

# BALANCING THE OTHER BUDGET

## PROPOSALS FOR SOLVING THE GREATER DEBT CRISIS

How globalisation creates debt and why the rich are in debt to the poor



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# DOLLAR DEBTS AND CLIMATE ACCOUNTS

## Introduction

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Globalisation creates debt, both financial and environmental. Over the past two decades, the crippling nature of third world debt became clear. Thanks to the Jubilee 2000 campaign, it moved dramatically up the political agenda. But despite repeated promises of debt relief by the leaders of the world's wealthy nations, developing countries are still paying millions of dollars in debt service payments every year, and real achievements in debt write-off have lagged a long way behind the rhetoric.

To compound matters, increasing instability in the global economy – including currency fluctuations and declining commodity prices – has undermined the ability of poor countries to generate sufficient income to repay their loans. Meanwhile, two decades of structural adjustment policies based on liberalisation and 'rationalisation' of public spending have led poor country governments to rely on foreign direct investment to stimulate the economy. But as the recent economic meltdown in Argentina demonstrated, these policies have left even middle-income developing countries increasingly vulnerable to the vagaries of global markets and the whims of confidence amongst global creditors and investors.

Contradicting popular perceptions, the flow of financial resources from South to North is considerably greater than that from North to South. But this is not the only way in which wealthy nations effectively live off the backs of the developing world. For centuries, industrial development in rich countries has produced a steady stream of pollution from the burning of fossil fuels. The effect has been a gradual accumulation of greenhouse gases, trapping more of the earth's reflected heat and warming the global atmosphere. The effect has been to create the largest debt ever between countries, not a financial but an ecological debt.

According to the World Meteorological Organization (WMO), 2001 was the second warmest year on record. Since 1976, the global average temperature "has risen at a rate approximately three times faster than the century-scale average". The incidence of climate-related natural disasters has leapt-up, and is projected to continue increasing over the next century.

While such changes affect us all, the people who feel the effects most drastically will be the poor and vulnerable in the developing world. The rising number of extreme weather events including floods, droughts, and storms will be most pronounced in tropical and sub-tropical countries. The people living in these regions often live a precarious existence, lacking insurance or government safety nets should their crops or homes get destroyed from a catastrophic weather event.

In 1992 at the original Earth Summit, developing countries in effect wrote off the historical ecological debts of the rich when they signed the UN Framework Convention on Climate Change. Since then, industrialised countries have continued to emit far more than their fair share of greenhouse gases. Emissions per person actually increased in countries like the United States and Australia. The commitments made by all the OECD countries at Kyoto – even if they were to be met – fall far short of the types of emissions reductions needed to make a real impact on halting climate change. Unsustainable levels of consumption and fossil-fuel dependence in these nations continues, despite the knowledge that pursuing this way of life will lead to the displacement of millions of people, and untold costs in terms of damage to property, infrastructure and human health.

In the following pages, we compare the issues of financial debt and 'ecological' debt, across five areas of analysis – scale of the problem, impact, legitimacy, existing mechanisms for dealing with problem, and practical proposals for redressing the balance. At the end, the report also looks at the role played by trade liberalisation in creating debt. In doing this, we arrive at a radically different perspective of who owes who in the balance of global debt.

# 1. SCALE



## Debt

As of 2000, developing countries owed a total of \$2.5 trillion dollars, or about 40 per cent of their combined income, to the rest of the world.<sup>1</sup> But most of this total is owed by the so-called emerging market economies, including Argentina, Brazil, China, Indonesia, Russia, and Mexico.

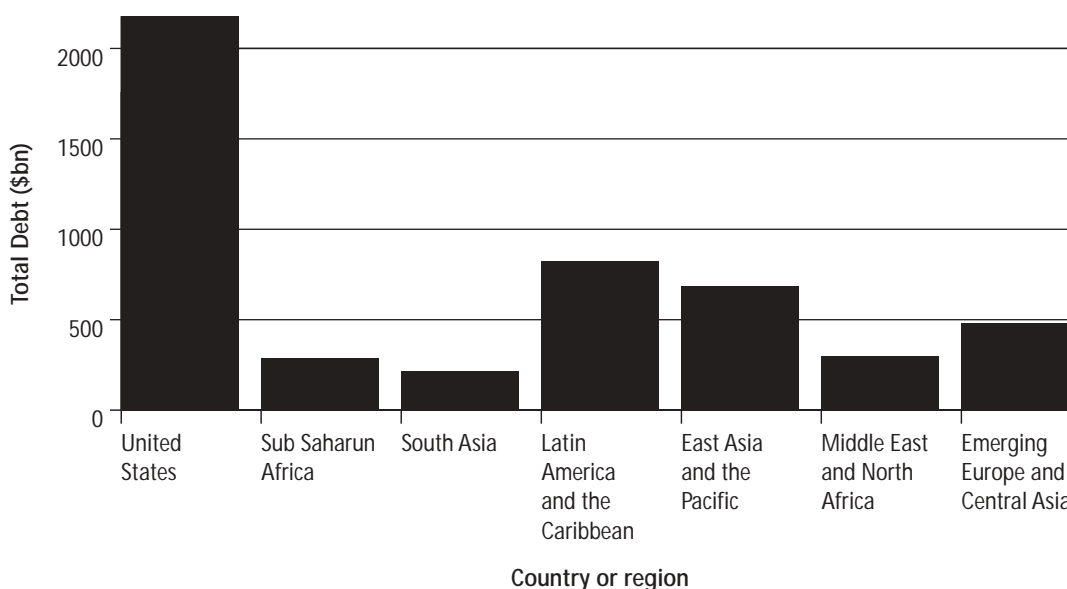
The 42 most Heavily Indebted Poor Countries (HIPCs), by contrast, owe only \$175bn to the rest of the world. But because these countries are so poor, they owe a much greater percentage of national income than their richer neighbours. In total, the heavily indebted countries owe one and half times their annual income to the West. Each person in Sub-Saharan Africa owes the West \$327 – a figure which is greater than the total yearly income of people in 19 Sub-Saharan African countries.<sup>2</sup>

And as the decades pass, the poorer nations are becoming more and more indebted to the industrialised world. The debt of the South to the North more than doubled during the 1980s, despite net repayments – debt repayments minus new loans – of some \$209bn during the second half of that decade. During the 1990s, it doubled again.

