



OECD ANNUAL REPORT 2004



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT



Annual Report ∴ 2004

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— Preface

Events of the past year taught us again that it takes hard work to advance the international objectives that are important to the well-being of all our nations. The disappointing results of the ministerial meeting of the World Trade Organization in Cancún (Mexico) in September make it necessary to redouble our efforts in order to meet the targets of the Doha Development Agenda. OECD members will shortly take stock of the progress towards reaching the Millennium Development Goals that were endorsed at the International Conference on Financing for Development in Monterrey in March 2002. There has been progress, but at the present level of engagement we will not achieve our targets, particularly for Africa. The awful reality of continuing terrorist attacks, in OECD countries and around the world, points to the need for much stronger co-operation to overcome this ubiquitous threat.



OECD Secretary-General
Donald J. Johnston.

At the same time, OECD members and our many partner countries around the world face challenging domestic agendas in order to strengthen growth and restore confidence in markets, to prepare for the demographic transition that is fast upon us, to be ready to embrace and benefit from the ever more international and knowledge-based economy and to find and implement the policies that will let us grow and improve social well-being without causing irreparable harm to the environment.

These problems are complex. Governments value the opportunity at the OECD to exchange knowledge and experience in addressing them. As our one world has become richly interconnected, the OECD also shares and gains in exchanges with many countries outside the OECD membership.

I and my colleagues are proud of the contribution that the OECD is making to help shape the global economy. This *Annual Report* highlights some of the OECD's most important achievements of the past year and describes how the Organisation is evolving to assist its members and the international community in responding to new and often quite different challenges that we see lying ahead. ■

A handwritten signature in black ink, which appears to read "Donald J. Johnston". The signature is written in a cursive, flowing style.

Overview

The past year has underlined the importance of international co-operation in a fast-changing global economy. OECD members have worked together to improve corporate governance and restore confidence in markets. They have also completed three years of work on making the health systems that underpin our societies as efficient as possible, as well as taking stock of progress in combating environmental damage and defining areas for future action.

Many challenges remain that call for international co-operation, not least those of meeting the ambitious goals for the developing world set by the international community.

Enabling growth

After a lengthy period of fits and starts, OECD-wide economic recovery finally took hold in the second half of 2003 and appeared poised to strengthen in the near term. But this encouraging scenario is not guaranteed. All large OECD countries are now suffering from historically wide public deficits, which could have an impact on the recovery. The persistence of very large current account imbalances at this early stage of the recovery also complicates the outlook.

It is not enough to create the conditions to promote growth. The rapid ageing of populations in OECD countries will create a mounting burden associated with increased pension and healthcare costs. Governments must take advantage of the economic upswing to restore the sustainability of public finances. Ageing will also cause a marked slowdown in economic growth – unless policies change. Part of the solution will be to increase employment rates in OECD countries. OECD employment ministers met in 2003 to consider ways to create More and Better Jobs, particularly for the low-skilled and older workers.

Rebuilding trust

Market capitalism depends on a high degree of trust. Governments have been taking steps to restore the trust in market institutions that had been shaken by corporate scandals that caused major losses for investors. At the OECD, governments have worked together, and with business, labour and civil society, to strengthen the OECD Principles of Corporate Governance.

Technology increasingly underpins our economies and societies and has been shown to be a key element in helping companies to innovate. Trust is important here too. Science is moving fast and governments must keep pace, with information, consultation and appropriate regulation to ensure public acceptance of new technologies. Consumers' appetite for information technology is strong, but they want to be sure that their privacy is protected

when they shop online or surf the Internet. OECD governments, working with representatives of manufacturers, business and consumers, agreed in 2003 on guidelines for preserving online security and looked at ways to control spam – or unsolicited e-mail.

Citizens also need to be able to trust their governments and the public sector administrations that implement their policies. OECD governments in 2003 agreed on guidelines to guard against conflict of interest in the public sector, an important factor in ensuring citizens' confidence.

Safeguarding social cohesion

Increasing employment is a priority for OECD countries, both for reasons of economic growth and as one of the principal means to sustain social cohesion, especially in the face of ageing populations. Changing demographics will also put further pressure on health spending. The OECD is now completing a three-year Health Project looking at how governments can provide access to high quality care for all as efficiently and cost-effectively as possible. Spending on healthcare is rising steeply as health technology improves and demand for care grows. But OECD countries spend widely differing amounts and achieve strikingly different results. This has proved to be a field where there is great potential to learn from the good practices of others.

Making development sustainable

The disappointing result of multilateral trade negotiations in Cancún (Mexico) was a setback for all trading nations. The countries that had the most to lose from delays in completing the Doha Development Agenda are developing countries who have yet to become well-integrated in the multilateral trading system. If OECD countries were to open up their agricultural markets, the annual welfare gains to developing countries are estimated at more than USD 100 billion. Emerging and developing countries would also benefit greatly from opening to trade. The OECD produces substantial analysis of the benefits of trade liberalisation. But opening markets alone does not bring development, which requires a broad range of institutions and policies. The OECD is working with developing countries and other international organisations to help develop this institutional infrastructure.

Flexibility and reform

In a rapidly changing globalised economy, the role of the OECD is changing too. The Organisation is continuing to reform its management, including difficult issues such as burden sharing of the OECD budget, rules on decision-making and how to respond to pressures to enlarge the OECD membership. All these efforts are directed towards making the OECD a more effective instrument of international co-operation. ■

About the OECD

OECD share of world GNI (PPP): 60%
OECD share of world trade: 76%
OECD share of world population: 19%
OECD GDP growth in 2003: 2%
OECD share of world official development assistance: 95%
OECD contribution to world CO₂ emissions: 53%
OECD share of world energy production: 38%
OECD share of world energy consumption: 53%



The OECD is a unique forum where the governments of 30 market democracies work together to address the economic, social and governance challenges of the globalising world economy, as well as to exploit its opportunities.

www.oecd.org/about

OECD countries between them produce 60% of the world's goods and services, but in an interdependent global economy with a vast array of stakeholders and interest groups, the OECD does not and cannot work alone. It shares expertise and exchanges views with more than 100 countries worldwide on topics of mutual concern from improving health and education systems' performance to achieving sustainable development and ensuring accountability of governments to their citizens.

The OECD can trace its roots back to the Marshall Plan for rebuilding the European economy after World War II and thus can draw on more than 40 years' experience in crafting policies and systems that encourage economic growth, employment and social inclusion.

For four decades, the Organisation has been one of the world's largest and most reliable sources of comparable statistical, economic and social data. OECD databases span areas as diverse as national accounts, economic indicators, the labour force, trade, employment, migration, education, energy, health, industry, taxation, tourism and the environment.

The OECD is also at the forefront of efforts to understand, and to help governments to respond to, new developments and concerns. These include corporate governance, the abuse of the international financial system by terrorists and other criminals, the "new economy", and the challenges related to an ageing population.

The OECD helps governments to foster prosperity and fight poverty through economic growth, financial stability, trade and investment, technology, innovation, entrepreneurship and development co-operation. It is helping to ensure that economic and social development are not achieved at the expense of rampant environmental degradation. Other aims include creating jobs for everyone, social equity and achieving clean and effective governance.

The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems such as population ageing, identify good practice and work to co-ordinate domestic and international policies. It is a forum where peer pressure can act as a powerful incentive to improve policy and implement "soft law" – non-binding instruments such as the OECD Guidelines for Multinational Enterprises – and can on occasion lead to formal agreements or treaties.

Over the past decade, the OECD has tackled a range of cross-cutting economic, social and environmental issues while broadening and deepening its engagement with business, trade unions and other representatives of civil society. Negotiations at the OECD on taxation and transfer pricing, for example, have paved the way for bilateral tax treaties around the world. The Organisation works with developing countries, and non-members are invited to subscribe to agreements and treaties. Business, labour and civil society take part in work on issues from trade and environment to biotechnology and food safety. ■

Site project

The project to renovate the OECD's Paris headquarters entered a new phase in 2003, when some 1 000 staff were successfully moved to refurbished offices in the Tour Europe building in the French capital's La Défense area, on schedule and within budget. A new conference room within the Tour, with a capacity for meetings of up to 200 participants, opens early in 2004.

The staff moves were essential to provide the flexibility needed for the renovation of the La Muette site, which includes a new conference centre as well as the renovation of the site's main office building to meet the latest fire safety standards and to remove asbestos.

The OECD's governing Council selected a winning design in early 2003 from entries to an architectural competition in 2002. An application for planning permission was submitted to the Paris Préfecture in December 2003, after intensive work with the design team and the French planning and regulatory authorities.

Once planning permission is granted, probably by mid-2004, the project will move from the design to the construction phase. Work on the conference centre is due to be completed in 2006. Work will then begin on the main office building, which is due to be completed by end-2008, allowing staff to return from the Tour Europe. An important new chapter in the life of the OECD has opened. ■



A scale model of the renovated OECD headquarters site and new conference centre.



As part of the preparation for the renovation of the OECD headquarters site, an archeological survey is carried out in the gardens.

Budget and finances

The OECD is funded by its 30 member countries. National contributions to the annual budget are based on a formula related to the size of each member's economy. The largest contributor is the United States, which provides approximately 25% of the budget, followed by Japan. With the approval of the Council, countries may also make separate contributions to special programmes or projects not included in the main budget, involving some but not all member countries.

Starting in 2003, the size of the OECD budget as well as its programme of work are determined on a two-yearly basis by member countries represented in the OECD's governing Council. At the same time, the Organisation introduced a results-based planning, budgeting and management system. The budget for 2003 totalled 313 million euros, and the provisional budget for 2004 is 307 million euros.

The OECD's financial statements are prepared in accordance with International Public Sector Accounting Standards (IPSAS) – indeed, the OECD was the first international organisation to adopt them – and certified by external auditors.

The complete statements of financial position, financial performance and cash flow are available on the OECD website at:
www.oecd.org/about/finstatements. ■

| Member | % contribution | Member | % contribution |
|----------------|----------------|-----------------|----------------|
| Australia | 1.736 | Luxembourg | 0.100 |
| Austria | 0.926 | Mexico | 1.996 |
| Belgium | 1.165 | Netherlands | 1.876 |
| Canada | 3.181 | New Zealand | 0.231 |
| Czech Republic | 0.238 | Norway | 0.784 |
| Denmark | 0.747 | Poland | 0.651 |
| Finland | 0.583 | Portugal | 0.495 |
| France | 6.382 | Slovak Republic | 0.100 |
| Germany | 9.467 | Spain | 2.771 |
| Greece | 0.546 | Sweden | 1.083 |
| Hungary | 0.181 | Switzerland | 1.454 |
| Iceland | 0.100 | Turkey | 0.706 |
| Ireland | 0.399 | United Kingdom | 6.885 |
| Italy | 5.182 | United States | 24.975 |
| Japan | 23.128 | | |
| Korea | 1.932 | Total | 100.00 |

Selected events



(Left to right)

Australian Treasurer Peter Costello with OECD Secretary-General Donald Johnston and Prime Minister of New Zealand Helen Clark at the OECD ministerial on 29-30 April.

OECD Council at Ministerial Level



(Left to right)

OECD Secretary-General Donald Johnston with President of the Czech Republic Vaclav Klaus during a visit to the OECD on 16 July.

Visit by Czech President



(Left to right)

Japanese Minister of State for Economic and Fiscal Policy Heizo Takenaka and First Deputy Managing Director of the International Monetary Fund Anne Krueger at the OECD ministerial on 29-30 April.

OECD Council at Ministerial Level

(Left to right)
 OECD Secretary-General
 Donald Johnston with President of the
 Republic of Mozambique
 Joachim Alberto Chissano and President
 of the African Development Bank
 Omar Kabbaj during a visit to the OECD
 on 4 April.



Visit by Mozambique President



US Trade representative
 Robert Zoellick at the press
 conference of the OECD
 ministerial meeting
 on 29-30 April.

OECD Council at Ministerial Level

Portuguese Prime Minister
 José Manuel Durão Barroso
 during a visit to the OECD
 on 5 December.



Visit by Portuguese Prime Minister



(Left to right)
 President of Romania Ion Iliescu with
 OECD Secretary-General
 Donald Johnston during a visit
 to the OECD on 21 November.

Visit by Romanian President

KEY ACTIVITIES



— Economic growth and stability

Economic growth

www.oecd.org/economics

Improving economic performance is high on the political agenda of OECD governments. Growth is of course not an end in itself, and there are other important public goals such as social equity and a clean environment. But experience shows that growth is necessary to improve living conditions. The OECD helps to make growth policies work, through monitoring economic development in member countries, as well as selected economies outside the OECD area, and making policy recommendations.

The OECD brings together the expert knowledge of governments in areas such as taxes, finance, education, science, technology, regulation and employment. Its work focuses on how policies affect growth and how macroeconomic policies can keep national economies on the right track. Short-term recovery prospects and the longer term issue of achieving sustained growth and job creation in ageing societies, were the focus of work in 2003 and into 2004.

Promoting sustainable growth

www.oecd.org/growth

OECD-wide activity finally picked up in the second half of 2003 and appeared poised to strengthen in the near term. The recovery was initially uneven across regions. The US economy led the upturn with unexpected vigour, thanks to the stimulus provided by a succession of generous tax cuts and a supportive monetary policy. The Japanese economy also performed better than expected as the injection of liquidity by the central bank finally worked its way through the system and a number of large enterprises restructured successfully. In contrast, recovery in the euro area was delayed, but growth should accelerate during 2004. The conditions seem to be in place for the OECD-wide recovery to strengthen and broaden in 2004 and 2005.

However, a number of factors threaten the sustainability of the recovery. Government spending exceeds tax revenue by a large margin in most OECD countries and population ageing will make it even more difficult to bridge the gap. The OECD has looked closely at this problem and it figures prominently in the autumn 2003 edition of the twice-yearly *OECD Economic Outlook*. This study concluded that governments should take full advantage of the recovery to restore fiscal sustainability.

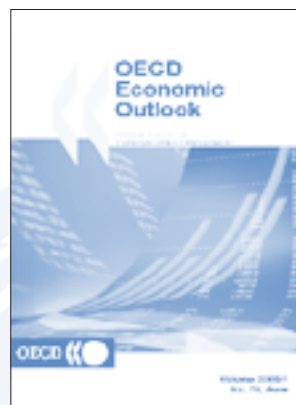
Other areas of concern include lack of flexibility in economies, which is impairing growth potential in a number of countries, and inadequate incentives to work that continue to hamper employment growth. Analysing these challenges and helping policymakers formulate sound policies to meet them will be important tasks for the OECD in 2004.



Jean-Philippe Cotis,
Head of the OECD Economics
Department.

Improving resilience

OECD countries have been exposed to a series of economic shocks at the start of the 21st century, such as the collapse in stock market prices, corporate governance scandals, terrorist attacks and geopolitical tensions. But individual economies reacted differently to these disturbances. The shocks caused only short-lived downturns in Australia, Canada, New Zealand and the UK, but have been associated with a protracted recessionary environment in the euro area. OECD analysis of the reason for these differences in 2003 found that the macroeconomic policy response played a role in the rebound, but more importantly, flexible economies were better placed to deal with these shocks than rigid ones. Flexibility in wage, price and labour adjustments appears to be crucial, as well as a good regulatory approach and easy access of households to the credit market. How national economies can improve their resilience to shocks will continue to be an important item of OECD work in 2004.



Making economies work

Employment plays a key role in economic growth. Recent OECD work shows that the labour market participation of women, older workers and youth varies markedly between countries. Removing disincentives for these groups to work would not only have an important economic impact, but would also raise social cohesion and welfare. The OECD in 2003 looked at the role played by the tax system, social benefits and pension schemes in this area. Employment ministers met in 2003 and called for a reassessment of the OECD Jobs Strategy to learn from experience how policies can help to foster job creation and reduce unemployment (see *Employment and social cohesion chapter, page 36*).

www.oecd.org/employment
employment.contact@oecd.org

Structural issues

The OECD, with its cross-country analyses and country-specific expertise, is well-placed to help policymakers formulate pro-growth policies. Previous work showed that fast growth of per capita gross domestic product (GDP) seems associated with large investments in education and business-sector research and development, together with a stable macroeconomic environment and trade openness. But all of this bears fruit only if economies have pro-competitive product-market regulations. Empirical research to understand international differences in economic performance is made available through publications such as the Economic Studies or Economics Department Working Papers. The specific strengths and shortcomings of national economies are examined in regular *Economic Surveys* of each OECD member economy, and selected non-members, which also provide detailed policy recommendations.

www.oecd.org/eco/structural_issues

An agenda for growth

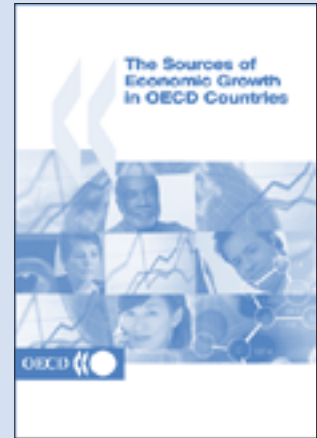
www.oecd.org/growth/agenda

Economic performance has been diverging across OECD countries since the mid-1990s. For the first time since the end of the Second World War, the performance of a group of “high achievers” (countries that recorded sustained and fast growth in income per capita such as Nordic countries, North America and the UK) has diverged from that of a group of “less impressive achievers” (such as continental Europe and Japan). This development – which runs counter to traditional growth theory – has prompted new interest in just what determines long-term growth levels. The governments of “less impressive achievers” in particular have tried to understand what they could do to foster faster growth.

The OECD has carried out a vast programme of research to understand these differences. In most European countries, the weakness in economic performance reflects low participation in the labour force. People aged 55 and above tend to be under-employed and working hours are shorter than in other countries. Existing policy encourages people to stop working before they reach retirement age, and penalises those who work beyond it. Compulsory shortening of working hours also plays a role in reducing labour utilisation. Hence, in order to raise living standards, governments should remove distortions in the system that discourage workers from continuing to work or from accepting employment.

Outside Europe, a variety of OECD countries are penalised by low levels of productivity. Labour productivity is low in Japan and Oceania, for example. There are well-identified links between growth and investment, especially when it comes to education or research and development. The benefits from such investments are unlikely to emerge, however, without a competitive environment. Without the pressure of competition, businesses will not reap the benefits of technological progress or higher labour force skills. Competition can be promoted by phasing out restrictions on foreign direct investment (FDI) or lowering import barriers. The services sector is also subject to regulatory straitjackets in many economies and a lot remains to be done to facilitate market entry and let operators compete more freely.

But there is no “one-size-fits-all” recipe to boost growth. While it is important to make markets work effectively, structural policies should be adapted to each country’s specific conditions.



This book provides a comprehensive view of what drives growth in OECD countries.

DID YOU KNOW...
that opening markets to competition would reduce the productivity gap in lagging industries by up to 10%?

Role of financial markets

www.oecd.org/daf/financial-markets
daf.contact@oecd.org

Steep falls in stock markets, corporate governance failures and waning investor confidence challenged the health and stability of financial markets in 2003 and highlighted systemic weaknesses in certain market functions. New financial risks emerged and policy concerns also arose about pension

ICT and company performance

www.oecd.org/sti/measuring-infoeconomy
dirk.pilat@oecd.org

Information and communications technology (ICT) can strengthen company performance. Indeed, effective use of ICT may help firms gain market share at the cost of less productive firms, an OECD study of firms in 13 countries found in 2003. Effective use of ICT can also help firms innovate and reduce inventories, the study entitled *ICT and Economic Growth: Evidence from OECD Countries, Industries and Firms* said. These effects would all lead to higher productivity growth.

But the study also shows that ICT alone is not enough to enhance a company's performance. It needs to be part of a much broader range of changes. Seizing the full benefit of ICT depends on complementary investment in areas such as skills and organisational change, as well as a policy environment that enables change and restructuring. ICT users often help make their investments more valuable by experimenting and innovating themselves, for example by introducing new products and services. Such "co-invention" often moves at a slower pace than technological innovation, but without it the economic impact of ICT would be more limited. It also takes time to adapt to ICT and make it work, for example in changing organisational set-ups and worker-specific skills. Security and trust are equally important elements for the uptake of ICT and e-commerce.

The study also pointed to differences between countries in business use of ICT. New firms in the US, for example, seem to experiment more with ICT and relevant business models than those in other OECD countries; they start at a smaller scale than European firms, but grow much more quickly and get higher returns from their investments in ICT when successful.

The work with company-level data has helped underpin a report on *Seizing the Benefits of ICT in a Digital Economy* which was presented to the annual OECD ministerial meeting in May 2003. This method of co-operative research with member countries offers a new and promising way for the OECD to engage in future policy analysis.



