifically one that is inclusive of the United States.

While the G-20 is composed of only major economies and Annex-I countries, there is a distinct focus on the specific challenges the developing world will face in both preventing the creation of and dealing with the adverse affects of climate change. Undeniably environmentally sustainable development as it is now incurs greater costs. As such, only the G-20 members could help mitigate the seemingly conflicting goals of development and positive environmental policy. This dual goal calls for efficient, market-based reform supported by restructured financial institutions.

G-20 Historical Treatment of the Issue

There have been two G-20 leaders’ summits during 2009. The first summit was in London in April, and the second took place in Pittsburgh in September. Unfortunately, neither of these meeting was particularly fruitful in the realm of climate change policy. The failure to make progress is even more pronounced in light of the fact that many looked at the summits as vital precursors to the UN Copenhagen conference in December 2009, which marks the most significant round of talks on climate change since Kyoto.

Understandably, much of the London summit was devoted to discussion of recovery from the international financial crisis. In fact the communiqué was titled “Global plan for recovery and reform.” However, of this 29 point document only the final two paragraphs were allotted to the discussion of climate change, and they left much to be desired. The final paragraph read in whole: “We reaffirm our commitment to address the threat of irreversible climate change, based

on the principle of common but differentiated responsibilities, and to reach agreement at the UN Climate Change conference in Copenhagen in December 2009.”

As such, the issue was noticeably footnoted. This vague statement drew the ire of environmentalists from around the world. Some went as far as to say that the London summit marked the largest regression since the end of 2007 when the United States obstructed progress on environmental reform. Nevertheless, clearly the G-20 did not fill the purpose of providing specific benchmarks for financing climate change and innovative techniques by which to do so.

One school of thought blamed the apparent lack of progress on the economic landscape of early 2009, containing that many find environmental regulation is counterproductive to the economic recovery process. The most recent buzzword, “low-carbon energy,” signals protectionism to detractors, and protectionism is opprobrium in the G-20. Also, the issue of “mission creep” has been blamed for the lack of success in London. This term refers to the fact that negotiators at the summit had very specialized duties (i.e. focusing exclusively on trade and financial regulation) and therefore were unable to reach a consensus on more far-reaching matters.6

Environmentalists anxiously awaited the Pittsburgh summit in September as another opportunity to make headway coming into the Copenhagen talks. Two very broad and equally complicated questions dominated the climate change discussion entering Pittsburgh. The first was how to finance global carbon emission reductions. The second asked how to help developing nations adjust to climate change. After all, it is estimated that 75-80% of potential climate change damage is expected to occur in the developing world.7 Not surprisingly, developed nations are at odds with their emerging neighbors on how exactly the burden of reform should be divided. This debate can be boiled down to the developed nations asking the developing to cut emissions and the developing responding with requests for compensation.

The conference began far more auspiciously, as Australia, Japan, and the UK all placed proposals on the table. Fear amongst many G-20 members was that the United States would impede negotiations once again. Nevertheless, the conference paid greater lip-service to the issue in the least, and at best provided some substantive measures. President Obama led the crusade against federal oil subsidies, claiming they discouraged emission reduction and green energy initiatives. This statement ran counter to historical United States’ policy, making strides forward. It was recently estimated that the United States has spent $72 billion on subsidizing fossil fuels from 2002-2008. The subsidies fall into two categories: foregone revenues (i.e. tax breaks) and direct spending (primarily research and development). The figure over the same period for renewable energy sources stands at $12.2 billion.8 President Obama sought to resolve this apparent hypocrisy with his recommendation, which made its way into the final communiqué.

By the conclusion of the summit member states had agreed to eliminate as much as $300 billion in fossil fuel subsidies. The developed world is responsible for roughly $100 billion of the

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subsidies, while developing nations make up the remaining $200 billion. The successful implementation of this plan would not only allow for this money to shift to environmental friendly programs, but the International Energy Agency (IEA) estimates that the subsidy cuts will reduce global greenhouse gas emissions by 10%. Furthermore, the G-20 called upon the World Bank to take steps toward financing clean-energy developments, specifically focusing on developing countries. Also, the G-20 sought to secure energy markets by enforcing the International Organization of Securities Commissions’ (IOSCO) recommendations on data collection and regulation in commodity and futures markets.

While specific benchmarks were not developed for all the sundry facets of the climate change debate, progress was noticeably more active and substantive in September. Nevertheless the two imperative issues, financing and efficient implementation, remain far from resolved. Presumably, Copenhagen will have to attempt to bridge this gap.