The ever-upward trend in poor country indebtedness is taking place despite the best efforts of poor countries to repay their debts. Last year, developing countries paid a total of \$382bn to their creditors – more than a billion dollars each day. This represented more than 13 times what was transferred from North to South in terms of aid grants. In 1990, it was only six times. Contrary to popular thinking, the net transfer of resources from South to North has therefore increased over time, as the service payments on ever-expanding debt combines with the increasing meanness of Western aid donors.

But poor countries are not the only ones that have borrowed beyond their means. There is another, bigger, debtor whose total external debt of \$2.2 trillion dollars dwarfs that of even the most indebted developing country. The United States, the richest country on earth, is a country that should have more than enough resources to finance its own development. But accumulated spending on imports into America has not been met by accompanying increase in exports, leading to deficits of around \$450bn a year. As a result, each American now effectively owes the rest of the world \$7,333 – compared to just \$500 for each citizen in the developing world.

Total External Debt of US and the Developing World, 2000



## Ecological debt<sup>3</sup>



Ecological debt can take many forms. Stealing plant genetic diversity constitutes one, as does consuming too much by rich countries of a wide range of natural resources. Here we focus particularly on the carbon debts of rich countries and their legacy in contributing to dangerous global warming.

Like a bath overflowing, the pollution from economic activity – mainly carbon dioxide from burning fossil fuels – has exceeded the capacity of the atmosphere, triggering sudden changes to the global climate. Historically, industrialised countries have been almost entirely responsible for this pollution.

Even today the impact, per person, of human activities is very different depending on where in the world you live. Every US citizen is responsible for pumping nearly 20 metric tonnes of carbon dioxide into the atmosphere each year. For the United Kingdom, the figure is 9.2 tonnes. In Tanzania it is 0.1, for Ghana and Bangladesh the figure is 0.2 tonnes, in Nicaragua it is 0.7, India 1.1, Brazil 1.8 and China 2.5. So a typical American is producing around 200 times more of the key greenhouse gas than a typical Tanzanian, 100 times that of someone from Bangladesh and over ten times someone from China. In effect, the citizens of the United States and other industrialised nations have accumulated a substantial 'carbon debt' by free-riding on the planet's shared atmosphere.

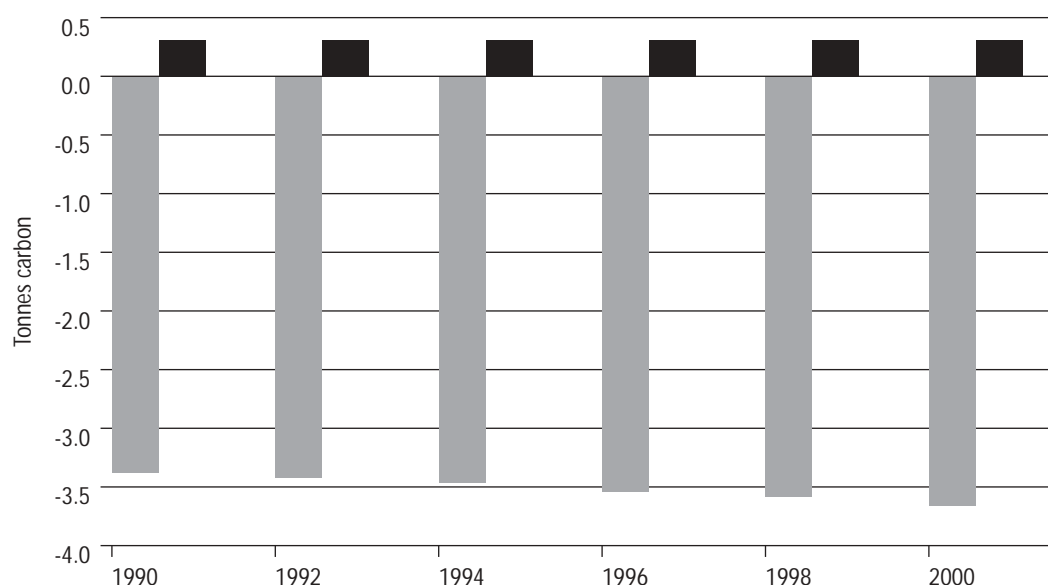
To stop this ecological debt destabilising the atmosphere even more, there have been a range of estimates highlighting how much we must reduce our greenhouse gas emissions. Over ten years ago the group of scientists who advise international climate negotiations indicated that cuts of between 60-80 per cent would be needed to stop greenhouse gases reaching double the level they were before the industrial revolution – a level considered a potentially dangerous threshold. Since then, the head of the UN Environment Programme said that rich countries would need to cut their emissions by 90 per cent.

Scientific understanding of the risks posed by carbon emissions is continually strengthening. In 2001, the Intergovernmental Panel on Climate Change (IPCC), the group of scientists that advise international climate negotiations, produced their Third Assessment Report (TAR). This projects that over the period 1990-2100, global average surface temperatures will climb at a rate without precedent during the last 10,000 years.

Other researchers, such as those at Britain's Hadley Centre for Climate Research, raise the possibility of more catastrophic outcomes if so-called 'positive feedback' occurs. In this scenario, environmental processes feed off each other in a potentially disastrous spiral of increasingly extreme and variable weather.

Sea levels are projected by the IPCC to rise between nine and 88 centimetres over the coming century. According to scientists on the panel: "Although there will be regional variation in the signal, it is projected that sea level will rise by as much as 5mm per year over the next 100 years as a result of greenhouse gas-induced global warming". The panel says that this rise is "two to four times greater than the rate experienced in the previous 100 years," and adds: "There is new and stronger evidence that most of the warming observed over the last 50 years is attributable to human activities."

The following graph compares the group of financially indebted poor countries to the wealthy group of seven nations (G7). Based on a range of conservative projections, it shows the degree to which each group of nations is, per person, consuming fossil fuels above and below a threshold considered sustainable – in other words, a level of use necessary to prevent dangerous climate change. The figure shows the poorest countries are in carbon credit, while the richest are severely indebted.