DID YOU KNOW...
that more than 60% of people
in Nordic countries
go shopping on-line?

fund liabilities in ageing societies (see box on *Private pensions below*). To respond to these developments and restore public confidence is a major challenge for financial institutions, policymakers and regulators.

OECD work related to the increasingly global nature of financial markets aims to promote best practices worldwide and to contribute to financial policy dialogue through a comprehensive programme of outreach activities in all the regions of the world. The OECD completed a major step in the

Private pensions

www.oecd.org/daf/pensions
juan.yermo@oecd.org

Have you chosen the best pension scheme for you? And how can you be sure it will provide a secure income when you actually retire? Pensions could spark a major social crisis in OECD countries in the next two decades, as the baby boom generation reaches retirement age and the proportion of pensioners increases.

As the sole international standard-setter when it comes to regulating occupational pensions, the OECD plays a key role in helping governments meet this challenge. During 2003, it worked on a new set of guidelines for protecting the rights of members of pension schemes, which will be transmitted to the OECD Council for approval in 2004. The guidelines represent a benchmark for good practice that member countries are expected to use as they work to ensure that private pensions successfully complement social security pension systems for the growing population of retirees.

Private pension arrangements have expanded in recent years in OECD countries, but serious concerns have arisen about their capacity to deliver. Multi-billion-dollar funding gaps have emerged in some countries and some employers have reacted to the risk of such problems by deciding to stop contributing to retirement schemes for their workers altogether.

The OECD is now working on guidelines on pension funding, as well as on the security of benefits and investment. The OECD has also continued to develop new international standards, data and policy analysis and to strengthen its financial and regulatory monitoring. It has also strengthened ties with non-member countries through conferences and seminars in Asian, Central and Eastern European and Latin American countries. Most of these activities are carried out jointly with the International Network of Pension Regulators and Supervisors (INPRS), which is serviced by the OECD.

In the future, the OECD expects to examine ways of improving financial literacy in member countries, to develop good practices and increase transparency in retail financial markets through consumer protection regulation. This will become all the more necessary as individuals are increasingly expected to bear retirement risks directly, with decreasing involvement of the state or their employers.

DID YOU KNOW...
that in most European countries, people work for 50% or less of their lives, reflecting late labour market entry, early retirement and short working hours?

liberalisation of insurance and pensions services in 2003 through a draft revision of the Code of Liberalisation of Current Invisible Transactions submitted to the Council in 2004.

Insurance and pensions

www.oecd.org/insurance
daf.contact@oecd.org

Rebuilding investor confidence will require better governance of financial institutions. The OECD turned its attention in 2003 to the governance of insurance companies and collective investment schemes, after completing guidelines on the governance of private pension funds in 2002.

But new initiatives are necessary to restore public trust in financial market integrity and to protect the increasing number of small investors. The OECD launched in 2003 a major project to contribute to better financial education of individual savers, in particular pensioners facing growing investment responsibilities. The OECD also promoted the protection of financial consumers in 2003 by developing guidelines for the rights of pension beneficiaries and good practices on insurance claims management. They will be sent for Council endorsement in 2004. The OECD has a leadership role in the private pension debate and is currently the only international standard-setting body for regulating private pensions (see *Private pensions box*, page 21). A new set of principles was developed in 2003 and will be submitted to Council approval by early 2004. The need for further regulation of private health insurance was also examined in 2003 as part of the OECD Health Project (see *Health box*, page 39).

The OECD also completed a checklist for defining terrorism for insurance purposes at the end of 2003. It is carrying out analytical work on whether insurance can be provided against potentially extreme terrorism risks, including private-public compensation schemes. Building on that work, the OECD is also looking at ways to build financial capacity to respond to large-scale disasters, from infectious diseases such as the SARS epidemic to industrial and natural catastrophes, and to promote risk management.



Monitoring markets

www.oecd.org/daf/financial-markets
daf.contact@oecd.org

The OECD reinforced its financial market monitoring in 2003, in response to the emergence of new financial risks due to the increasing complexity of some market vehicles such as derivatives, risk transfer mechanisms and financial convergence. This work is carried out with the participation of representatives of major banking, insurance and other financial sectors. In addition, a new “OECD Network on exchange of information on reinsurers” was set up in 2003 and will contribute to greater transparency of reinsurance activities. ■

DID YOU KNOW...
that by the end of 2010, government debt in OECD countries will reach about USD 33 000 per person if current trends continue?

Science and technology

www.oecd.org/sti/stpolicy
dsti.contact@oecd.org

Science and technology are a major source of economic growth and well-being in the knowledge-based economy. But ways of making productive use of human knowledge are changing and future developments are unpredictable. The OECD looks at how science, technology, innovation and education policies can efficiently contribute to sustainable economic growth and employment creation.

It provides policy advice for governments on coping with the challenges arising from developments in new science-based industries, notably biotechnology. And it leads the field in developing indicators to measure member countries' performance in science and innovation.

Fostering innovation

www.oecd.org/sti/innovation
dsti.contact@oecd.org

Science is increasingly important for innovation. But the practical use of new scientific knowledge is not always immediately obvious, and more needs to be done to ensure that research findings reach industry where they can be developed into new products, processes and services. The OECD looks at what governments can do to improve the ability of public research organisations to contribute to social and economic needs (see box page 25) and forge stronger links between science and innovation. *Turning Science into Business*, published in 2003, examined reforms of the management of intellectual property rights in public research organisations and collected internationally comparable statistics on patenting and licensing by universities and government laboratories.

Patents also influence rates of innovation and technology diffusion. *Patents and Innovation: Trends and Policy Challenges*, published in early 2004, highlights key issues in this area. Ongoing work also examines innovation in biotechnology, energy and knowledge-intensive services, as well as the design, implementation and governance of public/private partnership programmes to stimulate research and innovation. These issues were the main focus of a meeting of OECD science and technology ministers in January 2004.



(Left to right)
 Australia's science minister
 Peter McGauran; and Herwig Schlögl,
 OECD Deputy Secretary-General,
 at the meeting of OECD Science Ministers
 on 29-30 January 2004.

Biotechnology

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The OECD devoted much attention in 2003 to the impact of biotechnology on health (see box page 26), as well as the contribution that biotechnology can make to industrial sustainability and eco-efficiency. The OECD provides a forum for member – and increasingly non-member – countries to come together to agree on policy frameworks, best principles and practices that will allow biotechnology to optimise its contribution to sustainable and secure growth and development. The OECD is also developing statistical and analytical tools for measuring biotechnology activity and its impact.

Global Science Forum

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The Global Science Forum provides a venue where senior science policy officials from OECD countries can discuss science policy issues and identify opportunities for collaboration. In 2003, the Forum developed a compendium of best practices in scientific co-operation. It also worked on the best way for governments to establish large international scientific facilities, to prepare the way for important new scientific initiatives in high-energy physics and neuroinformatics (the study of the brain), fields where the work is so complex that international co-operation is needed to maximise progress. The Forum also looked at what governments could do to deal with the hazards posed by asteroids and comets.

Harnessing ICT

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The pervasiveness and importance of ICTs throughout the economy and society is reflected in the OECD's work. As well as work on understanding how ICTs contribute to sustainable economic growth, the OECD examines their social impact, their potential to contribute to development strategies and poverty reduction, and the possibilities offered by e-government.

The 2003 edition of the *OECD Communications Outlook* found that telecommunications markets continued to grow in OECD countries both in terms of coverage and industry revenue, while prices for telecommunications services and equipment declined. This signals a transition phase as industry players act to stabilise their positions and restructure to be more competitive in the post-technology bubble environment. Return to a healthier industry will be facilitated by regulators enhancing conditions of access and improving competition.

The 2003 edition of the *OECD Science, Technology and Industry Scoreboard* found that despite economic slowdown and talk of the demise of the new economy, the knowledge-intensity of OECD economies continues to increase. It offered a picture of developments in the knowledge economy through indicators covering creation and diffusion of knowledge; the information economy; the global integration of economic activities; and productivity and economic structure.

Current work includes analysing the policy frameworks behind the digital economy and the information society, the development of new indicators and analytical tools to map the growth of ICT supply and demand, and better understanding of the role of ICT in growth and productivity (see *ICT box page 20*).



Online security, privacy and trust

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Fostering trust in information systems and networks by ensuring security, privacy and consumer protection is a high priority on the OECD agenda. There is no “silver bullet” to rid the world of computer viruses and hackers, but there is much that can be done to enhance cyber-security, a

key component of trust in an online environment. Work in 2003 focused on creating a global “culture of security” involving manufacturers, governments and users of systems, whether businesses or individuals, as recommended in the 2002 OECD Guidelines on the Security of Information Systems and Networks. A two-day Forum was held in Oslo in October to take stock of progress and identify future actions. In December, the OECD launched a website to help governments, businesses and the public

Managing public research

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Publicly-funded research has played a vital role in scientific progress in OECD countries. Without public research there would be no Internet. But science systems in OECD countries have experienced increasing pressure for change in recent years as public spending has been tightened while at the same time science has increasingly driven innovation in the fast-changing knowledge economy. Businesses and governments now often go into partnership to fund research, but meanwhile civil society presses for public research to respond to societal needs such as better health, sustainable development and improved safety and security.

These changes require a fundamental shift in government policy away from simply funding basic research and towards more active governance of the science system. The OECD is helping member governments find the best way to respond to these challenges, focusing on important issues such as the governance of science systems and new mechanisms for priority setting as well as research funding. It is also addressing the thorny issue of whether enough people are studying science to meet demand in coming years and how to make science more attractive.

Governance of Public Research: Towards Better Practices, published in 2003, draws on the experiences of reform so far in OECD countries. These include giving more autonomy to research institutions to make decisions about priorities, educational curricula and relationships with industry, as well as changes to funding structures to tie research more closely to social priorities, and measures to make it easier for researchers to move jobs. The study indicates ways that have proved effective to deal with the challenges and draws policy lessons to inspire reforms. It draws on studies of governance in public research in six OECD countries: Germany, Hungary, Japan, Norway, the UK and the US.



French Minister for Research and New Technologies, Claudie Haigneré, at the meeting of OECD science ministers held on 29-30 January 2004.

DID YOU KNOW...
 that almost 3.5 million researchers work in OECD countries, or 6.5 for every 1 000 employees? More than one third work in the public research sector.

understand the risks and responsibilities involved. Work will continue in 2004 and a follow-up workshop is planned.

Privacy is also fundamental for building trust in the online world. In 2003, the OECD published *Privacy Online: OECD Guidance on Policy and Practice*. This study draws together recent OECD work on ensuring effective privacy protection on global networks while continuing to allow the trans-border flow of personal data.

Biotechnology and health

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Infectious diseases such as HIV/AIDS and SARS kill 17 million people worldwide each year. And that is without taking into account deaths from inherited disorders or from lack of access to the most basic of human needs, such as clean water. As if these were not enough, the global security situation remains tense, with a continuing threat of the use of biological agents for bio-terrorism.

Biotechnology alone does not provide a complete answer to these problems, but it does offer a growing array of new products, processes and techniques to prevent illness or to diagnose or treat health threats. The OECD is helping governments meet the challenge of making the best use of biotechnology for health in the midst of debates about human cloning, stem cells, and genetic testing.

“Biotechnology and Sustainability: The Fight Against Infectious Disease”, published in 2003, describes some of the efforts being made worldwide to deploy biotechnology in critical areas like vaccine development, more rapid diagnosis, and drug development for major killers like malaria.

Continuing advances in understanding human genetics and the diseases that afflict us mean that the potential to treat illness is increasing far beyond that imagined before the decoding of DNA. But if this potential is to be realised, we need to find the balance between the need to make more information about our genetic make-up available to scientists or physicians and preserving our rights to privacy and security.

The OECD is developing best practices for handling human genetic data and is working on identifying conditions to encourage innovation in health products. It is also looking at how biotechnology can contribute to the most vital pillar of sustainability – good health for all. A workshop in The Hague in October looked at ways of seizing the opportunities and meeting the challenges of new and emerging health technologies. The OECD is also working on guidelines for good practice in licensing genetic inventions and holding a workshop in Tokyo in early 2004 on privacy and security issues related to human genetic research databases.

DID YOU KNOW...

that the human brain contains 100 billion nerve cells, 3.2 million miles of nerve fibres and a million billion neural interconnections?

Commercialising space

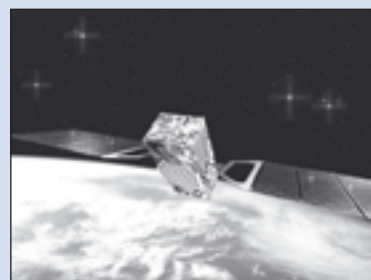
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Space exploration is rarely off the world's front pages, most recently with colour pictures of Mars and new ambitions to put a man on the Red Planet. But space is not just a showroom where nations can demonstrate their technical proficiency. Satellite-based weather and emergency services already save lives, tens of millions of homes have access to satellite television or telephone even in the remotest areas and an increasing number of people rely on space-based positioning and navigation systems.

The scope of potential civilian space applications is likely to increase substantially in coming years, but reaping the full benefit for society at large will not be easy. For one thing, while space technology offers much potential, the actual development of commercially viable applications has proved very difficult. Launch costs remain high and space activities, even fairly well-developed ones, are expensive and high-risk. As a result, both industry and the financial community hesitate to embark on developing potentially promising applications, while governments face difficult choices about how much effort to devote to space and how to fund it.

There is also a growing feeling among experts that the frameworks currently governing space activities will not be able to meet the challenges of the future or to provide the necessary support to the further development of the commercial space sector. The restrictions faced by space firms regarding market access, public procurement and investment are particularly significant in this regard, as well as the controls imposed on exporting space assets. Moreover the public legal context that underlies international space law is not well suited to the business world.

The OECD is helping to find answers to some of these questions through a two-year Futures Project to take stock of the opportunities and challenges facing the space sector. The project, which began in 2003, will reach a better understanding of the issues at stake and of the solutions that could be applied nationally and internationally to ensure that the space sector contributes fully to the development of the economy and society at large. Twenty-five public and private agencies from the OECD area are taking part. The first results of this work will be issued in 2004 under the title *Space 2030: Exploring the Future of Space Applications*, and the final report will be published in 2005.



The Galileo satellite radio navigation system, launched by the European Commission and the European Space Agency, has widespread uses including increased safety and efficiency of transport systems and information for emergency services.

DID YOU KNOW...
that satellites could lead the blind? A Galileo receiver currently under development could act as an electronic dog. It will be able to tell the blind user exactly on what street and what sidewalk he/she is and guide him/her to his/her destination, increasing significantly his/her autonomy.

The OECD is also working with the International Civil Aviation Organisation on future enhancements to international travel security systems, including the use of biometrics (such as fingerprints or eye readings) in travel documents, and the exchange of information on travellers.

Consumer protection remains a key element for trust online in an increasingly global marketplace where fraud operators can exploit innovations to deceive large numbers of consumers in many jurisdictions. In June 2003,

Broadband

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Information and communication technology (ICT) is a proven contributor to economic growth, and broadband has rapidly become established as a key component. Broadband Internet coverage has grown rapidly and extends to three out of four households in the OECD area, with approximately 82 million people actually subscribing to broadband services. But the success of this high-speed availability of online services also raises new challenges for developing the content and services to optimally utilize the existing capacity and further increase uptake.

The OECD issued a policy statement in 2003 to help maximise the benefits of broadband Internet services for economic and social development and to encourage broadband use. "Broadband Driving Growth: Policy Responses" highlights the need for competition in communication markets and between rapidly evolving technologies, including digital subscriber line (DSL), cable, fixed wireless, and satellite.

The private sector has a primary role in investing in broadband infrastructure, providing services and applications, and creating content, the statement said. It also called for a culture of security to increase trust, alongside effective enforcement of privacy and consumer protection and more cross-border co-operation in these areas.

Government has a role as a model user in aggregating demand and, where needed, in supporting services for underserved communities. The statement said that governments must also ensure their policies are pro-competitive and do not favour one technology over another. It also highlighted the need to build trust and ensure security of broadband networks.

DID YOU KNOW...
that 82 million people in OECD countries are connected to the Internet via high-speed access?

OECD countries adopted a framework for international co-operation in the form of new Guidelines for Protecting Consumers from Fraudulent and Deceptive Commercial Practices across Borders. These guidelines are the latest example of OECD work towards consensus on core characteristics for effective consumer protection. The OECD also published a number of reports on the impact of electronic commerce on taxation in 2003 (see *Taxation chapter, page 67*).

Spam (unsolicited e-mail sent to a large number of addresses) is increasingly used as a vehicle for fraud, viruses and other threats to online security. It threatens privacy, wastes network resources and hinders legitimate users. The OECD has begun to work on spam and in particular its impact on user confidence and the digital economy, with a focus on international solutions to the problem.



Future studies

www.oecd.org/futurestudies

When a company's stock market value can double or disappear in an hour and the latest computer is out of date before it is out of the box, it can be difficult to think about the future beyond the next year or so. But individuals and organisations must plan further ahead, and the OECD's International Futures Programme has a specific mandate to look at longer-term issues.

It provides early warning of emerging issues, pinpoints major developments and analyses key long-term concerns to help governments map strategy. In 2003, the OECD published *Emerging Risks in the 21st Century: an Agenda for Action*, the results of a two-year project looking at five key areas: natural disasters, technological accidents, infectious diseases, food safety and terrorism. The book looks at the challenges facing OECD countries in assessing, preparing for and responding to conventional and newly emerging risks and recommends ways for government and the private sector to improve risk management. In 2004, this work will be extended by studies of risk management systems in selected countries. The OECD has also begun a project on the commercialisation of space (see *box page 27*). Other issues for study include the economic and social implications of calls for greater security and surveillance, the bio-economy, the entertainment industry and the future of the Northeast Asian economy.

DID YOU KNOW...
that almost 1 million patent applications were filed in the US, Europe and Japan in 2002?

The OECD also organised a number of conferences and expert workshops in 2003 on issues such as the social impact of new surveillance technologies. ■

Industry

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The OECD helps governments develop policies to foster the development of industries and enterprises. It analyses economic behaviour in large and small firms in the manufacturing and service sectors at local, national and international level, as well as carrying out macro-level studies.

The OECD collects statistics and develops indicators to measure changes in the global industrial landscape. It pays special attention to measuring industrial productivity and globalisation in areas such as international mergers and acquisitions, but also studies the challenges confronting small and medium-sized enterprises. It collects and analyses data for specific sectors such as steel, shipbuilding and tourism.

Industry and growth

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Work in 2003 focused on identifying effective policies to encourage the four main drivers of industrial growth in OECD economies, previously identified (in *The New Economy: Beyond the Hype* in 2001) as entrepreneurship, innovation, information and communications technology (ICT) and human capital.

The OECD is using quantitative and qualitative factors to identify countries whose policies could serve as good examples for others in these four areas. A special chapter in the June 2003 *OECD Economic Outlook* focused on prospects "After the Telecommunications Bubble". It found that confidence is slowly returning to the telecom sector but warned governments not to be tempted to ease competition requirements or provide financial help to companies as the industry undergoes painful restructuring.

In addition, in response to a request from OECD ministers, the OECD is conducting country peer reviews in specific policy areas such as increasing access to venture capital, diffusing ICT to business, fostering public/private research partnerships, and developing highly-skilled workers. Reviews of venture capital policies for 10 countries (Canada, Denmark, Korea, Israel, Norway, Portugal, Spain, Sweden, the UK and the US) were completed and published in 2003, together with a synthesis report. Policies for diffusing ICT to business were reviewed for Finland, Korea and Switzerland, while public/private research partnerships were assessed in Australia, Austria, France and the Netherlands.



Hungarian State Secretary for Economy and Transport. Gaál Gula. at a Transport Workshop jointly organised by the OECD and Hungary, held on 8-10 September 2003 in Budapest.

Services industries

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Service industries account for more than 70% of the total economy in most OECD countries. The service sector is very diverse, ranging from personal services, through professional services, transport and tourism, communication, and financial services to education, health and public administration. However, the strong growth in productivity that has been seen in manufacturing, pressured by competition and trade is, generally not matched in services.

The OECD's experts turned their attention to discovering why this is so in 2003, and will continue work in 2004 on providing answers to questions such as: What characteristics of the services sector determine productivity performance? How do services and manufacturing interact? What economy-wide policy measures are required? And what is the role of investment in technology and innovation? The OECD will report the results to ministers in early 2005.

DID YOU KNOW...

that small and medium enterprises represent over 95% of enterprises in most OECD countries, and generate over half of private sector employment?