Data for Cost-Benefit Analysis
While the theory of anthropogenic climate change is supported by the majority of scientists, the degree to which humans drive the changes as well as the potential negative effects of rising global temperatures are in contention. These key questions as to the cause and result are imperative to take into account when performing cost-benefit analysis of environmental policies. Most countries will use and consider the IPCC findings on the issue; however, numerous scientists challenge the integrity of its studies. For example, Kanya Kusano, program director for the Earth Simulator at the Japan Agency for Marine-Earth Science & Technology (JAMSTEC), comments that “[The IPCC’s] conclusion that from now on atmospheric temperatures are likely to show a continuous, monotonic increase, should be perceived as an unprovable hypothesis.”9 Furthermore, some scientists suggest rising global temperatures would have positive, not negative effects.10 While indubitably most countries will consider only the IPCC data, these alternative viewpoints are useful to keep in mind when weighing the possible results of specific policies.

Connection of Trade to Environmental Policy Debate
The G-20, as primarily an economic institution, should strongly consider the links between trade and environmental policy. Imposing regulations on certain countries can have the adverse effect of ruining industrial competitiveness and redirecting firms. As a result, many countries are wary of these unintended consequences of regulation and taxation. The major consideration this conflict creates is how to choose the targets for environmental policy and which policy instruments should be used. As the G-20 often encourages agreements between member states on trade, such as avoiding protectionism and tariffs, similar agreement could be sought on environmental agreements that maintain a level economic playing field.

Types of Environmental Policy
In order to adequately consider creating new innovative policy ideas on the topic, a cursory knowledge of current proposals is necessary. Most policies can be separated into three distinct types: market-based regulation, overarching measures, and voluntary bilateral agreements.

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Market-based regulation includes taxes, tax exemptions, tradeable permits, and fees. The tradeable permit idea, essential to cap-and-trade proposals, is extremely popular. The basic concept is that firms are allotted a certain amount of carbon credits, based on their size and type of industry. After a firm uses up all of its credits it risks a large fine if it continues to produce. As such, these firms seek out those who have leftover credits and offer to pay for them, hence the “trade” aspect. One of the main problems this policy faces on the international scale is that if certain countries do not enter the system, then their firms would have an unfair competitive advantage in affected industries.

Some of the more radical environmental activists call for even stronger, overarching reform. These measures would be purely restrictive. For example, instead of creating a tax incentive for “clean” companies these measures would simply fine companies who surpassed a specific amount of carbon pollution. In some sense, many of these measures would appear like “cap” without “trade”. While these types of policy changes would appear to have a greater affect on the issue, the main question is what body would oversee and enforce these policies.

The last major type of policy is voluntary bilateral agreements made between countries and firms. An example would be the chemical industry’s responsible care agreement, which manifests itself as a global initiative to advance safe transport of chemical products. While they lack the implementation arms of the other types of policy, they do represent deliberate treatment of the issues. Furthermore, these agreements often lead to the creation of funds to support participating members. It is found that these measures often work best on aspects of climate change that are heavily affected by technology, as they can encourage the free movement of “green” technological means. All in all, the most thorough environmental policies generally contain mixtures of these three elements in order to maximize flexibility and net effect on the environment.

Conclusion
It is obvious that global climate change policy is an important issue that can have far-reaching effects. Even so, numerous talks have been concluded with little substantive measures created. Moreover, it appears the Kyoto Protocol, the staple of modern international environmental policy, has been admitted a failure and will be replaced at the Copenhagen conference. Taking this into consideration, delegates at UGAMUNC 2010 must seize the moment and examine the benefits of differing types of solutions.

Questions to Consider
As you prepare for UGAMUNC and this topic in particular, you would be well served to analyze the following questions:

1. How can the G-20 member states reach agreement on environmental policy amongst themselves?
   a. What mix of market-based, non-market-based, and voluntary bilateral measures is appropriate?
   b. What international organizations could be used to implement the policy?
2. In what ways can the G-20 member states help mitigate the costs of “going green” for developing countries?

3. How can the environmental issues of our time be met without adversely affecting the already tenuous economic climate?

**Suggested Additional Reading**

G-20 Publications Website. [http://www.g20.org/pub_index.aspx](http://www.g20.org/pub_index.aspx)

This website contains all publications made by the G-20. Refer to these to see the G-20’s historical treatment of the issue. Furthermore, delegates should check the progress reports to see how the G-20 has self-gauged its recent reforms.


The IPCC gives numerous recommendations to policymakers on the issue of climate change as well as a plethora of scientific data.


The International Institute for Sustainable Development has several publications linked on this page that outline the issues facing reform and possible options.