■ G7  
■ HIPC

G7 and HIPC nations shown per capita against the IPCC threshold for sustainable consumption of fossil fuels. The HIPCs are in credit, while the G7's debt is clear.  
(sources: CDIAC, UNFCCC, IPCC, GCI)

## 2. IMPACT



### Debt

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Ask any Argentine or poor Mozambican farmer and they will tell you that Southern debt is devastating in its impacts.

For poor countries, servicing external debt drains much-needed resources away from areas such as education and health, and into the coffers of rich countries and international institutions such as the IMF and World Bank. In 1999, the 42 HIPC countries spent \$8.6bn in servicing their debts – and only \$5.2bn on sending their own children to school. In 2000, African countries spent almost a fifth of their revenues servicing their debts. For some of the poorest, war ravaged economies such as Sierra Leone and Angola, debt service took up 90 per cent of revenues, while Mauritius, Cote d'Ivoire, Ghana, Cameroon, Mauritania and the Democratic Republic of Congo all spent more than one third of their precious budgetary revenues on debt servicing.

These countries can ill-afford such a haemorrhaging of resources. The 42 HIPC countries have appalling standards of human development, and they are getting worse. One in three children across the developing world do not get access to a basic education. In the poorest countries, this figure is as high as two thirds – such as in Burkina Faso, a country where two thirds of men and almost 90 per cent of women are illiterate. Every 24 hours, 5,500 Africans are killed by HIV/AIDS. Life expectancy in Africa is now at its lowest rate since records began, at only 47 years.

In the year 2000, the international community committed itself to a set of Millennium Development Goals which, in the words of the UN General Assembly, should 'make the right to development a reality for everyone and free the entire human race from want'.<sup>4</sup> These goals included halving world poverty, ensuring that every child gets a basic education, reducing child mortality and disease and improving access to water and sanitation facilities by 2015. Yet as studies by Jubilee Research at NEF have shown, poor countries would need to spend a total of \$30.6bn per year to meet these goals, leaving no resources spare for servicing foreign debts.

Even middle-income countries are not immune from the pernicious impacts of external debt. In Argentina, millions are facing ruin as a result of the devaluation that followed last December's default on its colossal foreign debt. Since the 1997 financial crisis in Indonesia, 39 million Indonesians – roughly a fifth of the population – have lost their jobs. In Brazil, ordinary people know that if they back the preferred left-wing presidential candidate in October's elections, foreign investors may pull out – and they may follow Argentina into default on their foreign debt, which currently stands at \$240bn, or 42 per cent of their GDP.

Only the largest debtor, the United States, has so far escaped from the full implications of her external debt. Because the US dollar serves as the world's reserve currency, and because the US Treasury bill has become the de facto global monetary standard, America is in a strong position to fix interest rates on its own borrowing.

In exchange for US Treasury bills or bonds, America can 'persuade' other nations – including developing countries – to lend money to the US government at rates as low as three per cent,<sup>5</sup> which is the rate the US government is prepared to pay. The rest of the world, in contrast, cannot persuade other countries to lend to them at the same low rate. Developing countries often pay as much as 18 per cent on their foreign loans.

The reason that the rest of the world – including the poorest countries – is 'persuaded' to lend to the US, is because their central banks have to hold dollar reserves in the form of US Treasury bills as a hedge against attacks on their currencies, and general economic instability. As a result of this unbalanced system, the US raises the funds necessary to finance their debt at very low interest rates. This helps explain why America pays only \$20bn per year servicing a \$2.2 trillion dollar debt. In stark contrast, developing countries spend \$400bn per year servicing an almost equivalent stock of debt.



## Ecological debt

The number of people seriously affected by mostly climate driven 'natural' disasters has grown enormously over the last 30 years. According to the World Disasters Report 2002, published by the International Federation of Red Cross and Red Crescent Societies, it is up from 740 million in the 1970s to over 2 billion in the last decade. Reported economic losses have increased five fold from \$131 billion in the 1970s to \$629 billion in the 1990s. The number of reported disasters rose three times from 1,110 to 2,742 in the same period. The reinsurance giant Munich Re's chief geoscientist, Gerhard Berz, calculated that the projected costs of *damage* inflicted by climate change could top US\$300 billion a year within the next few decades. Real costs could be higher still, as damage in developing countries often goes uninsured and uncounted.

Certain parts of the world are particularly vulnerable to these impacts. The most susceptible areas are found in the tropics, especially the west coast of Africa, south Asia and southeast Asia, and low-lying coral atolls in the Pacific and Indian Oceans. The IPCC scientists warn that "sea-level rise poses by far the greatest threat to small island states relative to other countries... It is projected that beach erosion and coastal land loss, inundation, flooding, and salinisation of coastal aquifers and soils will be widespread". These scenarios would be compounded by the possibility of sea-level rises due to melting of the Antarctic and Greenland ice sheets. Evidence is regularly emerging of faster and increasingly severe thinning of ice-sheets. Should seas rise by a metre or more, the consequences in terms of flooding, property loss and forced displacement of people are almost unimaginable.

Low-lying atolls are not the only places threatened. Coastal communities the world over, and the vulnerable shorelines of many larger islands, are home to millions of people and essential, costly infrastructure. One billion people live at sea level or just a few metres above. A 1998 report by the IPCC says that a one-metre rise in sea level would inundate 3 million hectares in Bangladesh, displacing 15 to 20 million people. Vietnam could lose 500,000 hectares of land in the Red River Delta and another 2 million hectares in the Mekong Delta, displacing roughly 10 million people.<sup>6</sup> Of the world's 19 mega-cities, 16 are situated on coastlines and all but four are in the developing world. The nations hardest hit will be those least able to afford coastal protection measures and where inhabitants have nowhere else to go.

Small rises in sea levels disguise much bigger effects, such as fluctuating tides and much higher storm surges. According to WMO: "Sea level rise would increase the impact of tropical cyclones and other storms that drive storm surges. The effects would be disastrous on small island states and other low lying developing countries, such as the Maldives, Tuvalu, Kiribati and Vanuatu where 90 per cent of the population lives along the coasts."