Small businesses

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Small and medium-sized enterprises (SMEs) are essential drivers of economic progress and growth in emerging, developing and advanced economies, so it is important to provide the political impetus to make SME innovation and

Shipbuilding

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Governments and industry representatives moved closer to a new Shipbuilding Agreement in 2003, aimed at finding a lasting solution to growing world overcapacity, falling prices and government subsidies. Officials and industry representatives covering almost 97% of world shipbuilding production, in both OECD and non-OECD economies, took part in the talks designed to establish normal competitive conditions in the shipbuilding industry.

The meetings in 2003 focused on the overall shape and content of the new agreement. There was broad general consensus that it should contain a comprehensive discipline to deal with a range of government support measures, including subsidies, but not on whether it would also contain a pricing discipline. This would be shipbuilding's equivalent of the World Trade Organization (WTO) Anti-Dumping Code (which because of the special characteristics of the industry cannot be successfully applied in shipbuilding) and would deal with market distorting practices that distort the shipbuilding market. Some participants saw such a discipline as crucial for the success of the new Agreement, but others maintained that pricing mechanisms are working well in the industry and that any such discipline would interfere with the commercial setting of prices that respond to market conditions.

DID YOU KNOW...

that between them, Japan, Korea and China account for 70% of world shipbuilding output?

A basic draft text for the new Agreement was drawn up at the end of 2003 and the target date for finalising detailed negotiations is the end of 2005. The chairman of the negotiating group will deliver a "mid-term" report to the OECD in early 2004.

The OECD set up a Special Negotiating Group in 2002 to draw up a new Shipbuilding Agreement, with broad support from all OECD members and major world shipbuilding economies outside the OECD. A previous Shipbuilding Agreement in 1994 did not come into force because one signatory, the United States, was unable to ratify it.

development easier. The OECD offers a forum where policymakers from the OECD and beyond can meet to examine issues and assess policies affecting SMEs and entrepreneurship, building on a ministerial meeting in Bologna (Italy) in 2000, and involving some 70 member and non-member economies.

The main aim of this work is to enhance the performance of small businesses by promoting best practice policies and international co-operation. Much work in 2003 was devoted to preparing for a second ministerial meeting to be held in Istanbul in June 2004 on the theme "Promoting Entrepreneurship and Innovative SMEs in a Global Economy". Workshops were held on entrepreneurship and on developing statistics to evaluate SME policies and programmes, a key area of work. The Istanbul conference (www.oecd-istanbul.sme2004.org) will include a business symposium, a joint plenary session

Road transport

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The OECD's road transport programme has contributed to research on roads and road transport in OECD countries since 1967. Work in 2003 focused on road safety, freight transport in urban areas and road pricing. A major development was the decision to create a joint Transport Research Centre with the European Conference of Ministers of Transport (ECMT; see ECMT page 104). The new centre started work on 1 January 2004.

The number of children killed and injured on the roads in OECD countries has been halved over the past two decades by more targeted approaches, advances in areas such as vehicle design and infrastructure safety and increased use of seat belts. Work in 2003 looked at how this has been achieved and how roads can be made safer for children. A detailed report will be published in 2004.

Despite such advances, almost 350 people are killed and thousands are injured every day on the roads of OECD countries. New technologies being developed, such as collision avoidance systems, could reduce this toll by as much as 40%. But billions of dollars are also being spent by consumers on other new technologies which may have a negative impact on road safety. *Road Safety: Impact of New Technologies* provides recommendations to governments and industry to help make roads safer.

The OECD also took a closer look at how new technologies affect older people's use of transport. Will older people feel comfortable using the new technology available for cars, buses or trams which may be designed for younger users? The OECD held a symposium with the Massachusetts Institute of Technology (MIT) to examine these questions and proceedings will be published by the MIT Press in 2004.

A separate report on *Low Emission Vehicles*, prepared in 2003, looked at how new vehicle technologies can help reduce pollution from road transport, including in urban areas. It found that while technological progress has led to major improvements in local air quality, there are serious concerns about increases in greenhouse gas emissions from road transport.



Delivery of goods is vitally important in urban areas, but delivery vehicles are often regarded as a nuisance. This report provides recommendations for dealing with these challenges.

DID YOU KNOW...

that some 350 people are killed on the roads of OECD countries every day and that many of these lives could be saved if countries adopted best road safety practices?

between ministers and business representatives, and a Global Market Place where enterprises, business associations and technical centres can display their activities and products.

Tourism

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In 2003, war, terrorism, SARS and ecological and natural disasters forced governments and their tourism industries to rethink their risk management strategies and to develop initiatives to improve performance.

Industry and governments were better prepared to respond to such crises than in the aftermath of the 11 September terrorist attacks of 2001 and

Steel

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The world's major steel-producing economies agreed in talks at the OECD in 2003 to negotiate an agreement to stop governments from subsidising their steel industries, as government support has been a principal factor in distorting markets and supporting overcapacity worldwide. Participants in the negotiations account for more than 90% of world crude steel production.

The talks, begun at the OECD in 2001, were stepped up in 2003 as detailed negotiations on the text of an agreement began. Participants made considerable progress on the wording about the scope of the agreement and the manner in which subsidies would be banned. Such a ban on steel subsidies would greatly expand the scope of the World Trade Organization Agreement on Subsidies and Countervailing Measures, which only bans export subsidies and subsidies contingent on the use of domestic goods.

Attention then turned to the nature of any exceptions, the scope and form that preferential treatment for developing economies might take, surveillance mechanisms, and provisions relating to enforcement. Progress was made in these areas but important issues have yet to be resolved. Nonetheless, an ambitious timetable has been set for concluding the steel talks in 2004.

The governments involved also established a rigorous peer review process to evaluate developments in the steel market in each participating area on a regular basis. The first reviews were held in May and October. The process helped to boost transparency, revealing that steel firms planned to close 134 to 140 million tonnes of capacity by 2005, a development that would help to ease overcapacity.

Participants in the negotiations include key non-OECD steel-producing economies such as Argentina, Brazil, China, Chinese Taipei, Egypt, India, Kazakhstan, Romania, Russia and Ukraine. The talks chiefly involve government officials but have received active and constructive support from steel firms worldwide.



DID YOU KNOW...

that more than one third of all WTO trade disputes are about steel?

used the OECD as a forum to share strategic information on risks and crisis management in the tourist industry and to enhance public-private co-operation. This emerging culture of crisis management plays a key role in restoring industry and consumer confidence, mitigating the financial impact on tourism and increasing security.

One goal for the future is to enhance the economic performance of the tourism industry to make it more robust, flexible and financially sustainable. New work on innovation is addressing some of the issues at stake. A conference in Lugano (Italy) in September highlighted the role of sectoral policies in tourism in translating innovations into economic growth and the OECD will release a publication on innovation and tourism in early 2004. The OECD is also looking at the challenges and impact of restructuring in the tourism industry, particularly in smaller tourism enterprises, and will publish the results of this project in 2005.



(Left to right)
Head of the Steel Unit of the OECD, Wolfgang Hübner, and US Deputy Assistant Secretary of Commerce Joe Spetrini, at a news briefing on steel on 5 December 2003.

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Maritime transport

Improving maritime security in response to the risk of terrorist threats, and the elimination of substandard shipping were the major priorities of work in 2003.

A report released in July, entitled “Security in Maritime Transport: Risk Assessment and Economic Impact” found that new maritime security measures to counter the threat of terrorist attacks would require an initial investment by ship operators of at least USD 1.3 billion and would increase annual operating costs by USD 730 million after that. But this is substantially less than the potential cost of a major terrorist attack, and some of the additional cost could be offset by savings from increased efficiency, the report said.

A discussion paper on “Ownership and Control of Ships”, which was published for public comment in December, looked at how governments could change ship registers to make it easier to identify who owns a vessel. And the OECD and the European Conference of Ministers of Transport (ECMT) launched a joint project to examine effective ways of tracking goods along the transport chain from dispatch to final delivery, even if it involves several different countries and means of transport.

The OECD also looked at how states which register ships under their flags could more effectively identify and remove substandard ships, as well as possible ways of creating incentives for ship-owners to be responsible in this area. Another issue under the spotlight was whether it would be feasible to remove insurance cover from substandard ships while maintaining the necessary risk-spreading coverage for the rest of the industry and without affecting the cover afforded to genuine victims of incidents caused by substandard ships. ■

— Employment, social cohesion and environment

Employment and social cohesion

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Effective labour market, social protection and health policies help individuals to lead a fulfilling life and make economies more responsive to change and new growth opportunities. But bad policy leaves individuals trapped in unemployment, benefit dependency or social exclusion. Bringing more people into the workforce, keeping them there and helping them acquire a career is becoming increasingly important to promote economic growth and social cohesion, especially in the face of population ageing in OECD countries.

The OECD helps governments identify the best ways to create more and better jobs and encourage people back into the workforce. It also identifies “best practice” in the one quarter, one third or even higher proportion of gross domestic product (GDP) which is devoted to health and other social expenditures.

Employment policies that work

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Too many people who want to work become trapped in unemployment or are discouraged from even looking for jobs. Even if they find jobs, these may not lead to good careers. OECD employment ministers met in 2003 and reviewed policies which can help meet the twin challenges of “more” and “better” jobs (see box page 36).

The 2004 issue of the annual *OECD Employment Outlook* will examine how government policies can achieve the delicate balance of making the labour market more dynamic while providing adequate protection for jobs and income. The role of employment protection legislation, wage policies and measures to upgrade workers’ skills will be examined as part of this work. In countries where the informal economy is widespread, policies that facilitate transitions to formal employment will be discussed.



French Minister of Social Affairs, Labour, and Solidarity, François Fillon at the OECD meeting of employment ministers in September 2003.

Making work pay

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Designing benefit systems is a delicate juggling act. If benefit rates are too low, the result is poverty and social exclusion, but if they are too high, there is little financial incentive to find a job. The *OECD's Benefits and Wages: OECD Indicators*, published every two years, allows comparisons between in-work and out-of-work incomes after tax for various types of family in different circumstances. Countries can use these indicators to help ensure that they “make work pay” at the same time as providing adequate income support.

Ageing and employment

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The population is ageing rapidly in most OECD countries. There are currently more than four people of working age for every person over 65 in

Towards more and better jobs

How can governments help older workers, women, lone parents and disabled people get, and keep, jobs? This question is becoming all the more urgent as OECD populations are ageing, reducing the share of working-age people in the total population.

OECD labour and employment ministers met in Paris in September 2003 to discuss such problems and agreed that bringing more people into the labour market, not just fighting unemployment, should be at the top of their agenda. At the same time, it was important to help them get good careers.

At present, more than a third of the OECD working-age population – 35% – does not have a job. This is not good for society, even without taking into account population ageing. Ministers stressed the need to create more jobs, but also assigned high priority to ending early retirement and other practices that reduce the number of people in work.

One way to get more people into the workforce is to adopt a “mutual obligations” approach. This means governments must provide benefit recipients not just with welfare payments but also quality assistance to find a job, training opportunities and in-work benefits. For their part, benefit recipients who can work should actively look for a job or improve their job prospects, for example by taking training courses. Such an “active” approach would benefit both the individual and society, compared with a situation where individuals without jobs receive only “passive” income – in some countries, practically all non-employed individuals receive welfare benefit.

It is also important to make it easier for groups currently under-represented in the labour market, particularly people with family responsibilities, to take a job. This means more flexible working hours and wider opportunities for part-time work, as well as quality childcare facilities and paid maternity leave.

The skills and competences of the adult workforce have to be upgraded if they are to enjoy good career prospects. This puts a high premium on developing effective lifelong learning strategies for all.

Ministers called on the OECD to take a new look at the OECD Jobs Strategy 10 years after its adoption, and to recommend ways to lower barriers to labour market participation, promote career development and reduce structural unemployment.

In particular, they asked for analysis on what works and what does not in areas such as training, bringing people into the workforce and labour-related migration.

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DID YOU KNOW...
 that as many as two in three people without jobs in OECD countries say they want to work?

OECD countries, but this ratio could fall to three to one in 2025 and two to one in 2050. This will cause problems in funding public services from health to unemployment benefit. Pension reform is a key issue in addressing the challenges of ageing (see *pensions box*, page 21).

To make matters worse, at the moment in most OECD countries, less than half of those aged 55-65 have a job. Eliminating early retirement schemes is an obvious response, but it will not be enough. Some social security systems provide other ways to withdraw from the labour market early, such as long-term sickness, disability and unemployment benefits. Older workers often face discrimination or poor working conditions, or lack the skills sought by employers. The OECD continued in 2003 a 20-country study on improving job prospects for older workers and had completed reviews of *Ageing and Employment Policies* in nine countries by the end of the year. A final report summarising the results will be published in early 2005 when all 20 countries have been covered.

DID YOU KNOW...
that 12% of children in OECD countries are living in poverty?

Balancing work and family life

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For too many parents, particularly women, raising children and pursuing a career are mutually exclusive activities. The OECD is examining the role of part-time work, parental leave, childcare policies, active labour market policies, tax systems, income support and workplace and working-time regulations in ensuring a good work-life balance.

One reason why countries are so keen to review the effects of their policies on families is that the birth rate is falling in many OECD countries. More work is needed to understand why in some countries women still have more than two children on average, whereas elsewhere the rate has fallen to 1.3 or less. If this latter level is maintained, populations could fall to just 25% of current levels by the end of this century.

A series of reviews entitled *Babies and Bosses: Reconciling Work and Family Life* examines the situation in detail in individual countries. Studies of Austria, Japan and Ireland were published in 2003, and New Zealand, Portugal, Switzerland, Canada, Finland, Sweden and the UK will be covered in 2004, bringing the total number of countries covered to 13.



Good health

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Improving health is a key concern of OECD societies, as it can contribute to higher economic growth and improved welfare. Health spending has grown considerably in recent decades (see *box page 39*) and now accounts for more than 8% of gross domestic product (GDP) on average in OECD countries.

OECD governments are grappling with how to assure affordable systems in the future, maintain equitable access to services, improve the health of their populations, increase responsiveness to consumer expectations, and improve value for money.

The OECD Health Project was launched in 2001 to address some of these challenges and the results will be presented to ministers in May 2004. Studies have focused on new and emerging health technologies, private

health insurance, waiting times for elective surgery, physician and nursing workforces, long-term care, equity of service use, cost-containment, and other topics of pressing policy concern. Results from many of these studies have been released through the “Health Working Paper” series, launched in 2003. The final report will be released in 2004.

DID YOU KNOW...

that one third of the workforce will be over age 50 by 2030, compared to one fourth today?

Transforming disability

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Helping disabled people find, and keep, jobs is a major challenge for all OECD countries, but the potential personal, social and financial benefits are huge.

Transforming Disability into Ability, an OECD review of disability policies in 20 member countries published in 2003, found that in most countries, once someone enters a disability-related programme, he or she remains a beneficiary until retirement. On average, only 1% of benefit recipients find a job each year.

No country has so far been successful in crafting policies that will help disabled people return to work, but leaving them outside the labour force is costly. OECD countries spend at least twice as much on disability-related programmes as they do on unemployment programmes. Norway spends more than 5.5% of gross domestic product (GDP) on disability, 12 times as much as it spends on unemployment, for example. Disability benefits, on average, account for more than 10% of total social spending in OECD countries and in some they reach as much as 20%.

The study suggests that such differences reflect different ways of defining disability, and of awarding disability benefits, rather than actual numbers of disabled people. Countries with generous, easily accessible benefits tend to have higher disability rates. The availability of other benefits also plays a role. In some countries, disability benefits were more heavily used, especially for people over 50, when entry to unemployment or early retirement benefits was restricted. For example, people aged over 55 are more likely to be on disability benefits if they live in Austria than in any other OECD country.

The report recommends a number of policy reforms to help make it easier for people on disability benefit to get back to work. These include:

- Individual benefit packages, with rehabilitation and vocational training, job-search support, benefits, and the possibility of different forms of employment.
- New obligations for disabled people, including a requirement to look for work, for those who are capable.
- Involving employers and trade unions in reintegration efforts.
- More flexible cash benefits, depending on job capabilities and changes in an individual's disability over time.



DID YOU KNOW...

that in the OECD there are more people of working age receiving disability benefit than unemployment benefit?

Building on an assessment of health system reform, the OECD has developed a framework for assessing the performance of individual member country health systems. A review of the Korean health system was published in early 2003 and reviews of the Mexican and Finnish health systems are under way.

Keeping track of health

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Reliable, comparable and relevant data on health and health spending are vital for researchers, analysts and policymakers alike. For more than a decade the *OECD Health Data* has provided the world's most authoritative source of comparable statistics on health and health systems in developed countries.

OECD Health Data is a comprehensive database with more than 1 000 indicators related to health status and risks, the resources and activity of healthcare systems, and health expenditure and financing across the 30 OECD countries. The database is released annually in June, on a user-friendly CD-ROM. A print version entitled *Health at a Glance* and presenting some of the key indicators in a clear and easy-to-understand format for a broad audience is produced every two years.

The 2003 issue of *Health at a Glance* provides striking evidence of the variations across OECD countries in health status, healthcare activity and expenditure. For example, the number of doctors per 1 000 population varies from about 2 in Japan, the UK and Canada to over 3.5 in Switzerland, Belgium and Italy.

Health spending also varies greatly, from a high of 13.9% of gross domestic product (GDP) in the US in 2001, to 7% or less in countries such as Finland, Ireland and Korea. Obesity is another case in point. It is rising in all OECD countries, but rates range from a low of 3% in Korea and Japan to a high of over 20% in Australia, the UK and the US.

The quality and comparability of *OECD Health Data* are being continually improved. The OECD manual *A System of Health Accounts*, released in 2000, provides an internationally accepted framework for member countries to report health expenditure and financing in a consistent way. Results and comparative analysis from the increasing number of member countries who have adopted this system are expected to be released in 2004.



DID YOU KNOW...
that health spending in OECD countries accounted on average for 8.4% of GDP in 2001, up from just over 5% in 1970?

The OECD has also studied differences in how countries address ageing-related diseases (breast cancer, stroke, and heart disease) and published a final report, *A Disease-based Comparison of Health Systems*, in 2003.

International migration

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Migration is one possible way of alleviating labour shortages associated with population ageing and falling birth rates in OECD countries. At the same time, money sent back home by migrants exceeds official development assistance, highlighting the possible benefits of migration for development.

Migration has continued to progress in many OECD countries, particularly in the US, Canada, Australia, Japan and southern Europe. Employment-related migration (especially that of skilled temporary workers) increased in 2001-2002, as did asylum flows and movements related to family reunification.

The 2003 edition of *Trends in International Migration* focused on the integration of immigrants, and this was also highlighted at a conference on migration in Brussels in January 2003, jointly organised with the European Commission.

The OECD is now undertaking a more detailed review of integration policies, with special emphasis on the labour market. The 2004 edition of *Trends in International Migration* looks at regional aspects of migration and the problems posed by the international mobility of highly-skilled workers, including the related risks of brain drain, based on a case study of the South African health care sector.



(Left to right)
 Director of the Centre for Economic Performance, London School of Economics, Lord Richard Layard, and President of the Council for Employment, Income and Social Cohesion, Jacques Delors, at the OECD meeting of employment and labour ministers in September 2003.

Promoting local development

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How can governments better tailor policies to create jobs and encourage economic development at local level? Policies that work well for a rundown inner city may not be the best way to encourage investment and long-term development in a sparsely-populated rural area. The OECD examines development of individual cities and regions, and provides analysis and ideas on local development, employment and the social economy.

In 2003, the OECD looked at the implications of decentralisation in *Managing Decentralisation: A New Role for Labour Market Policy*. It also launched a project analysing local initiatives to upgrade the skills of the low-qualified workers in Austria, Belgium, Canada, Denmark, the UK and the US.

In June 2003, the OECD agreed to establish a centre for local development in the autonomous province of Trento (Italy) in co-operation with the Italian authorities. The Centre will build capacity for local development in OECD member and non-member countries, particularly central and eastern European countries. ■

DID YOU KNOW...
 that the share of the population aged 80 and over has more than doubled in OECD countries over the last 40 years?

Education

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Countries spend a great deal on education, which is crucial to economic growth and social cohesion in a fast-changing world. At an individual level, the potential benefits lie in general quality of life and in the economic returns of sustained, satisfying employment. Ultimately, success in the fight against unemployment and social exclusion requires renewed emphasis on a comprehensive strategy for lifelong learning, from kindergarten through to training in new skills for older workers.

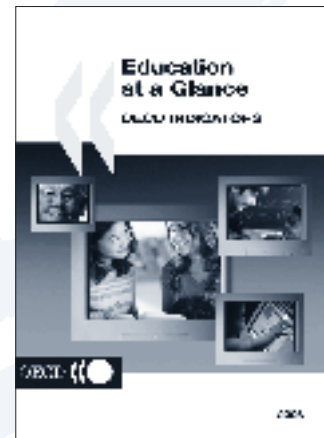
The OECD helps governments develop policies to ensure that education programmes are effective and efficient in delivering high-quality learning to all. Strategies include country and thematic reviews in specific policy areas; collecting and analysing detailed statistical information on education systems and outcomes as well as research and innovation work.