Tiny changes in sea level and temperature also trigger unpredictable changes in the frequency and intensity of extreme weather events. Cyclone seasons become increasingly unpredictable – introducing problems for growing food. During El Niño events, sea temperatures increase towards the central and eastern Pacific, bringing with them more cyclones.

Scenarios developed by the Commonwealth Scientific and Industrial Research Organisation (CSIRO) suggest that "under climate change, there is likely to be a more El Niño-like mean state over the Pacific". Globally,

changing rainfall patterns will hit agriculture in many of the poorest countries, especially in Africa, through a combination of droughts and floods. Countries already hit hard by low commodity prices will find their farming hit by a more variable climate. Food security will be undermined as planning becomes more difficult

A rise in sea surface temperatures also poses a serious threat to coral reefs. Reefs maintain natural sea defences, supply beach sand and provide habitats for marine animals and fish essential to the local diet, as well as attracting badly needed foreign exchange earnings through tourism. But reef-building corals die when temperatures rise beyond a narrow band. The IPCC believes that "the thermal tolerance of reef-building corals will be exceeded within the next few decades".

In fact, not a single major development issue escapes climate change. As weather and temperature shift, disease vectors like those of malaria move. People used to coping with familiar diseases will be exposed to new ones which they will not be prepared for and have less immunity against. Housing, urban planning, transport and tourism will also be affected. The Bangladesh Centre for Advanced Studies estimates that the benefits of any expected inward investment into the country will be absorbed by the costs of managing climate related disasters.

### Impacts of Climate Change in Poor Countries:

- Unpredictable weather patterns
- Sea-level rise leading to flooding
- Higher storm surges
- Soil and drinking water contamination
- Increased frequency of extreme weather events
- Disruption of food production
- Death of coral reefs
- Changing disease vectors
- Destruction of property and infrastructure, particularly in coastal areas, and loss of tourism income

# 3. LEGITIMACY



## Debt

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Some of the debt burden owed by the developing world is legitimate debt taken on by democratic leaders and invested in productive areas for the benefit of the mass of the populations concerned. But most of it is not. Over the past three decades, creditors and governments have engaged in a reckless cycle of lending and borrowing, often undertaken without a proper, legitimate and accountable process.

Much of the debt that paralyses poor countries today is the result of loans made to military dictators as part of the global struggle for power and influence during the Cold War. Even former US President Bill Clinton and his Secretary of State Madeleine Albright have acknowledged US 'complicity with tyrants and warlords across Africa'<sup>7</sup> throughout the Cold War period. Loans were made to dictators including \$16.7bn to Sudan's former dictator Gafar Nimeiri and \$2.4bn to Somalia's Mohammad Siad Barre.<sup>8</sup> One estimate suggests that a total of \$400bn was borrowed by developing countries between 1960 and 1987 in order to purchase arms – encouraged by western leaders who were all too keen to lend money, and sell arms, to their strategic allies.

Even when loans were made for supposedly 'productive' purposes, much of the money was wasted through prestige projects that yielded little, or that failed through bad advice from international lenders. The World Bank's own evaluation of project performance in the 1990s showed that in the poorest countries, between 60 and 70 per cent of all World Bank projects have failed.<sup>9</sup> While the World Bank acknowledges this, they do not accept any responsibility for the debt burdens that these failed projects have hoisted onto the backs of developing country citizens who can little afford them. More recently, ill thought-out advice on bank closures from an inexperienced IMF mission in Indonesia during the financial crisis of 1997 added \$80bn onto Indonesia's domestic debt, undermining the country's economy and thus its capacity to repay foreign debt.<sup>10</sup>

Worse, the global economy has shifted in ways that have made it harder and harder for poor countries to repay even those loans which were judiciously taken out and have been used for the purposes for which they were intended. Interest rate hikes in the early 1980s increased the costs of servicing foreign debts to way beyond the levels envisaged when many of the loans were taken out. Penalties for debts that could not be repaid have piled up, as in Nigeria where 50 per cent of the total debt is accounted for by penalties for non-payment.<sup>11</sup> Meanwhile, the price of non-oil commodities – upon which the poorest countries depend – have fallen to 50 per cent of their 1980 levels, thus undermining the ability of these countries to earn hard currency to repay the debts.





## Ecological debt

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Two questions often asked of delinquent administrations apply particularly to rich countries' ecological debts: what did they know, and when did they know it? The theory that the burning of fossil fuels could lead to global warming was first suggested by a chemist in the 19th century. Over recent decades, close scientific scrutiny of the complex dynamics of the world's climate and ocean systems has continuously improved understanding of climate change. The world's governments signed the UN Framework Convention on Climate Change (UNFCCC) in 1992, when scientific opinion was largely agreed that human-induced greenhouse gas emissions were leading to global warming. The recent *Third Assessment Report* by the IPCC merely confirmed and strengthened the same basic analysis.

The UNFCCC committed countries to act on the precautionary principle, meaning that even in the absence of absolute scientific certainty, they should take action now to stave off the potentially disastrous effects of climate change. Yet ten years on from signing the convention, the big polluters are still behaving as reckless ecological debtors. According to the latest figures, between 1992 - the year of the Earth Summit - and 1999 carbon dioxide pollution per person actually went up in countries ranging from the United States to Australia, Canada, Ireland, Spain, Italy, Belgium, Norway, and the Netherlands. In countries such as Japan, France and Sweden emissions show little change.

Cars are possibly still *the* symbol of economic virility in many of the industrialised economies. In the year 2000, the Union of Concerned Scientists reported that the overall fuel economy of cars in the United States had dropped to its lowest level in 20 years. The group comment that: "Two decades of fuel-saving technologies that could have helped curb carbon dioxide emissions have instead gone into increasing vehicle weight and performance."

It would be possible to question an ecological debt incurred in ignorance. But to continue increasing carbon emissions, in full knowledge of their likely consequences, amounts to wilful, some would say criminal, negligence. The ballooning of the ecological debts of rich countries is therefore less open to question than poor countries' financial debts, whose origins are complex and causes hotly contested. Rich countries have, in effect, been behaving like the dissolute children of aristocratic families, squandering the whole planet's fossil fuel inheritance in a brief and profligate binge of over-consumption.

It also means that the demands by poor countries for effective repayment are more legitimate. And it suggests that the rich must act now through policy, resources, action and lifestyle change to balance their carbon budgets and pay their ecological debts.

## 4. RESOLVING THE CRISIS



### Debt

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For poor countries with unsustainable debt burdens, there are two processes which currently operate to resolve the crises: debt rescheduling through the Paris Club, and the World Bank and IMF's Heavily Indebted Poor Country (HIPC) initiative.

#### a) The Paris Club

The Paris Club is a group of bilateral creditors, mostly from Europe and North America. They meet informally in order to reschedule the debts of countries that are unable to pay the debt service due to them over a given period of time. Debt relief is usually provided under a set of standard terms, ironically named after the lavish locations in which they were agreed, including Naples Terms, Lyon Terms and Cologne Terms.

The Paris Club operates completely in secret, with no possibility for participation of interested parties, including civil society organisations. The outcome is completely determined by the creditor countries, based on their own need to minimise losses, with no recourse to the human development needs of the debtor country. For example, Indonesia's recent treatment in April 2002 took no account of the responsibility of the IMF in bringing about the Indonesian crisis, or the human development needs of the population. While independent research by EURODAD showed that Indonesia would need cancellation of \$29bn of the \$41bn owed to the Paris Club in order to meet the basic needs of its citizens, the Paris Club refused to cancel any of the debt and merely rescheduled \$5 billion – passing on the debt burden to future generations<sup>12</sup>

#### b) The HIPC Initiative

The World Bank and IMF's Heavily Indebted Poor Countries (HIPC) initiative was launched in 1996 amid great fanfare. At the time, it was a radical departure from previous approaches to debt relief for poorest countries. The most important aspect of HIPC was that for the first time their 50 year history, the debts of the World Bank and the IMF – 'preferred creditors' to whom debts have always had to be repaid first – were included for write-off.

Under the initiative, countries that are deemed to have an unsustainable debt burden – defined by the creditors as a debt-to-export ratio of more than 150 per cent – can receive sufficient debt cancellation from their bilateral and multilateral creditors to bring down their debts to within sustainable limits.

In order to qualify for the initiative, countries must pursue a track record of reforms dictated by the IMF and World Bank, which generally include privatisation, trade liberalisation, reducing budget deficits and removal of government intervention in the economy – for example through agricultural subsidies or price support.

At present, 42 countries are included within the initiative. But only six of these (Uganda, Bolivia, Mozambique, Tanzania, Burkina Faso and Mauritania) have received any debt write-off. These six countries have seen cancellation of a little over half of their \$29bn debt. But recent analysis by the World Bank has shown that at least two of these countries (Uganda and Bolivia) still do not have a sustainable level of debt according to the HIPC criteria, even after this level of write-off.

A further 20 countries within the HIPC initiative have seen a reduction in their debt service payments as a result of the initiative. When they reach so-called 'Completion Point' under HIPC, these countries will see a reduction of roughly \$43bn of their \$68bn debt, with \$27bn accounted for by HIPC and the remainder through bilateral debt cancellation. But the same World Bank analysis has shown that half of these countries will still not see their debt burdens reduced to the Bank's own definition of sustainable levels under the initiative.

## Ecological debt



The ecological debt of climate change is managed by a process that began in the early 1990s. It is based on an international convention and was put into operation by a subsequent protocol. Funds are made available in a variety of ways.

### a) The UNFCCC

In 1992, the international community came together at the Earth Summit in Rio de Janeiro to discuss how to slow down and ultimately reverse the build-up of greenhouse gases in the atmosphere. The outcome was the United Nations Framework Convention on Climate Change (UNFCCC), which set the goal for industrialised countries to return to their 1990 greenhouse gas emissions levels by the year 2000, and a long-term objective of stabilising atmospheric concentrations of greenhouse gases "at a level that would prevent dangerous anthropogenic interference with the climate system".

The UNFCCC was significant in several ways. First, it made the world's governments recognise that there was a problem – a basic step that several of the largest polluters had refused to take up to that point. Not only that, but it made these countries accept that they were largely responsible for climate change, and that the lion's share of responsibility for battling the problem therefore lay with them.

Secondly, it set clear – though non-binding – objectives for stabilisation of greenhouse gas emissions, pegged initially at 1990 levels and to be reduced further to within scientifically determined sustainable limits in the longer term. It also directs that governments should undertake emissions reductions "within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner". Another significant concept built into the UNFCCC was the precautionary principle – the notion that countries should take steps now even though scientific modelling of the likely impacts of global warming were still imperfect. The Convention also encouraged further scientific research in pursuit of determining both the time-frame for action and acceptable levels of pollution.

### b) The Kyoto Protocol

Perhaps most significantly, though, the Convention established a framework of general principles and institutions for future negotiations on specific actions. In 1995, the countries reviewed their progress and concluded that the non-binding goal would not lead to the achievement of the Convention's objective of atmospheric stabilisation. In response, they agreed to pursue a complementary agreement that would establish quantified emissions limitations and reduction obligations for developed countries. This culminated in the negotiation of the Kyoto Protocol in December 1997.

The main outcome of Kyoto was that developed (or 'Annex I') countries agreed collectively to cut their emissions to 5.2 per cent below 1990 levels by 2010. But Annex I countries agreed to share the burden of this reduction: so the European Union agreed a reduction of 8 per cent, the United States 7 per cent, and Japan 6 per cent, for example. Australia, meanwhile, successfully negotiated an *increase* in its allowed emissions, arguing that its high dependence on its coal industry meant that it warranted more lenient treatment.

Kyoto left the way open for future emissions reductions beyond its First Commitment Period – the period up to between 2008 and 2012 – and mandated that there should be a review of 'adequacy of commitments' before 2008. The protocol is also noteworthy for its various flexibility mechanisms, most notably emissions trading, Joint Implementation and the Clean Development Mechanism, as well as the 'bubbling' provisions that allowed the European Union to accept a single emissions reduction target and then share it out between member countries in regional negotiations.