Getting the most out of education

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Everyone wants to know how well their education systems prepare students to meet the challenges of the future. Many countries monitor learning outcomes nationally, and comparative international evaluations can provide a larger context within which to interpret national results (see *PISA box page 43*). But such evaluations are only a starting point; the important issue is how to make a difference. The 2003 edition of *Education at a Glance* focused on the quality of the results of education, and how policies shape these outcomes. The study compared student performance near the beginning and end of compulsory education, not just between countries but also within countries to show differences in gender, socio-economic groups and subject matter.

The OECD evaluates national education systems from schools to universities; reviews published in 2003 included tertiary education in Switzerland and polytechnics in Finland as well as reviews of national education policies in 10 southeast European countries. The OECD also looks at what works and what does not in terms of improving quality. That includes examining how learning science, brain research and education policy can best be combined to ensure that people are offered learning at the right time and in the best way.



The role of lifelong learning

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Major education reforms are under way around the world in response to demands to make lifelong learning opportunities available to all. This means looking at how best to prepare people to learn from their first classroom experiences through to workplace skills and training in their adult life. The OECD helps governments make the necessary strategic connections between lifelong learning and broader policies, notably financing and promoting it. The 2003 edition of *Education Policy Analysis* looked at new approaches to career guidance to encourage lifelong learning and at ways to ensure that

investment, whether by governments, individuals or business, pays off and is sustainable in the long term.

Work in 2003 also looked at the best ways to finance lifelong learning and to encourage adult learning, as well as evaluating the competencies of adults in the workforce.

Rethinking higher education

Higher education has grown and diversified in all OECD countries in recent years with the development of the knowledge economy. This raises many issues, from financing to changing demand as well as an increasingly international market for higher education. Through country and thematic reviews and its programme on Institutional Management in Higher Education (IMHE), the OECD helps governments improve governance and financial management of higher education institutions. The OECD's Centre

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Teacher shortages

A good initial education, and the ability to build on it in later life, is vital in a fast-changing world. The quality of teaching is a key factor in determining how well students learn, and teachers are the largest single component of education spending – around 60% – in OECD countries. But many OECD countries face serious difficulties in getting, and keeping, good teachers.

For one thing, the average age of teachers in OECD countries is rising: in Germany and Italy, for example, around half of all lower secondary school teachers are over 50, which means a large number are due to retire in the next 10 years. But attracting new blood is proving increasingly difficult as salaries – and social status – of teaching have declined substantially in some countries. Experienced teachers' salaries lost ground in 15 of the 21 countries for which data are available between 1996 and 2001.

Teacher shortages raise concerns about quality as well as quantity. In some countries a substantial number of teachers do not hold a full teaching qualification – this is true of 20% of full-time upper secondary teachers in Mexico, Norway, Portugal and Sweden, for example – and in some subjects (e.g. mathematics, science and languages) a strikingly high proportion of teachers are giving classes outside their main area of expertise.

Governments are clearly keen to tackle the problem, however, and 25 countries are taking part in an OECD project on attracting, developing and retaining effective teachers, and there is substantial other OECD work on teachers underway. OECD education ministers were to meet in Dublin in March 2004 to consider future action.

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DID YOU KNOW...
that in half the OECD countries, the majority of 15 year-olds attend schools where principals believe student learning is hindered by a shortage/inadequacy of teachers?

Main insights from PISA

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How good are school systems at providing young people with a solid foundation of knowledge and skills that will equip them for life and learning beyond school? Since 1997 OECD governments have established a comparative framework to assess how well their education systems provide the core skills needed for adult life, from success at work to knowing how to balance the household finances. The Programme for International Student Assessment (PISA) is the most comprehensive and rigorous international effort to date to assess learning outcomes and to identify policies that may help improve the performance of education systems.

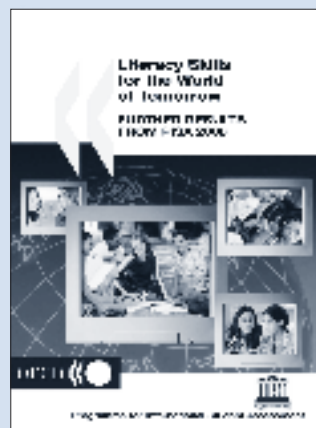
The initial comparisons were confined to OECD countries, but in 2003 a joint publication with UNESCO extended the study to 15 mainly middle-income countries from Argentina to Thailand and compared these results with those from the original PISA assessments. Students in Hong Kong, China, emerged as star performers, achieving reading and scientific literacy equivalent to those in the top OECD countries, while those in Latin America lagged behind.

It is not just a matter of identifying variations in performance, however. The question is what can the less successful countries learn from the high achievers to help students learn better, teachers teach better, and schools to be more effective. PISA does not show which policies or practices cause success, but it does reveal some common characteristics of students, schools and education systems that do well.

One such characteristic is that success is associated with a positive, results-oriented learning environment. *Student Engagement at School: A Sense of Belonging and Participation: Results from PISA 2000*, published in 2003, looked at the most effective policies for countering student disaffection.

It found that students and schools working in a climate characterised by high expectations and the readiness to invest effort, the enjoyment of learning, good teacher-student relations and high teacher morale tend to achieve better results.

Work also continued in 2003 on a new PISA exercise covering OECD countries, with results due to be published in December 2004. This exercise, and further assessments planned for 2006 and 2009, will enable countries to regularly and predictably monitor their progress in meeting key learning objectives, and reveal which countries are progressing in the right direction and which are falling further behind.



DID YOU KNOW...
that girls at the age of 15 generally have higher career aspirations than boys?

for Educational Research and Innovation (CERI) looks at the role of e-learning and the future role of universities, as well as monitoring the growing internationalisation and trade in post-secondary education.

The 2003 edition of *Education Policy Analysis* reviewed the radical reforms that have been made in some countries in recent years to higher education governance and found that despite increased managerial autonomy for some universities and other institutions, government influence is being exercised through other means such as new evaluation mechanisms and by linking funding to the delivery of specific programmes.

Education and social cohesion

Ensuring that everyone has equal access to education is vital in a world where people need to change and upgrade their skills throughout life. The OECD helps governments identify the best ways to help disadvantaged groups, such as minorities, migrants, students with disabilities or learning difficulties, make the most of education and to improve equity in education.

Disability in Higher Education, published in 2003, looked at progress in increasing the number of students with disabilities attending university in several OECD countries, and found that while a great deal had been achieved, there is still a long way to go before universities will be able to respond fully to the needs of disabled students.

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School safety and security

Feeling safe in school can help students learn better. But are governments doing enough to make sure that schoolchildren are safe? The threats posed by natural hazards such as earthquake, floods and storms or human actions such as vandalism, arson, and violent crime cannot be eliminated entirely. But there is much that can be done to minimise risks and to prepare for coping with an emergency.

Education officials and experts in school safety and security from 28 countries met in Paris in November 2003 and agreed that the OECD, through its Programme on Educational Building (PEB), has a significant role to play in analysing the problem of school safety and in evaluating the effectiveness of solutions. An OECD conference on school violence and bullying will be held in 2004, as well as a meeting on earthquake safety in schools.

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Building new futures for education

Education policy is frequently formulated under intense political, social, and economic pressure. But increasingly the aim is to make education more sensitive to demands from learners and their families, rather than dominated by the needs of systems themselves. Through CERI, OECD work on creating the facilities and infrastructure that will encourage learning focuses on improving knowledge management, managing new learning environments, and making the most of information and communications technologies (ICT) in learning.

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Networks of Innovation: Towards New Models for Managing Schools and Systems, published in 2003, looks at the gains and risks of new education systems, such as e-learning, and how to ensure that rapid change does not mean education systems fragment into chaos.

Promoting quality teaching

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The quality of teaching is a key factor in determining how well students learn. It depends on the quality of the people in the teaching profession, their initial education and continuing professional development, as well as their work practices and work environment.

OECD work on teachers and teaching focuses on attracting, developing and retaining effective teachers, and on developing better internationally-comparable data on teachers (see box page 42). ■

Sustainable development

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Sustainable development implies a broad view of human well-being, a long-term perspective about the consequences of today's activities, and global co-operation to ensure that humankind does not exhaust the earth's resources, destroy the environment or create untenable social and economic conditions.

But are OECD countries reducing their greenhouse gas emissions at excessive cost? Do they reduce environmentally harmful subsidies only when they can no longer afford to pay them? And are they making markets work for sustainable development? Following a mandate given by ministers in 2001, the OECD has been working to help answer this kind of question. Work in 2003 focused on monitoring progress towards sustainable development, environmentally harmful subsidies (see box page 48) and environmentally related taxes (see box page 51). Results of this work will be presented to OECD ministers in 2004.

Monitoring progress

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The OECD plays an important role in reinforcing political will by monitoring country progress towards sustainable development. Each *Economic Survey* of an OECD country includes sustainable development indicators covering three policy issues chosen from a list including greenhouse gas emissions, air or water pollution, natural resource management, waste management, living standards in developing countries and sustainable retirement incomes. By the end of 2003, *Economic Surveys* with a sustainable development section had been released for 16 countries and work had been completed on sustainable development reports for the remaining OECD members. The emphasis in all the reports is on the trade-offs that have to be made between the costs of achieving different goals. A synthesis report on integrating concerns for sustainable development in the policy process will be available in 2004.

Work on the use of environmentally related taxes focused on overcoming political concerns about the possible competitiveness and distributive effects of environmental taxes (see box page 51). Work on environmentally harmful subsidies looked at ways to reform subsidies, and a report including policy conclusions and recommendations will be published in 2004 (see box page 48).



Social dimension

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Sustaining the performance of social institutions requires confronting a range of persistent pressures such as lower fertility rates, changing family structures, weaker community ties, migration pressures, widening inequalities, and persistent poverty and exclusion that are putting at risk their capacity to deliver results. A working paper assessing such challenges, and ways in which they can be met, was produced in mid-2003 under the title "Towards Sustainable Development: The Role of Social Protection".

Sustainable agriculture

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Sustainable agriculture is of concern in OECD countries because agriculture uses 40% of available land and 45% of total water supplies, and has a significant impact on water and soil quality, biodiversity and landscapes.

Sustainable fisheries

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Making sure that fisheries are sustainable is vital to the world's continuing food supply. The fisheries sector can continue to contribute to economic growth and employment as well as to the world's food supply, but only if fish stocks are managed in a sustainable and responsible way.

Sustainable fisheries are achieved when catches do not exceed the natural growth of the exploited stock over a given period of time. But at the moment, more than 25% of fish stocks worldwide are considered overexploited, with some major stocks facing a risk of collapse. Stocks have collapsed in the past; particularly spectacular and well-documented cases include Canadian East Coast cod, North Sea herring and most recently Baltic cod. Such collapses lead to major social problems because fishing is often the only activity in sparsely-populated coastal areas. But the environment also suffers, as the collapse of one stock of fish may lead to larger changes in the eco-system and biodiversity. Well-managed fisheries, on the other hand, imply that more fish could be caught in a sustainable manner and at a lower social cost, thus leading to a much more favourable outcome.

Yet the path to sustainable fisheries may be long and difficult. Reduction of overcapacity and overexploitation represents not only a challenge for the fishing industry, but also for society as a whole. The OECD is helping governments craft more sustainable fisheries policies, for example by using appropriate management instruments, eliminating subsidies that exacerbate overfishing and preventing illegal fishing activities. In December 2003, the OECD's Round Table on sustainable development launched a ministerial task force to tackle illegal, unregulated and unreported (IUU) fishing as part of efforts to protect dwindling fish stocks. The task force, comprising Australia, Chile, Namibia, New Zealand and the UK, will prepare recommendations for preventing and eliminating IUU fishing. In support of this endeavour to combat IUU fishing activity, the OECD Committee for Fisheries will hold a workshop on IUU fishing in April 2004.



Is there scope for further liberalisation in the world fisheries sector? This publication reviews the significant changes that have taken place and provides an in-depth analysis of the potential effects of further market liberalisation.

DID YOU KNOW...
that OECD countries account for 21% of world fish production and 83% of world fish imports?

From the available evidence, work on agri-environmental indicators shows that there has been some reduction in the pressure on the environment of agriculture across OECD countries in the past decade, but progress has been mixed. Land used for agriculture and soil loss has decreased, but pressure on water use has increased. Nutrient run-off from farming has decreased in many countries, reducing nutrient levels in water, but significant pockets

Environmentally harmful subsidies

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Subsidies can be potentially harmful to the environment. For example, subsidies to help farmers buy pesticides may adversely affect the quality of water. Similarly, subsidies to boost industrial production may encourage continued use of environmentally damaging technologies. Reducing environmentally harmful subsidies is part of the OECD's work to help governments craft policies for sustainable development.

A meeting in November 2003 of technical experts from OECD countries, as well as OECD experts, representatives of non-government organisations and experts from other international organisations, looked at how to identify, measure and reform environmentally harmful subsidies. It reviewed the application in the agriculture, fisheries, water, transport and energy sectors of a "checklist" for identifying environmentally harmful subsidies drawn up at an OECD workshop in 2002.

The meeting discussed a range of economic, political and social obstacles to reforming environmentally harmful subsidies in OECD countries and identified some ways to address them. It recognised that these obstacles are not necessarily unique to the issue of environmentally harmful subsidies but can be identified as factors inhibiting many policy reform processes. However, there are significant lessons to be learnt from examining the range of obstacles and experiences across sectors (and, indeed, across areas of policy reform).

The opportunities for pooling information and experiences on environmentally harmful subsidies offered by the OECD's work in this area are extremely useful vehicles for informing the general debate and increasing transparency in relation to subsidies. The November meeting highlighted a number of areas of possible future work for the OECD that would contribute to the key OECD goal of identifying situations where co-ordinated reductions in subsidies at the international level could improve the environment and increase economic efficiency.

The case studies and their implications for reforming subsidies, as well as the results of the November discussions, will be used in preparing a final report on environmentally harmful subsidies, including recommendations for future work, to be published in 2004.



DID YOU KNOW...
that OECD countries give about USD 400 billion every year in subsidies, often in environmentally sensitive sectors?

of high concentrations remain. Pesticide use has fallen, but there is no clear evidence as to the environmental risks, while some reductions in greenhouse gas emissions have occurred.

Production-linked agricultural support in OECD countries raises land values and provides incentives to intensify the use of chemicals and expand production to environmentally sensitive land, increasing pressure on the environment. On the other hand, some agricultural policies contribute to maintaining farming systems associated with environmental service provision such as biodiversity and landscape.

Policies can contribute to the achievement of sustainable agriculture. But farmers often face conflicting policy and market signals. Identifying the policy and market mixes to achieve better environmental outcomes at lower cost remains a key policy challenge for national governments, as well as a focus of analytical efforts at the OECD. *Organic Agriculture: Sustainability, Markets and Policies* (2003) provides a good example of how these challenges are being addressed in a growing segment of agriculture. *Agriculture, Trade and the Environment: the Pig Sector*, published in 2003, looked at how reducing subsidies and further liberalising trade for the pig sector would affect the environmental impact, particularly on water and air pollution. Similar studies are under way for the dairy and arable crop sectors.

Round Table on sustainable development

How can governments achieve the targets set out in the Plan of Implementation established at the World Summit on Sustainable Development (WSSD) in Johannesburg in 2002? Can illegal, unregulated and unreported (IUU) fishing be halted? Whose development are OECD countries really sustaining when they sign up to international targets with sustainability themes?

The ministerial-level Round Table on sustainable development at the OECD was formed to address such issues. The Round Table provides an informal format through which ministers can engage one another and the key international stakeholders on the cross-cutting issues which comprise the sustainable development agenda.

In March, the Round Table hosted the first ministerial-level discussion post-WSSD on how to make progress on the Johannesburg targets. Fisheries ministers from OECD and developing countries met in June to consider how to reach a specific WSSD target relating to IUU fishing on the high seas (see box page 47). And at the end of the year, ministers assessed the utility of trans-boundary measurement processes as a way of understanding the barriers and opportunities that affect the realisation of international efforts such as the WSSD targets and the Millennium Development Goals. ■

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Chair of the Round Table on sustainable development Simon Upton.

Environment

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A healthy environment is a prerequisite for a strong and healthy economy, and both are needed for sustainable development (see *Sustainable development chapter, page 46*). The OECD provides a forum where countries can share their experiences and develop concrete recommendations for developing and implementing policies to address environmental problems efficiently and cost-effectively.

While OECD countries have successfully tackled some environmental problems, many others remain and new ones are emerging. Environmental problems do not respect national borders: air pollution from one country's traffic, or water pollution introduced into a river as it crosses a country, need no passport to contaminate the neighbours. Climate change and biodiversity loss affect us all. Such problems increasingly require co-ordinated policies across regions and/or sectors or co-operative action at international level.

Measuring progress

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Governments have subscribed to a wide range of domestic and international environmental commitments in recent years. The question of how far these commitments are actually met is central to the credibility of governments in the eyes of public opinion, other governments and the international community.

The OECD helps answer this question through its *Environmental Performance Reviews* of each member country. It reached the halfway mark in its second cycle of these reviews in 2003, focusing on accountability, environmental effectiveness and economic efficiency. The first cycle of reviews was completed in 2000. Each review provides some 50 recommendations to encourage better environmental performance. The second cycle is placing greater emphasis on the use of indicators to measure performance, the integration of environmental, economic and social policies to achieve sustainable development, and reviewing progress with respect to international commitments, including OECD decisions and recommendations. Selected non-member countries have also been reviewed or are under consideration for future review, including the Russian Federation, Chile and China.

The OECD also helps member countries develop Pollutant Release and Transfer Registers (PRTRs) which track the release and transfer of chemicals and pollutants to the air, water and land. The information in these registers is publicly available, thus ensuring that those affected have access to full information about them. Such registers have until recently focused on releases and transfers from large industrial facilities, but recent initiatives are looking more closely into releases from small and medium-sized enterprises. The OECD in 2003 published a compendium of methods for estimating levels of pollutants released. It also produced a list of core elements that should be included in all PRTRs.



(Left to right)
 Øyvind Lone, Norwegian Ministry
 of Environment, Berglind Ásgeirsdóttir,
 OECD Deputy Secretary-General,
 and Víctor Lichtinger, Mexican Minister
 of Environment and Natural Resources,
 at an environment meeting
 at the OECD in June.

Environmentally related taxes

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Can governments use taxes to encourage their citizens to take better care of the environment? Recent evidence suggests that the answer is definitely yes. Taxes are increasingly used in OECD countries to address environmental problems in an effective and economically efficient way. Evidence of their potential can be seen in the significant decrease in total revenue from environmentally related taxes in OECD countries between 1999 and 2001. This partly reflects reduced consumer demand for the taxed goods, such as petrol, as their prices increased.

Recent OECD work indicates that, in some cases, environmentally related taxes can lead to loss of production and of jobs where there is little possibility of substituting a less environmentally harmful alternative for the taxed item, such as in the steel sector. Part of the challenge for policymakers is to identify such sectors as a basis for considering appropriate ways to phase in the taxes or to possibly provide short-term compensatory measures.

Work on the use of environmentally related taxes in 2003 focused on overcoming political concerns about whether they affect the competitiveness of industries, or whether the burden of paying individual taxes is disproportionately heavier on lower income households compared with better-off ones. Studies are under way on how the political obstacles to the implementation of a climate change levy in the UK, a heavy goods vehicle tax in Switzerland and a manure accounting system in the Netherlands were overcome.

Tax exemptions or differentiated tax rates to protect business are common responses to concerns about the effect of environmental taxes on competitiveness. However, they tend to “lock-in” environmentally harmful processes and so can be both ineffective and expensive.

Temporary measures that “recycle” part of environmental tax revenues back to firms in affected sectors may help to gain business co-operation while still providing incentives to reduce pollution. A recent OECD case study looked at the likely effect of a hypothetical OECD-wide carbon tax on the steel sector. A marked reduction in production and a much larger fall in emissions (measured in percentage terms) were found. If revenues were redistributed back to the steel companies, the negative effects of such a tax on production were dampened, but the reductions in CO₂ emissions were also significantly smaller than without recycling. Further work in 2004 will explore the robustness of these findings in other energy-intensive sectors.



DID YOU KNOW...

that a € 0.15 tax on plastic bags in Ireland reduced consumption by an estimated 95%?

Environment in transition

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Engaging non-member countries in dialogue is essential for OECD members in an era of global interdependence, particularly in areas such as environment – pollution is no respecter of man-made borders.