But despite these flexibility mechanisms and modest targets, the Kyoto process is already in danger of getting derailed. In March 2001, the United States administration announced that it was withdrawing from the protocol, citing the delayed participation of developing countries and objections to paying for adaptation assistance and technology transfer. Meanwhile, other countries seem to be falling short of achieving their reduction targets. Latest estimates suggest that Annex I countries will struggle to meet the 5.2 per cent emissions cuts supposed to take place between 2008-2012, with aggregate achievements likely to be just one per cent of below 1990 levels.

### c) Funding arrangements

The original Earth Summit in Rio addressed the issue of how to pay for human development and protecting the environment. The Summit's secretariat calculated that implementing the Agenda 21 plan in low-income countries would need an extra US\$125 billion per year from rich countries in the form of aid or other concessions.

The main conduit of funds set up at the time dedicated to sustainable development was the Global Environment Facility (GEF), operated jointly by the World Bank, UNEP and UNDP. The GEF now administers three new funds under the Climate Convention and Kyoto Protocol – a special climate change fund, a least developed countries fund and an adaptation fund. In the year 1999-2000, GEF funding for climate change was \$1.4 billion. Of this, only \$199 million was grant funding the rest was "leveraged through co-financing".

Although little is known about the exact costs of adapting to climate change, most scientists and policymakers suggest it will cost between tens and hundreds of billions of dollars. At climate talks in Bonn, July 2001, rich countries made a pledge to provide a mere \$0.4 billion per year by 2005 to help developing countries 'manage their emissions and adapt to climate change'.

Despite the political advances made through the UNFCCC and Kyoto, the international community has still fallen drastically short of the necessary action to addressing climate change. Commitments for emissions reductions have been set at levels far below scientifically calculated imperatives, and even these now look set to falter. Meanwhile, industrialised nations continue to subsidise the development of fossil fuel-based solutions to energy needs, and have failed to invest adequately in developing alternative sources either at home or in partnership with developing countries. Just as with financial debt, there is clearly a need for an alternative framework that will help to redress the industrialised nations' rapidly mounting ecological debt.

# 5. PROPOSALS



## Debt

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The HIPC initiative has shown that a lasting solution can never be achieved if creditors stand as judge, jury and plaintiff in their own cause. Mechanisms designed by creditors to limit their own exposure can never bring about a just solution to the debt problems faced by developing countries. Instead, there is need for a fair and transparent process for writing off debts, under an independent arbitration body – such as that proposed under the Jubilee Framework.

The Jubilee Framework sets out a procedure for international insolvency actions that would involve citizens in the resolution of international debt crises. It is based on Chapter 9 of the US legal code and would, in effect, be a means of allowing a country to declare itself bankrupt, just as companies are allowed to. It also means it can seek protection from its creditors, while protecting democratic principles and ensuring that basic services are maintained – which is what happens if a US municipal government goes bankrupt.

It is based on four core principles:

- The process should be based on *the application of justice and reason*. Allowing an individual, company or country to go bankrupt is not an act of mercy.
- The process should *protect the human rights and dignity* of the debtors as well as the rights of creditors.
- It should not be possible to be prosecutor, judge and jury in your own court. Hence, neither creditors nor the debtor should control the court of bankruptcy, nor decide on their own claims or payments. The judge must be independent.
- *Citizens affected by a debt crisis have a legal right to have their voices heard in resolution of that crisis*. This is a central principle in US bankruptcy law for governmental organisations. In other words, *freedom of information, transparency of process and accountability to the public* must be central to an international insolvency framework.

Introducing an insolvency framework would introduce regulation and discipline over the flows of international capital and will do so not just in bankrupt states but also in states where lax lending and excessive borrowing could lead to bankruptcy. Only by having a fair arbitration system built within international capital markets will it be possible to ground these markets in the reality of human societies and human rights, in the reality of endangered environments, and in the reality of democratic, political relations.



## Ecological debt

Immediate and independent action taken by governments and individuals is possible to start tackling ecological debt. But there also needs to be a serious debate about what global framework will work to prevent catastrophic global warming.

### a) Calculate the costs

The failure to take early and concerted action to address climate change means that the effects of global warming are already being felt. As the economic and social costs of these impacts mount, developing countries are being left to foot an increasingly burdensome bill. While industrialised nations have acknowledged this fact, the token sum of \$0.4 billion per year falls far short of the costs developing countries face in adjusting and adapting to global warming.

An urgent priority for the international community is therefore to calculate on a regional and national basis the real cost for countries to implement adaptation strategies to the changing climate. Without such baseline figures, it is impossible to know how the pledges of support from industrialised nations stack up to the real needs of poor countries.

### b) Fulfil existing commitments

Despite their inadequacies, the frameworks devised under the UNFCCC and the subsequent Kyoto Protocol do at least offer an important set of principles and basic commitments to tackling the problem. Rather than engage in tit-for-tat battles for special exemption and horse-trading concessions to whittle each party's emissions reductions to the bare minimum, governments must ensure that they hold up their side of the bargain by honouring their commitments to reduce emissions below 1990 levels. Despite the USA's pledge to go it alone and its attempts to undermine the protocol, the rest of the world's industrialised countries must be pressured to lead by example through achieving the 5.2 per cent target set out under Kyoto. Without this, the basis for any future negotiations and more ambitious target-setting would be in grave jeopardy.

### c) Reversing subsidies

Despite years exploring alternative energy technologies, and substantial political rhetoric extolling their potential, fossil fuels still constitute roughly 87 per cent of global commercial energy supplies.<sup>13</sup> This demonstrates not just the historical role that coal, oil and gas have played in powering the growth of industrialised nations, but of the perverse subsidies which keep cleaner technologies from displacing fossil fuels. Conservative estimates suggest that the OECD still spends around \$70-80 billion per year on subsidising fossil fuels and fossil fuel-based activities – roughly \$20 billion more than the total development assistance given to poor countries in the year 2000. For every one tonne of carbon dioxide saved by the UK over last decade, the British government contributed another three tonnes by underwriting dirty fuel projects in developing countries through the Export Credit Guarantees Department. The IPCC has calculated that removing energy subsidies alone could cut global carbon dioxide emissions by between 4 and 18 per cent.

Instead of continuing to fund such projects, Britain and other industrialised countries should switch a portion of these subsidies into research and development of appropriate renewable energy technologies – both at home and in partnership with poor countries. A further portion should be directed towards bolstering the GEF's adaptation fund to enable developing countries to cope with the current consequences of climate change.