OECD governments are working with transition economies in Central and Eastern Europe, as well as the Caucasus and Central Asia to help address environmental issues, from traditional areas of pollution control to new areas like education for sustainable development.

A conference on “Environment for Europe” held in Kiev in May 2003 brought together ministers and other senior representatives from OECD and European transition countries as well as non-government organisations to discuss environmental challenges facing the region.

The meeting adopted three protocols for dealing with environmental issues. One covered ways to integrate environmental considerations into government policies and programmes. The second deals with civil liability and compensation for damage caused by the effects of industrial accidents on water flowing across borders; this followed a serious chemical spill in a tributary of the River Danube. The third provides for the creation of registers tracking pollution release and transfer, which will provide local communities with information about pollution from enterprises.

The conference adopted an Environment Strategy for the countries of Eastern Europe, Caucasus and Central Asia (EECCA) to address the critical environmental issues in those countries. The strategy provides a basis for developing action plans and partnerships at the national, sub-regional, bilateral and multilateral level to help these countries implement the commitments made at the Johannesburg World Summit on Sustainable Development in 2002. The Environmental Action Programme (EAP) for central and eastern Europe, for which the OECD acts as secretariat, will play the lead role in supporting achievement of the strategy objectives.

The OECD/EAP secretariat will help EECCA countries to reform water supply and sanitation systems; to mobilise additional financial resources, and allocate them more effectively to resolve priority environmental problems; and to help EECCA countries adapt their environmental laws and policies. EECCA environment ministers and their partners from donor countries and the non-government sector will meet in Georgia in October 2004 to review progress.

Other issues under discussion in Kiev included ways to strengthen compliance with multilateral environmental agreements and to develop a strategy for strengthening education for sustainable development. The declaration issued by ministers at the end of the meeting, together with other documentation, is available at www.unece.org/env/wgso.

DID YOU KNOW...
that more than 50 countries from the Atlantic to the Urals are working together to improve their environment?

Coping with climate change

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Global climate change is one of the most serious and complex challenges facing the world today, with potentially serious implications for economies, societies and the environment. Current projects related to climate change at the OECD emphasise the benefits of climate policies as well as assessing cost-effective strategies for adapting to and mitigating the effects of climate change.

The OECD is completing work in 2004 on a series of case studies assessing strategies to mainstream climate change responses within economic development planning and assistance programmes in several developing countries. A synthesis of the results of this work will form the main input to a Global Forum on Sustainable Development event in late 2004.

Working with the International Energy Agency (IEA, *see box page 102*), the OECD also provides the secretariat for a group of member countries and countries

DID YOU KNOW...

that the costs of the environmental and social impacts of transport in terms of pollution, greenhouse gas emissions, accidents, etc., are equivalent to 6-8% of GDP in many OECD countries?

Chemical safety

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Chemicals are a part of everyday life but can be harmful to human health or the environment. Governments need to know the potential hazards of chemical products, and the potential risks of a spill or an accident, or even the misuse of chemicals for terrorist purposes. OECD countries work with non-members, industry and other stakeholders to share the burden of investigating by 2004 the potential dangers of 1 000 high-volume chemicals (annual production of 1 000 tonnes or more) and share the results via an online database.

The results of these hazard assessments provide the basis for decision-making on chemical management by member countries and regions such as the European Union. They are also made available worldwide through the UN Environment Programme (UNEP) for use in non-OECD countries.

The OECD also has a system in place through which member countries mutually accept the data of safety tests done for regulatory purposes, provided such tests meet OECD quality standards. The system avoids duplication in the testing of chemicals and the creation of non-tariff barriers to trade. It saves governments millions of dollars a year. In early 2004, South Africa became the first non-OECD country to sign on to the mutual acceptance of data system.

OECD governments also stepped up co-operation in 2003 to guard against chemicals terrorism, such as terrorist threats against chemicals installations. They set new guidelines for the safe design and operation of chemical plants and for response in the event of accidents, covering areas such as healthcare infrastructure, safety of pipelines and ports where goods are transferred from one form of transport to another.



DID YOU KNOW...

that OECD work on mutual acceptance of data is estimated to save OECD governments and the chemicals industry more than USD 50 million a year?

in transition known as the Annex 1 Experts' Group that provides a platform for analysis and exchange of ideas focused on how best to implement the UN Framework Convention on Climate Change. Work is currently under way aimed at developing cost-effective climate policies that will help curb emissions over the long term, including international emissions trading, the Clean Development Mechanism, and Joint Implementation.

Managing waste

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The amount of waste disposed of in landfills and incinerated in OECD countries is growing at about the same rate as their populations, so minimising waste generation and dealing with unavoidable waste in an environmentally sound and economically efficient way are major challenges for OECD governments. One problem is knowing whether a country is getting better or worse in the waste stakes.

The OECD worked in 2003 on developing performance indicators for waste prevention, and on assessing the environmental benefits of providing economic incentives for households, commercial establishments and industrial facilities to minimise their waste generation and increase reuse and recycling. Projects in this area include examining how far different types of waste service contracts help reduce waste, and identifying and promoting cost-efficient waste management options. OECD members will consider adopting a Recommendation on the "Environmentally Sound Management of Waste" in 2004.

A new focus is also being placed on the economic aspects of waste management. A workshop on this issue in late 2003 will be followed by new work in areas such as analysis of the main "drivers" of waste generation, quantification of the full economic and environmental costs of different waste management options, evaluation of the impacts of economic instruments such as waste collection fees, and evaluation of the impacts of specific policy options such as extended producer responsibility schemes. ■



(Left to right)
Aitkul Samakova, Kazakhstan
Environment Minister, with
Kiyotaka Akasaka, OECD Deputy
Secretary-General.

— International trade and investment

International trade and investment

www.oecd.org/trade
www.oecd.org/finance
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International trade and investment liberalisation has stimulated economic growth and helped integrate more countries into the world economy. The OECD underpins the multilateral trading system by providing analytical work and by helping to build understanding on sensitive issues, to facilitate negotiations in the World Trade Organization (WTO) and to strengthen the constituency for free trade. It also promotes co-operation among governments concerning foreign direct investment (FDI) and other capital movements.

OECD countries have reaffirmed their commitment to the multilateral trading system and made it clear that they consider the pursuit of the Doha Development Agenda (DDA) negotiations in the WTO a priority. In 2003, the OECD continued its analytical work and dialogue in support of the WTO negotiations in the lead-up to the WTO ministerial conference in Cancún in September and afterwards (see box page 56).

Trade and agriculture

www.oecd.org/ech/agr
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Agricultural trade liberalisation is a crucial issue in the Doha Development Agenda (see *Agriculture and fisheries chapter, page 61*). OECD work on market access (see box page 63), export competition and domestic support issues in agriculture supports trade policy discussions. The WTO negotiations will also benefit from ongoing OECD work to improve the understanding of agricultural policies and their impact, in both developed and developing countries.

Tariffs and trade

www.oecd.org/ech/tradepolicy/tariffs
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The opening of markets has boosted trade and economic growth worldwide in the past few decades. Yet tariffs remain a key obstacle to market access. The potential benefits of further reducing this obstacle are significant, but a key question is how the gains would be shared.

An OECD study released in 2003, *The Doha Development Agenda: Welfare Gains from Further Multilateral Trade Liberalisation with Respect to Tariffs*, considered the contribution that tariff liberalisation and reductions in trading costs can make in terms of changes in incomes and prices. The study, which simulated various liberalisation scenarios, suggests that such liberalisation brings significant welfare gains to developing and developed countries, and in some cases greater gains to developing countries. These results underscore the importance to all countries of making substantive commitments under the DDA. The OECD also produced a CD-ROM, "Tariffs and Trade", which enables the user to simulate the impact on trade following changes in tariffs in the 30 OECD countries and 12 others.



(Left to right)
 Korea's Minister for Trade,
 Doo-yun Hwang; Sweden's Minister
 for Industry and Trade, Leif Pagrotsky;
 and India's Minister of Commerce
 and Industry, Shri Arun Jaitley, at the
 OECD annual ministerial meeting.

Doha Development Agenda (DDA)

www.oecd.org/ech/tradepolicy/multilateral
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Developing countries have expressed the will to be increasingly active in the multilateral trading system, and the OECD is helping them become better prepared to participate in World Trade Organization (WTO) negotiations.

In 2003, work to support the Doha Development Agenda covered topics including trade and investment; tariffs; trade capacity building and private sector development; trade and competition; regulatory issues, market access and agriculture.

An international conference was held in Senegal on trade and investment to help African countries make the most of globalisation. A meeting was held in Kenya on tariff liberalisation and the relationship between trade in goods and the service sector.

A workshop in Phnom Penh on trade capacity building and private sector development offered an opportunity to share experiences in strengthening the ability of Asian governments and enterprises to integrate into the world economy.

An international meeting was held with OECD members and non-members on regulatory issues in the Doha Development Agenda. The OECD also continued to explore issues related to a possible multilateral framework on competition, including through a Joint Global Forum on Trade and Competition in May. Another Global Forum looked at the market access dimension of the Doha Development Agenda and discussed ways of mobilising domestic support for liberalisation. An OECD CD-ROM tool kit for trade policymakers was produced to disseminate the proceedings of this meeting and other relevant OECD analysis ahead of the WTO ministerial meeting in Cancún.

The OECD continued to support the Joint OECD/WTO Trade Capacity Building Database created in 2002. In September 2003, the OECD presented the Second Joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building (TRTA/CB) at the WTO ministerial meeting in Cancún.

Work on agriculture focused on clarifying the links between trade liberalisation, economic growth and poverty reduction in developing countries. Ongoing analysis of the impact of more open markets on developing countries promises to yield important insights on appropriate policies to facilitate adjustment to the opportunities and challenges of more liberal trade. These efforts have intensified since Cancún.

The OECD will continue to examine the development dimension of trade liberalisation. Market access, including between developing countries, will continue to be important, along with agriculture, analysis of the adjustment costs associated with trade liberalisation, work on sectors of interest to developing countries, such as textiles and clothing, and the four issues – investment, competition, trade facilitation and transparency in government procurement – known as the “Singapore issues”.



DID YOU KNOW...
that commitments to trade-related technical assistance and capacity building, one of the indicators to monitor the Millenium Development Goals, were equivalent to 4.8% of total aid commitments in 2001-2002, on a par with aid to population programmes, and more than the shares going to basic education or basic health?

Trade in services

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Services are the single largest sector in many economies, representing the bulk of employment and providing vital input for the production of goods and other services. In 2003, the OECD explored the opportunities and potential gains for developing countries of enhanced services trade

Export credits

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Governments provide official export credits to assist national exporters competing for overseas sales. OECD work on export credits builds international consensus on rules and guidelines that will eliminate trade distortions, reduce the potential for subsidies and encourage competition based on quality and price of goods and services rather than on the most favourable officially supported terms.

In 2003, this work focused on reviewing the Arrangement on Guidelines for Officially Supported Export Credits to make it clearer and more user-friendly against the background of developments in the World Trade Organization (WTO), and on strengthening the common approaches for evaluating the environmental impact of projects supported by export credits.

The review of the Arrangement was completed in 2003 for implementation at the beginning of 2004. The revised text provides for clearer disciplines and makes the Arrangement more transparent to non-participants, notably through offering access to information relating to export credit transactions.

OECD members also agreed in 2003 to strengthen the Common Approaches on Environment and Officially Supported Export Credits which most OECD countries had applied on a voluntary basis since the beginning of 2002. Negotiations to convert the voluntary Common Approaches into an OECD Recommendation on evaluating the environmental impact of projects supported by OECD member countries through their export credit agencies were completed in November 2003. The OECD Council adopted the Recommendation in December, for implementation at the beginning of 2004. The OECD will monitor implementation of the Common Approaches on an annual basis and review them again before the end of 2006.

This is a significant agreement for the OECD to ensure that projects supported by export credit agencies meet established environmental standards; it is also an important contribution to good governance and sustainable development.

DID YOU KNOW...
that between 1990 and 2001,
over 80% of officially supported
export credits went to developing
countries and countries
in transition?

and examined key issues for liberalisation of the temporary movement of service suppliers across borders (see box page 59). Future work will include taking a closer look at public services and the General Agreement on Trade in Services (GATS).

Trade facilitation

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Predictable and transparent border procedures are an important element for supporting international trade in developed and developing countries. The OECD contributes to trade facilitation – simplifying and harmonising procedures for the international movement of goods – by clarifying the core issues involved and evaluating the costs and benefits of trade facilitation. The resulting analysis underpins ongoing discussions on a WTO undertaking in the area of trade facilitation.

Regional trade

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Regional trade agreements (RTAs) account for almost half of world trade and are expected to grow further in the next few years. These agreements operate alongside global multilateral agreements under the WTO and can have both positive and negative effects. In 2003, the OECD completed a major study on *Regionalism and the Multilateral Trading System*, which explores the relationship between the multilateral trading system and regional trade agreements in 10 sectors, ranging from services and labour mobility to environment and rules of origin. The study finds that such agreements can complement, but cannot substitute for, coherent multilateral rules and progressive multilateral liberalisation. These findings underline the importance of pursuing multilateral negotiations under the Doha Development Agenda.

Export credits

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Governments provide officially supported export credits to assist national exporters competing for overseas sales. In 2003, the OECD reviewed the existing rules of the Export Credit Arrangement to make them clearer and more user-friendly and also the voluntary agreement on Common Approaches to Export Credits and the Environment with a view to enhancing them (see box page 57).

International investment

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The OECD promotes co-operation among its members concerning international investment and other capital movements. It helps to improve the foreign investment climate, encourage the positive contribution which multinational enterprises can make to economic and social progress and minimise and resolve difficulties which might arise from their operations.

In April 2003, OECD ministers supported a Japanese proposal for more work on ways to promote investment in developing countries, as part of a broader international effort to promote sustainable economic growth and lift millions of people out of poverty within the context of the Millennium

Development Goals. As a result, in October 2003 the OECD launched an Initiative on Investment for Development. The Initiative is to engage member and non-member governments, with their stakeholders, in a robust policy dialogue on several fronts: drawing lessons on the use of overseas development assistance (ODA) in support of countries' efforts to mobilise investment for development; sharing the OECD's experience with investment policy peer reviews as capacity-building mechanisms; and developing

Trade in services

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Trade in services is a key element of the ongoing negotiations in the World Trade Organization (WTO). The OECD supports the negotiations with analytical work and practical tools for trade negotiators.

In 2003 the OECD produced a major study on the opportunities and gains for developing countries in services trade liberalisation. *Quantifying the Benefits of Liberalising Trade in Services* identified company-specific examples of developing country services exports in a range of sectors, and presented the latest economic research quantifying the costs of protection and the potential gains from liberalisation.

Extensive work on the temporary movement of service suppliers across borders ("Mode 4" of the General Agreement on Trade in Services, GATS) included a study on the recognition of professional qualifications, and an informal seminar on trade and migration. The seminar, organised jointly with the World Bank and the International Organisation for Migration, brought together trade and migration specialists to consider what progress might be feasible in the current GATS negotiations.

The OECD has also developed practical tools to help WTO members, particularly developing countries, to manage the complex GATS negotiations. It developed in co-operation with the UN Conference on Trade and Development (UNCTAD) checklists for negotiations in insurance and energy services, outlining a range of possible issues to be taken into account in framing requests and offers. Similar checklists for legal, construction and environmental services are planned in 2004.

The OECD also contributed to a World Health Organization (WHO) handbook on trade in health services for developing countries. It carried out a joint survey with UNCTAD exploring the practices of a range of developed and developing countries in preparing for the GATS negotiations, both in terms of intra-governmental co-ordination and consultation with national stakeholders, and identified some useful approaches to managing this process.

Major projects for 2004 include a study on public services and the GATS, and how governments have regulated to achieve public policy objectives in certain liberalised sectors, as well as a meeting of services experts to discuss issues on the GATS agenda.



DID YOU KNOW...
 that, while developed countries dominate services trade overall, developing countries are particularly successful in certain sectors, such as port and shipping services, audiovisual services, construction services and health services?

an operational and evolving guide on good practices for improving the investment environment.

The OECD also supports the growing international consensus that transparency is a key requirement for benefiting from FDI. A report on Public Sector Transparency and the International Investor, published in 2003, makes the case that transparency is good for societies at large as well as for international investors. It also looks at the broader governance requirements for making public sector transparency a reality and proposes possible contributions in this area by the OECD investment community. This report is complemented by a “Framework for Investment Policy Transparency” which poses 15 questions for governments to facilitate self-evaluations and reporting of policy developments and to support peer reviews and multi-stakeholder dialogue.

How transparent public governance can help countries to attract and benefit from foreign investment was the central theme of the third Conference of the Global Forum on International Investment in November 2003 in Johannesburg, organised jointly by the OECD and the South African government.

The OECD also published a Checklist for Foreign Direct Investment Incentive Policies in September 2003. It proposes 20 questions, with background commentaries, which governments are invited to ask themselves before deciding on tax, financial and regulatory incentives directed at FDI projects. Careful use of the Checklist can help minimise any potential harmful effects of incentives aimed at attracting FDI.

The OECD published an investment policy review on *China: Progress and Reform Challenges in 2003*. The report describes progress to date in creating an enabling environment for FDI and suggests policy options for further improvement. This could include further work on an efficient and neutral legal system, transparent laws and regulations, streamlined investment approval procedures, more effective protection of intellectual property rights, good corporate governance, effective competition policy and a sound financial system.

A conference in Istanbul in February looked at ways to mobilise FDI for development in the Middle East and North Africa.

The OECD and the International Monetary Fund (IMF) published a book on *Foreign Direct Investment Statistics: How countries measure FDI*, documenting efforts at making data more reliable and comparable and identifying areas where further progress is called for.

FDI was also the subject of a special focus in the mid-year *OECD Economic Outlook*, which argued that over-regulated labour and product markets can be as strong a disincentive to inward investment as formal foreign ownership restrictions. ■



Foreign direct investment (FDI) has cooled dramatically but developing countries and transition economies have been less affected by the decline and now receive more than a third of worldwide FDI flows, underscoring FDI's potential to act as a catalyst for growth and sustainable development.

Agriculture and fisheries

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The OECD provides analysis and information on the effects of agricultural trade liberalisation to help member governments when deciding policy. This work covers three broad areas: the effects of specific trade policy instruments and agreements, with particular emphasis on World Trade Organization (WTO) commitments; the potential effects of future trade liberalisation; and identifying efficient policies to address domestic goals without distorting production and trade.

Trade-related policy issues

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OECD analysis of the Uruguay Round Agreement on Agriculture, the most recent multilateral liberalisation agreement, indicates that it has so far had a modest positive effect on global markets and trade. Ongoing work is looking at agricultural market access issues, including those related to tariffs, tariff rate quotas and preferential agreements (*see box page 63*).

Overall, the use of export subsidies has declined considerably from earlier high levels, though they are still important for some commodities and some countries. Officially supported export credit programmes remain significant for some countries and products, although the subsidy element of the credit amounts is generally less than 5%. The OECD has now begun analysing other export competition measures, including certain aspects of food aid and state trading enterprises, to determine their relative significance in agricultural trade.

The 2003 edition of the *OECD Agricultural Outlook* looks at prospects for world agricultural markets in the medium term (up to 2008), including the influence of government policy on farmers' decisions, and the impact of an enlarged European Union and the US Farm Act, as well as production and price prospects for key agricultural commodities. The OECD is also analysing the reform of the EU Common Agricultural Policy adopted in May 2003.

The OECD publishes annual statistics measuring government support to agriculture in member economies. The methods of measurement are refined as policy evolves, most recently to take account of direct payment programmes, which countries are increasingly using to replace less effective and highly distorting price support mechanisms. However, measuring the level of support is only the first step. The OECD uses these indicators to develop analytical tools that can estimate the impact of policies on production, trade and incomes, and it is the resulting policy-related advice that is of most value to governments.

The OECD is also working on decoupling agricultural support – reforming agricultural policies so that they reduce their interference with decisions on production. This work relates to the domestic support discipline included in the Uruguay Round Agreement on Agriculture and is a key aspect of ongoing negotiations on agriculture in the WTO. Work in 2003 looked particularly at



(Left to right)

France's Minister of Agriculture, Food, Fisheries and Rural Development, Hervé Gaymard, and New Zealand's Minister of Agriculture and Trade Negotiations, Jim Sutton, at an OECD Forum 2003 panel on Agricultural Policy Reform.

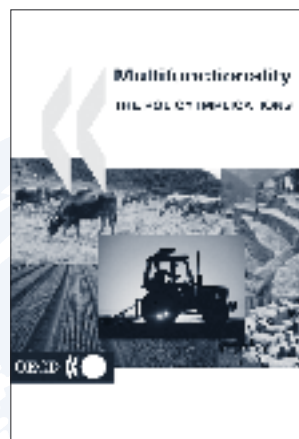
the ways in which even seemingly decoupled measures might impact on trade through investment, wealth and risk effects.