### d) US compliance

While the international community – and industrialised countries in particular – must continue to meet their emissions reductions targets and set more ambitious ones in the future, a global plan for stabilising climate change will only be successful with the participation of the United States. The US is still by far the largest single atmospheric polluter, contributing 24 per cent of the entire world's carbon emissions. Yet America's greenhouse gas emissions are still on the increase, reflecting both the country's minimal investment in renewable commercial energy supplies and its rigid stance on keeping domestic petroleum prices low.

Until the position changes, the international community has to pursue all available strategies to get the US on board. This includes political pressure, ongoing dialogue and, if necessary, legal action such as border tax adjustments on US goods and tort actions by vulnerable developing countries suffering the adverse affects of global warming.

A border tax is justified because, by not requiring its industries reduce emissions in line with Kyoto targets, the US is providing a hidden subsidy to its manufacturers. Under such a ruling, American exporters could be faced with border charges when exporting into any of the countries who have ratified and are implementing Kyoto.

A number of opportunities in both tort and human rights law are open to developing countries to pursue more direct legal actions. The precedent for claiming damages under tort law is an integral part of legal systems the world over – especially in the United States. Objecting to their application at the international level would certainly expose America to claims of hypocrisy.

### e) Setting a framework for the future

Implementing existing agreements and fulfilling obligations to developing countries are essential basic steps, but the world will ultimately need to agree a more logical and coherent framework to tackle climate change than the Kyoto Protocol.

In the end, fossil fuels will have to be rationed to stop climate change. The big question is, how? Controlling global warming means shrinking and sharing the carbon emissions cake. It needs shrinking both to a level, and in time, to avoid dangerous climate change. And it needs sharing on a basis that can lay the foundations of a global deal acceptable to the majority world.

Many believe that poor countries deserve, per person, a larger slice because of their historical under-use. A minimum workable global deal will mean moving, in a set, negotiated timeframe, to entitlements to the carbon cake that are at least equal. A recent, but retrospective baseline year would be used for population comparisons to determine national entitlements.

To create a flexible framework that allows for the smoothest possible transition, entitlements will also need to be tradeable. At any one time it is likely that many countries will have either surplus or deficit entitlements. Policy wonks call this 'contraction and convergence'. It fits US demands for a global deal that is science-based, and it also fits the original design of the UNFCCC.

# CONCLUSION



## Debt

Debts both financial and ecological threaten the lives and livelihoods of millions around the world. Yet both can be tackled with clear understanding and political will. Without solving these twin debt crises, rhetoric about sustainable development is meaningless and misleading.

Official misrepresentation of the financial debt crisis clouds the possibility of a real solution. At the same time, a lack of awareness of rich countries' ecological debts means that a mistaken view of the links between rich and poor countries persists. Rather than the rich world making difficult concessions to help the poor, with this different view of the global economy, the poor world is seen to be actually financing development for the wealthy.

The Jubilee Framework sets out a way forward to finally end the human tragedy of Third World Debt. By acknowledging the ecological debts of rich countries, and agreeing a contraction and convergence plan to manage the global commons of the atmosphere, we might also finally lay the foundations for sustainable development.

## TRADE LIBERALISATION: A DEBT CREATING MECHANISM

The rules of free trade have been set for creating debt and to foster the dependency of poor people and countries on trans-national corporations. Structures of dependency are created by destroying local, low-cost options for the provision of food, water, health and education and replacing these with corporate-owned and managed product and service-delivery systems. The destruction of local alternatives takes place through multiple mechanisms, including: liberalisation of trade and investment, privatisation and disinvestment of the public sector, and through sanitary laws.

Trade liberalisation allows large companies to dump artificially cheap products, destroy local markets and local livelihoods, pushing people into debt and destitution. Millions of peasants have been pushed into debt and poverty by the trade liberalisation rules of agriculture. What could be produced locally has to be imported, creating dependency, and deepening debts.

Liberalisation of investment allows giant corporations to take over entire sectors of the economy. Unemployment is the inevitable result, as companies downsize, merge and 'rationalise'. The entire small-scale sector in India has been affected by new rules of investment and trade. Privatisation and disinvestment also push national systems to more irresponsible exploitation of the environment, in violation of ecological principles and people's rights. This creates both displaced communities and indebted people.

When the market does not work to create dependency and monopoly, pseudo-scientific regimes of hygiene are institutionalised through sanitary and phytosanitary rules. While global corporations force hazardous technologies like genetic engineering on people across the world, they use health as a justification to close down local, small-scale food processing systems. Again, by forcing closure of local production, people and countries are forced into debt to buy what they would otherwise produce for themselves.

The most unjust and brutal debt-creating mechanisms are built into multilateral agreements like the World Trade Organization (WTO), which stipulates trade rules that rob the poor of their basic, vital resources such as land, water and biodiversity.

The WTO's Agreement on Agriculture is a recipe to corporatise agriculture – displacing peasants and creating landlessness, indebtedness, bondage and servitude. Thousands of Indian peasants have committed suicide due to debts created by dependence on giant agrochemical companies for costly seeds and inputs, a process greatly accelerated by trade liberalisation.

Not content with simply opening up agricultural markets, the WTO has also sought to liberalise and privatise the fundamental basis of agriculture itself through the Trade Related Intellectual Property Rights (TRIPs) Agreement. By enforcing a global patent regime for genetic materials, Article 27-3(b) of the TRIPs is a charter for the creation of monopolies over the knowledge, seeds, biodiversity and genetic resources that millions of rural people rely upon to produce food and local medicines.

The TRIPs will deny the debt owed to nature and Third World communities for the properties, traits and processes being monopolised and sold. The \$1 trillion seed industry therefore amounts to a debt-creating system, using patent law to make seed saving and exchanges illegal and forcing poor peasants to buy seed every year. People in the third world will have to pay royalties for the right to use the genetic materials pirated from their fields and forests. Indigenous innovation and nature's own selection process are appropriated to create 'intellectual property' through biopiracy.