Understanding multifunctionality

Multifunctionality reflects the idea that agriculture is not just about producing food and fibre, but also produces a range of less tangible items such as environmental and rural amenities or food security and contributes to rural viability.

The OECD has developed a framework for defining the concept and analysing the key questions involved and in 2003 offered policymakers a guide to help them make the best possible decisions taking account of the multifunctional character of agriculture. *Multifunctionality: The Policy Implications* provides policymakers and analysts with a series of detailed questions to help determine whether government intervention is required and, if so, of what nature. The study emphasises that the international consequences of domestic policy choices should be included in the overall reckoning of costs and benefits of specific actions.

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Agriculture and environment

The main issues for OECD work on agriculture and the environment are the environmental impacts of reform and trade liberalisation and the trade impacts of agri-environmental policies. There is a constant search for policies targeting environmental objectives that are compatible with multilateral trade and environmental agreements (see *Sustainable development chapter, page 46*).

www.oecd.org/agr/env
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Global impact of liberalisation

OECD agricultural support policies also affect non-OECD countries. The OECD is examining the implications for agriculture in both developed and developing countries of widespread policy reform and liberalisation. The aim is to quantify potential employment and real income changes for different categories of representative households particularly in terms of structural adjustment and poverty alleviation. This analysis should make it easier to understand the issues that need to be resolved for the current Doha Development Agenda talks in the WTO to be beneficial for all.

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Work on agricultural policies in non-member economies continues to evolve in both the range of country coverage and breadth of issues addressed. Policy analysis and dialogue is intensifying, for example, with Brazil, China, India and South Africa, among others (see *Outreach chapter, page 83*). A feasibility study is under way with the Sahel and West Africa Club on assessing the impacts of agriculture and trade policies in West Africa. Agriculture is also a key sector for review under the Policy Coherence for Development initiative (see *Development chapter, page 77*).

Co-operation with other intergovernmental organisations interested in agricultural trade issues, including the World Bank, the WTO and the

Market access

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Access to export markets for their agricultural goods is crucial to further growth and prosperity for both OECD and non-OECD countries, and is a key element of the Doha Development Agenda negotiations in the World Trade Organization (WTO). Many studies show clearly that more open trade generates income, while trade restrictions reduce it.

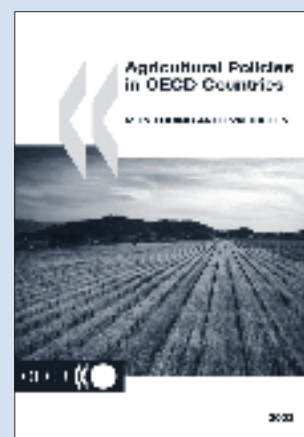
Tariff reductions agreed in the Uruguay Round Agreement on Agriculture (URAA) should have resulted in a lower level of protection. However, OECD research has shown that, in practice, agricultural tariffs remain high and vary over a wide range while some tariffs escalate with the level of processing. When such tariffs are imposed by developed countries they hamper developing country prospects for diversification away from exports of primary products to higher value-added processed goods.

Improved agricultural market access is particularly important for raising prospects for development and therefore poverty reduction in less developed economies because of their reliance on agricultural production. However, market access is not only an issue between developed and developing countries (North-South trade). Developing countries themselves often impose high tariffs, and therefore have much to gain from increased access to each other's markets (South-South trade) (www.oecd.org/agr/ete).

Lack of investment can also hamper development. The OECD will begin work in 2004 looking at how measures such as liberalisation of tariffs and non-tariff measures can help boost investment in the agriculture and food sector.

The OECD is also beginning to analyse the effects of Preferential Trade Arrangements (PTAs) which give participants an advantage in market access relative to those excluded from the agreement. Research will focus on calculating preference levels, related trade flows, and how associated benefits may erode in the context of multilateral trade liberalisation. In addition, fact-finding work has begun on how agriculture is treated within Regional Trade Agreements compared with the multilateral trading system.

OECD research shows that much deeper cuts in tariffs all round, and/or larger increases in the volume of agricultural goods admitted at lower tariffs, would be needed to improve market access, and hence trade flows, significantly.



This annual publication provides the most comprehensive description and assessment of agricultural and related policy developments in OECD countries.

Food and Agriculture Organization (FAO), ensures that their expertise in developing countries effectively complements the OECD's experience of formulating and analysing policy.

Fisheries

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The OECD provides a forum where member countries can deal with the challenges faced by policymakers and the fishing industry in preserving this natural renewable resource (see box on Sustainable fisheries, page 47).

As part of its support for WTO negotiations, the OECD began work in 2003 on detailed analysis of the links between fisheries subsidies and sustainable development as well as foreign investment and trade in services in the fisheries sector. The 2003 edition of the *Review of Fisheries in OECD Countries* provides statistics on fisheries, fishing fleets and subsidies, as well as major developments affecting fisheries in OECD countries, such as changes in government policy.

Also in 2003 a major report entitled *Liberalising Fisheries Markets: Scope and Effects*, providing an in-depth analysis of the prospects for and potential effects of further market liberalisation in OECD countries, was published. A key outcome of this study is that the full benefits of market liberalisation will only be achieved, without compromising fisheries sustainability, if proper fisheries regimes are in place. ■



Taxation

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How can international tax arrangements be adapted to a global environment and new business models? How should enterprises that operate in different countries be taxed? How can tax authorities provide a better service to taxpayers and ensure that the tax burden is fairly shared? What types of tax reforms are best suited to promote sustainable growth and development? The OECD is helping policymakers answer such questions and shape the tax systems of the 21st century. Its work on taxation covers a broad range of activities, including tax policy and administration, consumption and income taxes and international and domestic tax issues.

Tax treaties

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Cross-border trade and investment would be seriously impeded if trade and investment flows were taxed twice, once in the source country and again in the country of residence. The OECD Model Tax Convention and the worldwide network of tax treaties based on it help to avoid the danger of double taxation by providing clear, consensual rules for taxing income and capital.

The Convention requires constant review to keep up with a changing business environment. The OECD began work in 2003 on issues for the next update, due in 2005, which will include new provisions dealing with the taxation of profits from international shipping and air transport; tax issues arising from cross-border payments of pensions; the definition of permanent establishment in tax treaties; tax treatment of employee stock options (*see box page 67*); and an update of the article which enables treaty partners to exchange information to ensure proper application of their treaties and to verify compliance with their domestic tax laws.

The transfer of goods or services within multinational enterprises now accounts for almost two thirds of world trade. The price for these goods or services may diverge from market prices for a number of reasons, including tax planning. The “arm’s length principle”, which is embedded in the 1995 OECD Transfer Pricing Guidelines, seeks to ensure that transfer pricing within a multinational group is in line with pricing between independent firms, so that the tax base is divided fairly between the countries in which the enterprise operates. Work is currently focused on applying this principle to financial transactions and electronic commerce, and reviewing profit-based methods of applying the arm’s length principle.

Work also began in 2003 on ways to improve the resolution of disputes between tax authorities and taxpayers and firm proposals are expected in 2005.

Many jurisdictions outside the OECD take part in this international standard-setting work. Twenty-four non-OECD economies have, for example, stated positions on the OECD Model Tax Convention on Income and Capital.



Combating harmful tax practices

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The more competitive environment of the past two decades has had many positive effects on tax systems including forcing governments to provide a fiscal environment conducive to attracting inward investment. However, some tax practices are anti-competitive and undermine public confidence in the fairness of the tax system. Also, today's borderless financial system offers increased opportunities for tax evasion. The OECD is working to counter these adverse effects of globalisation by encouraging greater international co-operation.

Since 1998, the OECD has co-ordinated action so that all countries can work together to eliminate harmful tax practices. The OECD is working with more than 30 non-OECD economies on implementing international standards of transparency as well as exchange of information between tax authorities. Two more jurisdictions, Nauru and Vanuatu, joined this effort in 2003, reducing the number of countries on the OECD's list of non-cooperative tax havens to five: Andorra, Liberia, Liechtenstein, the Marshall Islands and Monaco.



Prime Minister of Vanuatu, Edward Natapei, visits OECD in May when the country joined the effort to eliminate harmful tax practices.

Improving access to bank information for tax purposes

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Bank secrecy is widely recognised as playing a legitimate role in protecting the confidentiality of financial affairs but strict bank secrecy towards tax authorities impedes the effective administration of tax laws and effective exchange of information with tax treaty partners and may encourage tax evasion.

In 2000, the OECD published a report, *Improving Access to Bank Information for Tax Purposes* (the 2000 Bank Report) which sets out an ideal: that all member countries should permit access to bank information, directly and indirectly, for all tax purposes.

The report also identified a number of measures that member countries were encouraged to take to achieve that ideal. Member countries have made substantial progress in implementing those measures, as reflected in the progress report approved by the Committee on Fiscal Affairs on 1 July 2003, *Improving Access to Bank Information for Tax Purposes: the 2003 Progress Report* (available at www.oecd.org/taxation).

The 2003 Progress Report describes improvements made in access to bank information for tax purposes in member countries and also non-OECD economies since 2000, and identifies areas where progress still needs to be made to achieve the ideal.



Taxing e-commerce

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Taxation is a key aspect of electronic commerce developments. Tax policymakers and administrators cannot afford to take their eye off the ball as the extent and nature of electronic commerce continues to change and grow.

The OECD's work in this area builds on the Ottawa Taxation Framework Conditions agreed by 30 OECD and non-OECD countries and business in 1998. The 2003 report on *Taxation and Electronic Commerce: Implementing the Ottawa Taxation Framework Conditions* provides an overview of work to date, particularly on consumption taxes such as value-added tax, and highlights areas for further work.



Taxing employee stock options

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Employees' stock options can represent a significant proportion of the pay package of senior management. How is this important form of remuneration taxed? Are stock options paid to an employee working overseas taxable, and if so where – in the country where the employee is located, or in his/her country of residence?

Taxation of stock options varies widely between countries, and indeed in many cases within countries between different kinds of schemes. OECD work in 2003 looked at the implications of these schemes for both domestic and international taxation.

Work on domestic tax issues focused on two questions: how are employee stock options taxed at personal and corporate level? And what type of taxation would ensure that stock options were not taxed more or less than regular salary income? (Governments need to know this as a basis to work from, even if they decide they want stock options to be taxed more or less heavily.)

The OECD also looked at the international implications of stock options when an employee is not working in his/her country of residence. This raises several potential problems: both countries may tax the stock options, but at different times, or they may disagree on whether stock options should be classified as capital gains or employment income, for example.

Stock options can also become an issue within multinational enterprises, for example when a parent company issues stock options for employees of its foreign affiliates. Should these be charged by the issuing company to the employer, and if so, how should the charge be calculated?

Promoting a global tax dialogue

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The OECD works with non-member countries to eliminate tax distortions to international investment and service flows. This programme is implemented through the OECD Global Forum on Taxation, as well as regional and country programmes. A Global Forum meeting in Paris in September 2003 brought together representatives of 80 countries to discuss international taxation arrangements.

The OECD is also a partner in the International Tax Dialogue, a joint initiative with the International Monetary Fund and the World Bank, which is seen as a response to the call in Monterrey to improve the international dialogue on taxation. The ITDweb system (www.itdweb.org) enables countries to share information on important tax developments.

Helping tax authorities do more with less

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Passing appropriate tax laws is only half of the story. Making sure they are administered effectively so that people pay what they owe is an even more formidable task. OECD work in this area focuses on co-ordinating efforts by member countries to share approaches to compliance and to prepare materials on good practices in the area of taxpayer services. Effective tax administration is a key to good compliance and in turn requires finding a balance between taxpayer service and enforcement. ■

— Governance

Public governance

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Good, effective public governance plays a crucial role in countries' economic, social and environmental performance. It is a key factor in deterring corruption and improving the quality of democracy, as well as strengthening confidence in government and public administration.

OECD work on public governance focuses on helping members achieve effective and efficient government and on creating favourable conditions for the development of competitive markets. Through its extensive outreach programme, the OECD also shares experience and knowledge on public governance with other countries throughout the world.

Modernising the public sector

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Most OECD countries have reformed their public sectors in the past 20 years, and many non-members have also launched reforms. But governments are constantly under pressure for more profound changes to meet the requirements of contemporary society. Efficiency, originally the primary concern of reform, is being supplanted by other issues such as governance, strategy, risk management, the ability to adapt to change, and the need to understand and measure the social impact of policies.

The OECD in 2003 began a two-year programme looking at long-term trends in public sector modernisation and how governments are trying to change behaviour in public administration. Work during the first year focused on modernising public employment, governing for performance and changing organisational structures. In 2004, the OECD will analyse other key measures such as market-type mechanisms, the changing role of the centre, accountability and control, and open government. A final report will be prepared in late 2004.



French Prime Minister, Jean-Pierre Raffarin with OECD Secretary-General Donald Johnston at the International Conference on Territorial Development, held in January.

Public sector reform and changing work patterns are also having a major impact on human resources management (HRM) in the public sector. To help countries address these issues, the OECD collects data on HRM systems including governance of the civil service, performance management, pay determination, industrial relations and knowledge management practices.

E-government

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E-government is an increasingly important tool for modernising government. The OECD has demonstrated that it is not simply a question of computerising government operations, but rather using information and communications

Managing conflict of interest

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Dealing with conflict of interest between the individual private interests of public officials working in public administration and their public duties has been an issue for governments for many years. A planning official may also be a leading light of the local sports club, or the head of the education department may be married to the headmaster of a local school. But new forms of conflict of interest have arisen in recent years as the public sector has become increasingly commercialised and started to work more closely with the business and non-profit sectors. When conflict of interest situations are not properly identified and managed, they can seriously endanger the integrity of organisations and lead to corruption.

The OECD in 2003 developed Guidelines for Managing Conflict of Interest in the Public Service to help governments and public institutions in setting principles and benchmarks in this crucial area of public governance. These were approved as an OECD Recommendation to governments in June 2003.

The Guidelines define conflict of interest for a public official and offer standards for resolving conflicts and preventing them from occurring. But it is a delicate balance for governments to achieve. A too-strict approach to controlling the exercise of private interests may be unworkable in practice, or may deter qualified people from seeking public office, while lack of a policy may result in corruption. A modern conflict-of-interest policy should identify risks to the integrity of public organisations and public officials, prohibit unacceptable forms of conflict and suggest ways to resolve conflict of interest situations.

The Guidelines were designed to help central government organisations review existing solutions and modernise mechanisms in line with good practices in OECD countries. They can also provide general guidance for other branches of government, sub-national level government, and state-owned corporations.

The OECD is now developing a “toolkit” of practical measures to help managers and institutions put a conflict-of-interest policy into practice. It will also produce a progress report on implementation of the Guidelines in 2006.



This report highlights trends, approaches and models across OECD countries, and presents examples of recent innovative solutions.

technology (ICT) as a catalyst for reform. In 2003, the OECD released its first study on e-government, entitled *The e-Government Imperative*, which provides an analytical framework for assessing e-government in OECD countries. The OECD is now looking at how governments can use ICT to deliver “seamless” services, where citizens can interact with government without having to understand administrative structures. This entails re-thinking government processes, organising them to provide an integrated service and creating incentives for change. The OECD also produced a review of e-government in Finland. This pilot project was so successful that a growing number of other countries have asked for similar reviews in 2004 and 2005.

DID YOU KNOW...

that around 4% of business GDP is spent on “red tape” but that only a handful of OECD countries measure these costs systematically?

Rethinking budgets

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The budget is the place where countries prioritise, reconcile and implement their policy objectives in concrete terms. The OECD is an expert in the field of public sector budgeting and helps member countries review and reform their institutions and systems to ensure effective and efficient allocation of resources.

Work in 2003 centered on a major survey of budget practices and procedures in more than 60 countries, including all 30 OECD countries. The survey, partly funded by the World Bank’s Governance Knowledge Sharing Programme, is in the form of a questionnaire to be filled out by participating governments and covers some 300 aspects of the formulation, approval, implementation and audit phases of the budget process.

This data collection is unique, as for the most part it did not previously exist, and provides comprehensive budget data. The results are publicly available in the OECD Budgeting Database. By early 2004, some 45 countries had completed the survey and the rest were expected to do so by the end of the year. The database is a unique, fundamental resource that forms the basis for the OECD’s analytical work. It is also an essential tool that will enable government practitioners, parliaments, academics, international organisations and non-government organisations to compare and contrast national practices, and to develop informed analysis and quantitative measures.

The database will also lead to a better understanding of budget practices and help develop common practices or standards.

The OECD intends to maintain the data by updating the database every two years. Since the 2003 questionnaire was the first of its kind, a number of possible improvements were identified during the survey and it will be revised before the next update. After that, the questions will remain the same over time to ensure comparability.



Public budgeting

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The budget is not only a vital strategic tool for implementing government policy; it also provides the framework through which the legislature ensures democratic oversight and accountability.

The OECD in 2003 established a new database making it possible to compare budget practices in different countries (*see box page 71*). Through its network of senior budget officials in member countries and beyond, the OECD has also launched comparative studies of budget reallocation, national budget laws and accountability and control. In 2003, it reviewed the budgeting systems of the US and of non-members Brazil and Chile.

In response to demand from non-member countries, regional networks of senior budget officials are being created. The Asian and Latin American networks are already in place, and additional networks are planned for Africa and for Central and Eastern Europe.



Regulatory reform

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The quality of the regulations put in place by government has a powerful effect on private initiative, employment creation and growth. In 2003, the OECD completed country reviews on regulatory reform for Norway, Finland, France and Germany, bringing to 20 the number of countries covered since the series began in 1997. The most recent reviews explored regulatory arrangements for specific sectors, evaluation of regulatory tools, and the delivery of public services. The OECD also began work on the first review of a non-member country, Russia. In 2004, Sweden and Switzerland will be reviewed. The OECD will also take stock of what has been learned from the reviews carried out so far, and if necessary revise its guidelines and recommendations on regulatory reform.

Territorial development

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Regions face their own problems in adjusting to a rapidly-changing world and some cope better than others. Some cities respond by going “global”, while others stagnate and struggle to restructure their economies. The same is true in rural areas, where some regions are diversifying into new activities, attracting new investment and new residents, while others appear locked in a cycle of depopulation and decline.

The OECD offers an international forum for discussion and exchange of experience in regional policy and related policy areas. In 2003, it co-organised with the Swiss government its first informal meeting at ministerial level to assess the current state of government policy.

The OECD also completed a review of territorial policy in the Czech Republic in 2003 and began work on a national review of Japan. Work has begun on drawing general policy conclusions from the series of national and regional reviews completed so far. ■

Private sector governance

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A large part of the wealth generated in OECD economies is the result of the activity of corporations. So the integrity of businesses and markets is central to economic health and stability – and that requires a legal, regulatory and institutional environment in which companies can be created and function properly.

Key areas of work related to corporate governance and market efficiency in 2003 included a review of the OECD Principles of Corporate Governance (see box page 74), as well as work on cartels and monitoring the behaviour of multinational enterprises.

Enhancing corporate governance

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The OECD works with governments to ensure that the institutions and policies that guide corporations – the corporate governance system – enhance the development of a robust corporate sector with credible corporate governance arrangements.

The OECD works with both member and non-member countries to enhance corporate governance and corporate responsibility. The OECD and the World Bank Group have teamed up with regional partners to establish Roundtables on Corporate Governance in Asia, Eurasia, Latin America, Russia and South Eastern Europe. Using the OECD Principles of Corporate Governance as a basis for dialogue, each Roundtable has worked toward a set of regional recommendations to improve corporate governance, issued as a regional “White Paper”. The White Paper for Asia, presented in Tokyo in June 2003, recommended full convergence with international accounting and auditing standards, as well as stronger enforcement of existing laws and regulations.

The White Paper for South Eastern Europe, also issued in June, called for increased protection for minority shareholders and an expanded role for boards of directors, as well as a continued shift towards international standards of accounting, auditing and transparency. Russia’s Roundtable in 2003 became the first to embark on the second phase focusing on implementing and enforcing policy recommendations, following publication of the Russian White Paper in 2002.

The White Paper for Latin America, released in November 2003, set out key priorities for action that included taking voting rights seriously and ensuring the integrity of financial reporting.

Work to develop a set of non-binding OECD guidelines for corporate governance of state-owned assets was launched in 2003, to be completed by early 2005.

The OECD Guidelines for Multinational Enterprises

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The OECD Guidelines for Multinational Enterprises are recommendations by member governments for the conduct worldwide of multinationals in such areas as labour, environment, consumer protection and the fight against corruption. They are not binding for companies, but governments are committed to promoting their observance. All 30 OECD members adhere



OECD Secretary-General Donald Johnston and president of the French employers’ association, Medef, Ernest-Antoine Seillière at a BIAC-Medef roundtable held on 8 December on the theme “Frameworks for Growth: Promoting a Competitive Business Environment”.

Corporate governance principles

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Good corporate governance – the rules and practices that govern the relationship between the managers and shareholders of corporations, as well as stakeholders like employees and creditors – is a prerequisite for the integrity, credibility and performance of market institutions.

Recent dramatic events have focused the minds of governments, regulators, companies, investors and the general public on the weaknesses in corporate governance systems and the associated threat posed to financial markets. The response is ongoing and has included creating new institutions, for example, to oversee the accounting and audit profession, passing new laws to strengthen internal controls, and establishing new standards.

To support these efforts, the OECD Principles of Corporate Governance provide specific guidance for policymakers, regulators and market participants. The Financial Stability Forum has named them as one of the Twelve Key Standards for Sound Financial Systems, and they underpin the corporate governance component of the World Bank/IMF Reports on Standards and Codes (ROSC).

Responding to a request by OECD ministers for a survey of developments and assessment of the Principles, the OECD worked intensively in 2003 to ensure that the revised Principles maintain their relevance as a global benchmark. The review included extensive consultations with representatives of unions, employers, institutional investors, professional bodies, intergovernmental organisations and non-member countries. More than 100 individuals and organisations also commented via an Internet public consultation.

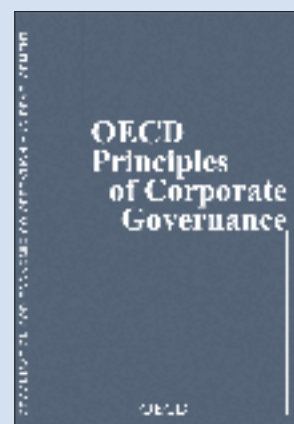
As part of the review process, the OECD issued two reports in 2003 bringing together the experience of member and non-member countries.

The “Survey of Corporate Governance Developments in OECD Countries” examines the issues at the forefront of the corporate governance debate and discusses how OECD countries have responded. It offers a rich variety of experiences that other countries may wish to draw upon.

The second report, “Experiences from the Regional Corporate Governance Roundtables”, highlights the challenges and lessons learned from meetings that the OECD organises in co-operation with the World Bank Group and regional partners in Asia, Eurasia, Latin America, Russia and South Eastern Europe.

These reports confirm the usefulness of the OECD Principles, as well as highlighting the importance of a high quality legal and regulatory framework for implementing good corporate governance standards. The reports identify areas requiring further attention, including protection of minority shareholders, enhancing the role of institutional investors and improving company boards.

OECD ministers will consider the revised Principles of Corporate Governance at their annual meeting in 2004.



DID YOU KNOW...
that the OECD Principles of Corporate Governance have formed the basis for country codes around the world, including for China?

Fighting bribery in international business transactions

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The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions makes it a crime to bribe a foreign public official in order to obtain or retain international business. All 30 OECD countries and five non-member countries (Argentina, Brazil, Bulgaria, Chile and Slovenia) have ratified the Convention and the Organisation ensures its enforcement.

The OECD monitors compliance with the Convention by assessing the foreign bribery laws countries introduce and by evaluating the efforts countries are making to apply this legislation in practice. Since this review process began, the OECD has examined the laws of 34 of the 35 countries and the remaining country will be examined in 2004. National laws have been found generally to conform to the Convention.

The OECD decided in 2003 to reinforce the second phase of review, focused on whether countries are actually using the laws, in response to growing concern that countries were lagging in investigating and prosecuting cases of foreign bribery. Eight countries have already been reviewed in this second phase, including the US, Canada, Germany and France. The other G7 countries, Italy, Japan and the UK will be completed by the end of 2004. Evaluating the performance of the G7 countries is especially critical since they represent more than 50% of OECD foreign direct investment and account for 68% of OECD exports. Consequently enterprises from these countries doing business abroad are more exposed to risks, including legal liabilities and risk to their reputations, and their actions are more likely to be scrutinised for possible transgressions of anti-corruption laws. Reviews of the remaining 24 countries will be completed by 2007.

The reviews include on-site interviews with law enforcement officials, regulatory bodies, trade unions, businesses, and civil society representatives. The results are published as reports which provide a comprehensive, detailed analysis of a country's legal and institutional framework, and make recommendations for action which reflect uniform standards, but take account of each country's specificities. The reports and recommendations send a strong political message about the results the OECD expects members of the Convention to achieve.

The OECD also has an extensive programme of outreach with non-members in Asia Pacific, Eurasia, South Eastern Europe, Baltics, Russia and Latin America to disseminate information and share experiences in fighting corruption and in raising international anti-corruption standards.



President of the Anti-Corruption Commission of the International Chamber of Commerce (ICC) François Vincke presents the latest volume of "Fighting Corruption" to OECD Deputy Secretary-General Richard Hecklinger.

to the Guidelines, as well as eight other countries: Argentina, Brazil, Chile, Estonia, Israel, Latvia, Lithuania and Slovenia.

The Guidelines are widely accepted by business, trade unions and NGOs and have become one of the world's foremost corporate responsibility instruments. The communiqué issued at the 2003 G8 Summit cited the role of the Guidelines in supporting sustainable economic growth and creating an environment in which business can act responsibly. Other indicators of the Guidelines' growing visibility include the fact that they have been translated into at least 22 languages. A UN Expert Panel dealing with illegal exploitation of natural resources in the Democratic Republic of Congo has referred prominently to the OECD Guidelines, creating a link between UN and OECD procedures for promoting greater transparency and accountability.

Some 64 cases dealing with whether or not companies have observed the Guidelines have been raised with adhering governments to date. These include in 2003 activities in Caspian Sea oil development, supply chain management in the Ghana gold sector, and alleged use of child labour in sporting goods supply chains in India.

Work in 2003, including the *Annual Report* on implementation of the Guidelines, focused on the business sector's contribution to the fight against corruption. Work in 2004 will focus on the environmental section of the Guidelines.



Competition

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Competition policy and pro-competitive reforms are key to improving economic performance in OECD countries; witness the impressive performance in countries where competition-based reforms have been most thorough and have been in place the longest.

The OECD leads the international effort to combat cartels. Work entered a new phase in 2003 that may lead to a revision of the 1998 OECD Recommendation on Effective Enforcement against Hard Core Cartels. The revised Recommendation is expected to include best practices for exchange of information in cartel investigations.

Structural reform and market efficiency are at the heart of the OECD's competition work. Special chapters on competition have been included in the *Economic Surveys* of OECD member countries and thorough reviews of national competition policies and sector-specific regulation have been carried out for Norway, Germany and France. The lessons for competition will be drawn in 2004 from a six-year OECD programme on regulatory reform. This work has demonstrated the need to enhance the role of competition analysis in reform programmes, a topic which should be considered at the annual ministerial meeting in 2005.

Roundtable discussions in 2003 led to the identification of best practices in media mergers, merger remedies, and the provision of non-commercial services in regulated industries. Some exploratory work started on the scope of a new OECD Recommendation on merger control. Work also started on issues at the interface of competition and consumer policies.

New subjects for 2004 include competition and regulation in water supply, competition in agriculture and the health professions, intellectual property rights and innovation in biotechnology, market activities performed by public authorities, and predatory foreclosure. ■

DID YOU KNOW...
 that OECD economies
 that pursued pro-competition
 policies most vigorously created
 most jobs between
 the late 1970s
 and the late 1990s?

— Development of non-member economies

Development co-operation

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OECD donor countries account for more than 90% of total official development assistance (ODA) worldwide, amounting to USD 58 billion in 2002. Development co-operation work in 2003 focused on progress towards the poverty reduction targets outlined in the international Millennium Development Goals (MDGs), as well as ensuring that governments have coherent development policies that do not become hostage to differences in approach between ministries or departments (see box page 78).

The OECD's Development Assistance Committee (DAC) focuses on increasing aid flows and ensuring that this aid is used in the most effective manner to reduce poverty and achieve sustainable development in developing countries.

The OECD Development Centre carries out comparative analysis on development issues and promotes informal policy dialogue with emerging and developing countries.

Poverty reduction

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Many OECD countries have pledged to increase their level of aid, and its effectiveness, to meet the Millennium Development Goals for development progress, particularly in the fight against poverty, poor health and lack of educational opportunity.



Norway's Minister for International Development, Hilde Frafjord Johnson, and Richard Manning, Chair of the OECD Development Assistance Committee at the DAC high-level meeting in April 2003.

Policy coherence for development

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Donor country policies in areas like agriculture, trade, investment and migration have a profound impact on developing countries, yet they often work at cross-purposes with development policies. The OECD initiative on policy coherence for development explores ways to avoid such conflicts and ensure that government policies are mutually supportive of development goals.

Policy coherence requires political leadership, institutional mechanisms and analytical capacity. Greater openness in acknowledging the importance of political factors in the decision-making process is important. Without the involvement of political leaders, policy change is difficult. But underlying the political dynamics is a complex set of issues requiring the objective analysis of facts and effective communication of results. At an OECD seminar on policy coherence in early 2004, parliamentarians stressed that institutions like the OECD should undertake such analysis without political interference. But they acknowledged that to achieve internationally-agreed development goals, politicians must look beyond potential short-term losses and demonstrate leadership for future gains.

Policy coherence is covered in the peer reviews of donor country policies carried out by the OECD's Development Assistance Committee. These reviews highlight the broader implications of enhancing policy coherence: trade, agriculture, tied aid, and labour market and immigration policies come up most frequently. A few OECD countries have taken measures to ensure that Cabinets and parliaments pay due attention to policy coherence for development. And some countries have strengthened the analytical capacity within their administrations. These institutional lessons and best practices are being synthesised to show the way forward for a wider group of countries.

Trade and agriculture policies are at the top of the coherence agenda in light of the Doha Development Round of multilateral trade negotiations. This means analysing the impact of OECD trade and agricultural support policies and changes in preferential arrangements on different groups of developing countries, as well as monitoring policy, especially on access to OECD markets. Given the high concentration of poor people dependent on agriculture in rural areas, attention is shifting to optimising developing countries' comparative advantage in the agriculture sector and diversifying their sources of employment.



DID YOU KNOW...
that on current trends the Millennium Development Goal for 2015 of all children attending primary school will not be met before mid-century in sub-Saharan Africa?

Trade capacity building

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Despite major efforts at reform and market-opening initiatives, many of the world's poorest countries have not been able to take advantage of global trading opportunities, and hence participate in the growth-inducing and poverty-reducing benefits of trade. Most donors and multilateral agencies have increased their trade capacity building activities since World Trade Organization (WTO) ministers in 2001 identified trade capacity building as critical to the development dimension of the multilateral trading system.

The OECD is helping to take forward the international initiatives on trade capacity building in several ways. It has jointly created with the WTO a Trade Capacity Building Database to assist the development and trade communities to share information, improve co-ordination and monitor the implementation of the capacity-building commitments made in 2001.

The Second Joint WTO/OECD Report on “Trade-Related Technical Assistance and Capacity Building”, presented at the WTO ministerial conference in Cancún, Mexico, in September 2003 said that nearly 8 000 capacity-building activities had been undertaken since 2001, and that pledges for trade-related technical assistance and capacity building were equivalent to 4.8% of total aid commitments. The OECD will now continue to work with the WTO to expand and improve the database.

The OECD can also help meet the need for more country-specific research and comparative analysis of the supply-side issues facing the least-developed and other low-income countries. A regional workshop in Cambodia in December, like a previous one in Kenya in 2002, organised by the Development Centre, helped identify “best practices” in implementing trade capacity building at field level. The next step for the OECD is to develop a framework for assessing the impact of trade capacity building, in collaboration with donors and multilateral agencies.

The Development Assistance Committee has also developed Guidelines on “Strengthening Trade Capacity for Development” which identify trade capacity building and outline ways that donor countries can help.



If DAC members meet the undertakings they made at the Conference on Financing for Development in Monterrey in March 2002, total aid should rise by 30% to about USD 75 billion by 2006. But studies suggest that fulfilling the MDGs by the target date of 2015 will require a 60-100% increase. OECD donor countries in the DAC thus still have a long way to go if aid is to reach that level, the annual *Development Co-operation Report* found.

To accelerate progress, the DAC is focusing on improving the effectiveness of donors' development co-operation programmes and on enhancing the relationship between growth and poverty reduction, through improving donor support to private sector development, agriculture and infrastructure, and associated areas such as ICTs and trade capacity building.

Aid effectiveness

Having to deal with different administrative procedures for aid from different donor countries is a burden for developing countries, especially the poorest. It takes up a significant proportion of their administrative capacity and weakens their ability for effective public management. To deal with this problem, the DAC drew up a series of papers on good practice in harmonising donor procedures for effective aid delivery which the donor community endorsed in 2003. In the year ahead the DAC, together with multilateral organisations such as the World Bank and the United Nations, will monitor how these principles are put into practice and will report on progress to a High-Level Forum to be held in Paris in early 2005.

Associated work looks at public procurement and capacity-building; public financial management; and managing for results. How the DAC's 2001 Recommendation on untying aid to the least developed countries is being implemented is also kept under review in this context.

Assessing aid efforts

The DAC carries out regular reviews of each member country's development co-operation system, as part of its work to help member countries improve their efforts in all areas of development assistance. DAC peer reviews in 2003 covered Luxembourg, Denmark, Finland, Ireland and Japan. Peer reviews of France, Italy, Norway, Austria and Australia are planned for 2004. All peer reviews now systematically include a chapter on policy coherence (see box page 78). The DAC also carries out Joint Country Reviews, involving scrutiny of several members' activities in the same country. One such review in Tanzania in 2003 looked at how the themes of partnership and local ownership were being given concrete form by the Tanzanians and their donor country partners, including through an independent monitoring process.

The OECD is also working with the United Nations Economic Commission for Africa (UNECA) to develop a system of mutual review of development effectiveness with the New Partnership for Africa's Development (NEPAD). This will promote mutual accountability among African nations and their OECD development partners. The mutual review would focus on economic, corporate and political governance developments in Africa,

DID YOU KNOW...

that in the 1990s, nearly half the children in South-central Asia and sub-Saharan Africa were underweight?

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This report includes an introductory chapter on the challenges the donor community faces in meeting the ambitious targets set in Monterrey in 2002.

and on aid volume, aid effectiveness, capacity development, technical co-operation and policy coherence within the donor community. An agreed review framework is being prepared and the first mutual review report is scheduled for 2005.

Preventing conflict

www.oecd.org/dac/conflict
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The OECD devoted much attention in 2003 to ensuring that conflict prevention is fully included in donor policies and programming. Government ministers and heads of development agencies in April approved a policy statement on aid and preventing terrorism, entitled "A Development Co-operation Lens on Terrorism Prevention: Key Entry Points for Action". This work fed into a DAC discussion in July on challenges to the donor community in relief, recovery and reconstruction in Iraq. Central themes included security and development; governance and democracy; the political economy of war and one-commodity economies; and how to deliver focused and co-ordinated aid. A joint DAC-UN seminar the same month discussed the role of women in conflict resolution. A joint meeting organised by the OECD's development experts and USAID in June 2003 discussed land and conflict issues (www.oecd.org/dev/land). All these issues are treated in a DAC Policy Statement and Good Practices Paper on Security System Reform to be submitted for approval by DAC ministers and agency heads in April 2004.

Combating corruption

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Countries emerging from conflict or characterised by weak government and political systems and high levels of corruption fall well behind in the progress needed to achieve the Millennium Development Goals and are difficult to assist effectively. In April 2003, the DAC hosted a forum for experts on governance and conflict prevention to find better ways of working in such countries. A Learning and Advisory Process, co-sponsored with the World Bank, has been established and will continue in 2004. The DAC also produced a "Synthesis of Lessons Learned from Donor Practices in Fighting Corruption" and in June 2004 will hold a forum on improving donor effectiveness in combating corruption.

OECD Development Centre

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The Development Centre promotes better understanding in the OECD of developing countries' economic and social problems and shares the knowledge, information and experience gained by OECD members in their development process.

It began work in 2003 on a new two-year work programme focused on enabling developing countries to participate in the world economy on the best possible terms and with the greatest positive impact on the well-being of their populations. It concentrates on three main areas: trade, competitiveness and adaptive capacity; finance for development; and social institutions and dialogue.

Mozambique President Joaquim Chissano came to Paris for the launch of the second edition of the *African Economic Outlook*, published annually in partnership with the African Development Bank. The Centre also published *The World Economy: Historical Statistics* by Angus Maddison. Less prominent generally, but equally important to policymakers, journalists, civil society groups and academics, were a number of Working Papers and a Policy Brief on “Corporate Governance in Developing, Emerging and Transition Economies”. The Centre’s *Public Opinion and the Fight against Poverty* analysed public support for development assistance in DAC member countries, revealing strong backing for, but disappointingly low levels of awareness of, development issues.

The Development Centre also acquired a new governance structure from the beginning of 2003, under a governing board made up of ambassadors of its member countries, and a director rather than a president as hitherto. This is part of moves to co-ordinate more closely the work of all the development-oriented bodies of the OECD.



Sahel and West Africa Club

www.oecd.org/sah

The Sahel and West Africa Club (SWAC) comprises 17 countries and covers 7.8 million square kilometres, 2.5 times the size of the European Union. It is home to an estimated 290 million people, almost equal to the population of the United States.

West Africa has been doubly jolted since 1960. First, its population has grown from 85 million in 1960 to 290 million in 2003, more than half of them under 20. Second, the region has been exposed to a rapidly changing world economy without having the necessary competitive capacity or, in many instances, adequate access to the world’s markets.

Commitment and determination will be required from all development players to correct the current situation. Much SWAC work in 2003 was devoted to how the region can become more competitive in the global economy, particularly in agriculture, as well as challenges for governance and conflict prevention.

As an informal forum for analysis, informed debate and action, the SWAC Secretariat supports West African efforts to define and implement medium and long term development strategies for the region. The Club will continue to encourage and facilitate analyses, exchanges of views and decisions in four main areas: medium and long-term development perspectives and new partnerships; agricultural transformation and sustainable development; local development and regional integration; governance, conflict dynamics, peace and security. All this will be undertaken with a view to contributing to help the region reach the Millennium Development Goals. ■

Outreach

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In an era of globalisation, the OECD cannot and does not work alone. It shares expertise and exchanges views with more than 100 countries worldwide on topics of mutual concern from economic policy, trade and social welfare, to ensuring transparency and accountability of governments to their citizens.

Non-members also contribute directly to the core work of the OECD as full participants or observers on various OECD committees and bodies. The OECD's Centre for Co-operation with Non-Members co-ordinates this work, which helps foster mutual understanding of potentially sensitive issues and build consensus on the need for reform.

Global Forums

www.oecd.org/ccnm/globalforum
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The eight OECD **Global Forums** provide a framework for dialogue with non-members on global issues that cannot be resolved by a single country or region: sustainable development; knowledge economy (biotechnology and e-commerce); governance; trade; international investment; international taxation; agriculture; and competition.

During 2003, the **Global Forum on Agriculture** focused on how to design and implement agricultural policies that would help the poor.

The **Global Forum on Competition** meeting in 2003 featured a peer review of South Africa's competition law and institutions, the first time that a non-OECD country has undergone this exercise. Russia will be reviewed at a meeting in early 2004.

A meeting of the **Global Forum on International Investment** in Johannesburg in November focused on the OECD's new Strategy on Investment for Development and produced a statement outlining the "Main Building Blocks of Governance and Transparency for Investment" to help guide governments and policymakers.

Joint meetings of the **Global Forum on Trade** with those on Competition and International Investment focused on important issues in possible World Trade Organization (WTO) Multilateral Frameworks on Competition and Investment. At the joint event on trade and competition, significant interest was expressed in a Multilateral Framework on Competition to advance the development and spread of co-operation and a competition culture. Most non-members acknowledged the need for multilateral rules but stressed that these should be tailored to accommodate their legitimate interests, and said flexibility and progression should be incorporated in any future framework. Perhaps surprisingly, countries which objected to the inclusion of the "Singapore Issues" (investment, competition policy, transparency in government procurement and trade facilitation) in the WTO negotiations in Cancún in September 2003 have been keen to discuss them within OECD Global Forums and other programmes.



(Left to right)
OECD Secretary-General
Donald Johnston and the President
of Lithuania Rolandas Paksas,
who is signing the Guest Book
on his visit to the OECD in May.

The **Global Forum on Taxation** continued to address tax treaties, transfer pricing and exchange of information issues. A major conference on value added tax is planned for late 2004 in Moscow.

The **Global Forum on Sustainable Development** held a meeting in December to review the policies, tools and mechanisms that can enable governments to finance adequate access to water systems.