Debt creation is also built into TRIPs through monopolies on costly medicine. If AIDS therapies can be made available for \$200 instead of \$20,000, but patients and countries are forced to spend a 100 times more due to patent laws that make low cost generics illegal, people will be pushed into debt. Costly medicine has emerged as a major reason for debt in the third world.

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Another mechanism for deepening the debt of the poor is the WTO's General Agreement on Trade in Services (GATS), which will create a framework for opening vital service sectors – such as water – in developing countries to privatisation and corporate control. This is happening against a backdrop of concerted pressure by the World Bank and IMF on poor countries to liberalise and privatise their public services.

For example, in Delhi, India's capital, the World Bank gave a \$25 million loan for a water privatisation consultancy; \$19 million of which went to PriceWaterhouseCoopers as consultants. The remaining amount was spent on providing luxury facilities to the foreign experts who used the data, experience, and knowledge of the Indian professionals to tell us that we could not manage our water. The world's biggest water company, Suez-Lyonnaise, is now going to sell us our own water through its partner, Degremont. The 6.5 million litres per day will be brought from Tehri, in the Himalaya, where a dam is drowning out an ancient capital and displacing more than 100,000 people. The water will also displace farmers in the rich Doals region, both by drowning fields and diverting water from agriculture to urban or industrial use. When

Suez demands the 'full price', it fails to pay the full price to nature and people. It has no place in its calculus for paying ecological and social debts.

But in India we do. We revere the Ganges and have started a campaign to prevent the commodification of our sacred waters. On the anniversary of when we told the British to Quit India, August 9, thousands of people marched to tell Suez and other water monopolies to Quit India. Water belongs to ecosystems, to river basins, to people. Freedom from debt is freedom from corporate monopolies. That is why our movement for real freedom (Asli Azadi) is a movement for a debt-free world where people share nature's bounties, within limits of ecological renewal and economic justice. Sovereignty is defined in terms of the sovereignty of our rivers, our plants and those communities who depend on and conserve them. Trade liberalisation requires the private ownership of and control over the basis of life itself – our land, our water, our biodiversity. It is unethical, unecological and unjust. That is why a debt-free, poverty-free world needs changes in the rules and paradigm of trade.

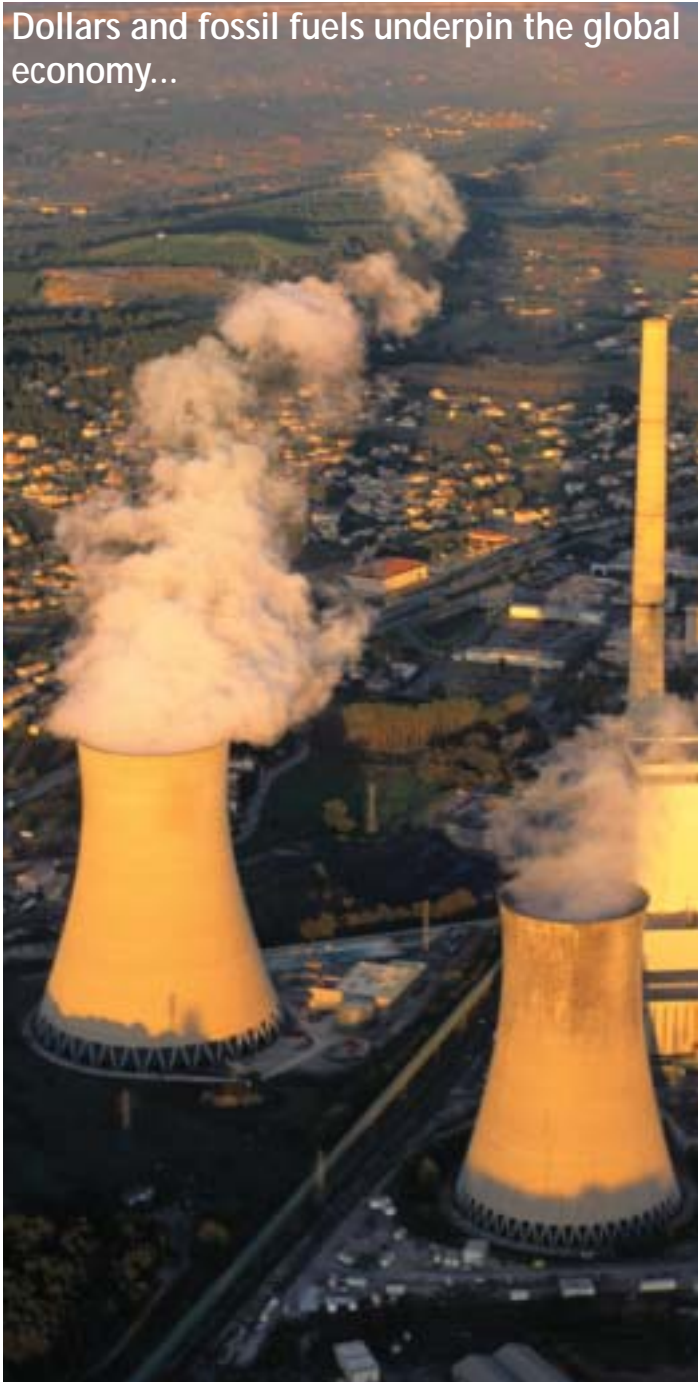
**Dr Vandana Shiva**

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Dollars and fossil fuels underpin the global economy...



but globalisation generates financial debts lethal to people living in poverty...



and carbon debts that threaten everyone.



Written by: Andrew Simms, policy director of NEF and Romilly Greenhill, economist for Jubilee Research  
Edited by: Julian Oram  
Additional material: Dr Vandana Shiva  
Design: bwa

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NEF works to construct a new economy centred on people and the environment. Founded in 1986, it is now one of Britain's most creative and effective independent think tanks, combining research, policy, training and practical action. Now the UK research home of the international Jubilee debt campaign, NEF has a wide programme of work on economic globalisation ranging from corporate accountability to climate change.

New Economics Foundation Cinnamon House, 6-8 Cole Street,  
London, SE1 4YH, United Kingdom,  
Tel: ++ 44 (0)20 7089 2800 Fax: ++ 44 (0)20 7407 6473  
[www.neweconomics.org](http://www.neweconomics.org)  
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