Regional and country programmes

Work with non-members is organised in regional and country programmes to provide more targeted co-operation with non-members in three regions: Europe and Central Asia; Asia; and Latin America. There is a general programme for each region, as well as specific programmes for sub-regions in South Eastern Europe and the Baltic region and individual country programmes for three of the largest economies: Brazil (*see box page 85*), China and Russia. Relations with Africa intensified in co-operation with the New Partnership for Africa's Development (NEPAD).

Europe and Central Asia

The OECD's work with transition economies in Europe and Central Asia focuses on institution-building and structural reform. The Environmental Action Plan for Central and Eastern Europe is one of the most successful initiatives. Work continued in 2003 on reforming the urban water sector, implementing environmental policy and tools to mobilise financial resources, notably with the 5th European Conference of Environment Ministers in May in Ukraine. In the corporate governance field, ministers from six countries endorsed a new regional Anti-Corruption Action Plan.

The Investment Compact, a partnership which supports the Stability Pact for South Eastern Europe, focused on FDI policy and promotion; entrepreneurship and enterprise development; public and private governance. A Network of South Eastern Europe competition authorities was also launched in 2003.

The Sigma Programme, a joint initiative of the OECD and the European Union aimed at improving governance and management, supports partner countries in Central and Eastern Europe and the Western Balkans. In 2003, Sigma worked with them to modernise public governance systems in six priority areas: design and implementation of reform programmes; legal framework, civil service and justice; external audit and financial control; public expenditure management; policymaking and co-ordination capacities; and public procurement.

Sigma advice and strategic input has also helped EU candidate countries in the region with institution-building and developing legal frameworks in line with existing EU legislation.

Work on the Baltic region included the release of publications on labour and social policies; agricultural and rural development; economic growth; quarterly national accounts; and insurance and pension reform. The OECD-Baltic co-operation programme is also promoting rapid progress in public ethics, conflict of interest, procurement, competition, education, debt management and tax reform.



(Left to right)

OECD Secretary-General Donald Johnston and Deputy Secretary-General Herwig Schlögl greet the Prime Minister of Thailand, Shinawatra Thaksin, when he visited the OECD in May.

www.oecd.org/ccnm/transitioneconomies
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Brazil

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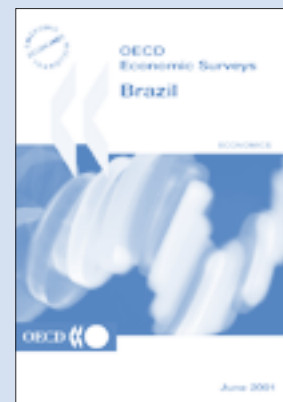
Brazil is one of the world's largest economies, and the third largest outside the OECD. The Brazilian economy has been picking up in the past year and confidence has been rebuilt. The 2002-2003 period was one of turbulence and then of recovery. The consistency of the economic and structural policy framework was borne out by the smooth transition of government. Brazil is moving ahead with Mercosur on trade negotiations with Europe and the US. It is also advancing the reform process in areas such as taxation and pensions. Increasingly a key regional and international voice, Brazil's efforts to foster democratic principles and social inclusion have attracted worldwide attention.

The OECD established its programme with Brazil in 1998. Since then, OECD-Brazil relations have strengthened rapidly, and work began in late 2003 on the second *OECD Economic Survey of Brazil*, after the first survey in 2001 laid a solid analytical foundation for the programme.

Apart from developing this solid analytical basis, work with Brazil focuses on dialogue on front burner issues between policymakers from Brazil, OECD countries and other emerging market economies to examine policy alternatives and best practices for implementation. The programme also facilitates Brazil's active, well-informed and effective participation in OECD work as an observer or full participant in various OECD bodies and instruments.

A particularly successful event was a workshop on public debt management in Rio de Janeiro in March 2003, co-organised with the Brazilian treasury and the Getúlio Vargas Foundation. It focused on asset and liability management, and international experience on risk management. A seminar on pension reform in Brazil and international experience in this area in Brasilia in October was timed to coincide with pension reform discussions in the Brazilian congress.

The OECD has invited Brazil to take part in a study of the consequences of agricultural trade liberalisation in the context of the Doha Development Agenda negotiations in the World Trade Organization. The transition team of the newly elected President also obtained OECD co-operation on a study of Brazil's public budget and expenditure, while Brazilian and OECD experts have been working closely on the institutional structure of the country's competition policy.



A second survey is under way.

Russia

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The Russia Programme continued its successful progress. The OECD and the Russian authorities finalised the first phase of a regulatory reform review in 2003 and work continued to facilitate Russia's accession process to the WTO, complemented by the publication of a study of *Trade Policies in Russia: The Role of Local and Regional Governments*. The fifth *Economic Survey* of the Russian Federation will be finalised in 2004, focusing on macroeconomic and structural developments, particularly the role of financial intermediaries and corporate governance.

Asia

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The Asian Roundtable on Corporate Governance in June 2003 released a White Paper on Corporate Governance in Asia, based on the OECD Principles of Corporate Governance (see box page 74). The White Paper was endorsed or welcomed by securities commissions throughout Asia and its recommendations figured prominently in regional conferences, expert papers and technical-assistance work. The second phase of the Roundtable's activity, beginning in 2004, will focus on enforcement and implementation and in 2005 the Asian Roundtable will undertake a stock-taking of developments and remaining challenges.

The first OECD-India workshop in Delhi dealt with "Privatisation and corporate governance of state-owned assets". India offered to host the 2004 meeting of the Global Forum on International Investment as well as a meeting of the Asia Investment Initiative. An OECD-Korea Regional Centre for Competition was established in Seoul.



Russian Federation Minister of Finance Alexei Leonidovich Kudrin at the OECD-Russia Liaison Committee meeting in March.

China

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The co-operation programme with China intensified in 2003 in spite of a temporary slowdown in activities in the wake of the SARS crisis. The *OECD Investment Policy Review of China: Progress and Reform Challenges*, published in July 2003, outlines the achievements that China has made in establishing laws and regulations conducive to foreign direct investment (FDI) and offers policy options to attract more high-quality FDI. The OECD will continue to work with the Chinese government on FDI policy in 2004. The year also saw the launch of the China Governance Project, to encourage Chinese policymakers to address critical governance challenges. The project addresses both whole-of-government and sectoral governance issues and involves experts from across the OECD.

Latin America

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Countries from this region are among the most active observers or full participants in various OECD activities. Highlights of the year included publication of an *Economic Survey* of Chile, and the adoption of a regional White Paper on corporate governance. A Latin American Competition Forum was launched under a new partnership with the Inter-American Development Bank (IDB).

Africa

www.oecd.org/ccnm/regional

The OECD's relations with Africa have greatly strengthened since the launch of the NEPAD. The OECD is helping to establish an African peer review mechanism and engages in policy dialogue centred on public and private governance, investment climate, competition law and policy, tax policies and private sector development. A conference in Dakar in April, followed by an OECD/NEPAD African Investment Roundtable in Johannesburg in November resulted in a comprehensive joint initiative to create a positive investment environment to promote Africa's growth and development. The OECD and the UN Economic Commission for Africa (ECA) have developed a new process of mutual reviews of development effectiveness.

Partnerships with other international organisations

The OECD further expanded its relationship with other international organisations, including a new partnership with the IDB, and intensified ties with the World Bank, the Asian Development Bank (ADB), Asia-Pacific Economic Co-operation (APEC) and the International Labour Organization (ILO). ■

— Statistics

Statistics

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Statistics underpin the whole fabric of the OECD's analytical work, so their accuracy and timeliness are vital to the Organisation's reputation for quality. The statistics compiled by the OECD range from annual and historical data to main economic indicators such as economic output, employment, inflation, for the 30 member countries and selected other economies, updated monthly. This information is also available to government agencies and the public in a range of specialist statistical publications and databases.

The OECD needs comparable, reliable statistics to measure and monitor developments in member countries and in key non-member countries. To achieve this, it promotes international statistical standards and best methodological practices. A comprehensive presentation of OECD statistical activities is contained in the "OECD Statistical Programme of Work" (available at www.oecd.org/statistics).

In 2003, the OECD continued the reform of its statistical system that began in 2001. Activities in 2003 focused on the development of a "Quality framework for OECD Statistics", used for improving both new and existing statistical outputs, and further development of the corporate statistical infrastructure. In addition, new research projects have been undertaken in several domains.

Short-term indicators

www.oecd.org/statistics/indicators
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The OECD publishes weekly, monthly or quarterly economic indicators for national accounts, production, composite leading indicators, retail and producer prices, finance, international trade and balance of payments. The indicators are available online, on CD-ROM and in print. The OECD's principal short-term indicator database is the monthly *Main Economic Indicators* (MEI), which includes statistical series for member countries and indicators for other economies such as Brazil, China, India, Indonesia, Russia and South Africa. Monthly press releases announce the latest figures for quarterly gross domestic product (GDP), OECD composite leading indicators, standardised unemployment rates, and international trade.

Methodological analysis publications compare member countries' practices in compiling statistics for industrial production, retail trade, construction, and price indicators. Similar analyses were published in 2003 for wage-related statistics such as earnings, labour cost and labour prices. The OECD is also developing international standards for short-term economic statistics. The MEI database has been recently expanded to include new data concerning business and consumer tendency surveys.



Reform of statistics gathering

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All parts of the OECD, not just the Statistics Directorate, are involved in statistical work to underpin their policy analysis, covering about 100 different statistical activities. While this decentralised structure allows for continuous adjustments that improve the accuracy and relevance of the statistics, it also creates risks of discrepancies between working methods for different types of statistics. This makes it harder to conduct policy analysis across several subjects and more difficult to get an overall view of all statistics available. Therefore, as well as producing statistics, the directorate provides guidelines, sets policies and co-ordinates statistical activities throughout the OECD.

During 2003, the OECD introduced a new coherent information system for producing and disseminating OECD statistics, which will be developed in its first production version by mid-2004. The new system will – as data are progressively migrated into it over the coming two years – give users inside and outside the Organisation easier access to OECD statistics and a better overview of them, as well as increasing the efficiency and overall quality of the statistical work. It will also allow the Organisation to develop new cross-cutting policy analysis and publications.

The new system, together with the “Quality Framework for OECD Statistics” drawn up in 2003, provides advanced statistical tools to make it easier to share common systems and practices in OECD statistical activities, increasing the overall quality of OECD statistics, as well as their cost-efficiency. These tools include:

- Centralised, detailed information on each activity, its objectives, those responsible for it and where it fits into the overall OECD statistical information system. This also identifies associated data collections, databases and details on dissemination.
- A corporate database, giving access to all OECD statistics in a standardised way. The database makes it easier to exchange data within the Organisation as well as providing external users with one-stop, flexible access to all available statistics via the Internet.
- A repository for storing metadata – information about concepts and definitions, the quality of specific data items, the processes and tools used in producing them – about OECD statistics.
- A glossary of statistical terms used at the OECD. The glossary contains about 6 000 entries and is available online at www.oecd.org/statistics/glossary.
- An easily accessible subset of all OECD time series, containing data series frequently used within the Organisation for calculating indicators. These *Reference Series* are supplied with enhanced and standardised documentation and linked to the corresponding entry in the glossary.
- A standard toolbox for collecting and managing statistical data.



National accounts and economic statistics

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The OECD is one of the main collectors and disseminators of detailed national accounts data for international comparison. In 2003, more data were made available on institutional sector accounts and the OECD re-activated its financial accounts database, which will be made available to the public in 2004. These financial data are supplemented by other, more specialised, databases covering areas such as institutional investors, central government debt, bank profitability and external debt of developing and transition countries.

The OECD also announced in 2003, together with four other international organisations (UN, International Monetary Fund, World Bank, Eurostat), that the *System of National Accounts* published in 1993 will be revised to bring it up to date. The new edition is scheduled for 2008. Likely areas for revision include measuring the production of financial and insurance services, treatment of intangible assets, recognising military expenditures and research development as capital, and recognising stock options as compensation.

The OECD plays a key role in developing international trade and structural economic statistics. It is the official source used by the UN for trade data of OECD countries. The OECD in 2003 introduced a new annual publication, *Statistics on International Trade in Services: Detailed Tables by Partner Country*. International task forces for commodity trade and trade in services also help to foster close inter-agency co-operation. The OECD started work in 2003 on a comprehensive review of trade indicators to provide a better quantitative underpinning of the analysis of globalised economies.

OECD Structural Business Statistics were streamlined in 2003 and included in a data-sharing agreement under which the OECD sources most EU data directly from Eurostat. The OECD's database covering Small and Medium Enterprises was also extended to become a functional database for analytical use. The OECD also plays a vital role in collecting and developing agricultural statistics, providing leadership in organising international meetings on agricultural statistics and analysis of statistical issues.



Outreach activities

The OECD works with other economies to enhance the production of reliable and internationally comparable statistics. Increasingly, work has focused on large non-member countries, particularly Brazil, China, India, Indonesia, Russian Federation and South Africa. Work began in 2003 to assess and improve the quality of statistics, which is key to informed decision-making and good governance, and this will continue in 2004. The non-observed economy – informal and underground activities that are difficult to capture in national accounts and industrial statistics – is particularly important for statistical quality. Work in 2003 focused on implementing the recommendations of the 2002 publication entitled *Measuring the Non-Observed Economy: A Handbook*.

Business tendency surveys, which ask businesses to measure their optimism or pessimism about the economic situation and their hiring/firing or investment intentions in the coming months, can provide up-to-date information on economic developments in countries where traditional surveys produce results many months after the reference period. Business tendency surveys based on the OECD-European Union harmonised system of questionnaires and survey methods provide qualitative information which can be combined with quantitative data from traditional surveys to produce composite leading indicators. These predict changes in the business cycle three to six months ahead. A simplified version of the OECD system has been successfully exported to China and work is underway to develop composite leading indicators in Latin America, Russia and South East Asia.

The OECD is also actively involved in a new project led by the World Bank to develop purchasing power parities on a worldwide level. Purchasing power parities are currency converters that make it possible to make valid comparisons of GDP and per capita income across countries. ■



— Communications

Public affairs and communications

www.oecd.org/about

Effective communication means sharing the OECD's analysis and advice with the full range of stakeholders – government and policymakers, business representatives, academia, organised labour, the media and the general public – as well as welcoming their comments and input.

The OECD has a broad-based communications strategy to reach the maximum audience for the various areas of its work, using modern tools such as its Web site and online services as well as tailored services for the media, printed books and public events such as the annual OECD Forum and meetings with parliamentarians, business and labour representatives and other civil society organisations.

Web site

www.oecd.org
webmaster@oecd.org

The Web site is of vital importance in getting the OECD's message across to a wide audience as it is the primary point of contact with the Organisation for most people around the world. So it needs to be presented in a way that makes it easy for people to find the information they want. The Web site was redesigned in 2003 to make it even more user-friendly (see box page 94).

Media

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Journalists routinely turn to the OECD for analysis and statistics that shed light on today's complex issues. The media are a key means to spread the Organisation's expertise and policy recommendations to decision-makers, researchers, academics and the general public.

In 2003, the OECD further improved its communication with journalists to help boost the Organisation's visibility in key policy debates. It expanded a program of media training for OECD staff members to help them become more effective in their interactions with reporters. The media division also produced



(Left to right)

Economics Commentator for The Times of London in the UK, Anatole Kaletsky; President and CEO of the International Crisis Group in Belgium, Gareth Evans; and Professor of Economics at the University of Tokyo in Japan, Motoshige Itoh, at the OECD Forum 2003.

OECD online

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The OECD Web site is a vital communications tool and the first point of contact with the Organisation for many people around the world. In 2003, over 7 million people around the world consulted *www.oecd.org*, some 20% more than in 2002.

In July 2003, the OECD launched a new version of *www.oecd.org*. The improvements made were based on feedback received from both our internal and external audiences. The new OECD homepage displays at least 20 times faster than before. It was also simplified in order to highlight the products and services our visitors need most. Several gateways were developed as a first step towards customising information for different groups of users. The initial focus was on identifying key resources for journalists and civil society, and on improving the access to our statistical information. Since the launch of our redesigned Statistics Portal, traffic to the latter has increased 10 times. In 2004, similar gateways will be added for government officials and for information on each of our 30 member countries.

During 2003, several information packages on issues of current concern to the public or policymakers were designed for the Web site: *www.oecd.org/pensioncrisis* on pension issues; *www.oecd.org/cancun* on the OECD contribution to the WTO ministerial meeting in Cancún; and *www.oecd.org/g8* on the OECD's work relevant to the topics discussed during the G8 Summit.

The OECD also organised its first live Web cast in April 2003 for the Chief Economist's press briefing on the *OECD Economic Outlook*. A recording was available for subsequent "on demand viewing". Although this Web cast was primarily aimed at journalists, Web casts are being opened up to broader audiences such as national administrations, academia and the private sector. In early 2004, for example, two multi-stakeholder Forums organised for the Science and Education ministerial meetings were both Web cast live on the OECD Internet site.

The OECD Web site hosts more than 50 000 pages of information about our Organisation, meetings, ongoing research, statistics and publications. On an average day, approximately 300 documents are uploaded or edited on our site. At least 65 000 international organisations, government departments, businesses, universities and many other stakeholders presently link to our homepage. This vote of confidence in our work has boosted the ranking of our pages in search engines.

a handy reference guide to dealing with the press and distributed it to OECD staff. As part of an effort to reach journalists on their home turf, a number of press conferences, briefings and background talks were held in places like London, Tokyo and Washington. Media relations representatives co-ordinated contact between reporters and OECD experts attending important events, such as the World Trade Organization's (WTO) ministerial meeting in Cancún (Mexico). And to broaden exposure of its economic forecasts, the OECD began live Internet webcasts of the *Economic Outlook* press conferences.

Media relations focused on issues that dominated the headlines, such as controversial public pension reforms, free-trade negotiations, the challenges of increasing employment, and the hesitant economic turnaround. Those issues will remain in the spotlight in 2004, as will efforts to improve corporate governance around the globe.



Publishing

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OECD publications are a prime vehicle for transmitting the Organisation's intellectual output. Online usage became central to OECD publishing in 2003, when some 90 000 e-books were delivered from *SourceOECD*, the OECD's award-winning online library, as well as 100 000 statistical tables from online databases. Downloads from *SourceOECD* increased by 45% from 2002 and if this trend continues in 2004, the number of e-books distributed will exceed the number of printed books.

In addition to regular OECD bestsellers like *Education at a Glance* or the *OECD Economic Outlook*, significant titles in 2003 included *Sources of Economic Growth* and Angus Maddison's *The World Economy – Historical Statistics*, including the first-ever release in electronic form of Maddison's statistics.

The OECD also increased dissemination of its work in languages other than English and French. More than 250 overviews were translated and made available online and for some major structural titles, such as *Education Policy Analysis*, the overview was translated into the languages of all OECD countries. The OECD also established new partnerships with private publishers and with national ministries and institutions to translate and publish full text versions of OECD publications.

OECD Observer

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The *OECD Observer*, the Organisation's public magazine, increased its readership in its 41st year. Paid subscriptions rose by about 10% compared with 2002 (French and English editions combined). More copies were picked up at events within the Organisation, such as the annual ministerial meeting and OECD Forum 2003. The magazine was also made available at several major international events including the World Water Forum in Kyoto in March, the International Monetary Fund (IMF) annual meeting in Dubai in September, the World Knowledge Forum in Seoul in October and the World Summit on the Information Society in Geneva in December. An online readership survey in September showed that while about a third of readers were in national and local government, over a quarter were from the private sector.

Civil Society

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The OECD has maintained co-operative relations with civil society since its creation in 1961. Initially this was principally with business and labour. Over the past decade, this co-operation and dialogue has been extended to other civil society organisations.

Formal relations between the OECD and representatives of business and industry and of trade unions have been conducted through the Business and Industry Advisory Committee to the OECD (BIAC) and the Trade Union Advisory Committee to the OECD (TUAC) for more than four decades. During 2003, BIAC and TUAC provided valuable input to the OECD's work, particularly the revision of the OECD Principles of Corporate Governance as well as its work on education, employment, trade and new technology issues, such as broadband access and combating spam – unwanted e-mails.

Civil society organisations participate in regular, informal consultations with the OECD on a broad range of subjects such as the multilateral trading system, the OECD Guidelines for Multinational Enterprises, corporate governance, fighting corruption, the environment, development, biotechnology, food and agriculture, information and communications, and territorial development. The OECD Visits Programme welcomes some 4 000 people from civil society, academia, business, labour and government to the OECD every year.



(Left to right)

TUAC General Secretary John Evans with Assistant General Secretary of the International Confederation of Free Trade Unions (ICFTU) Mamounata Cisse during a Labour/Management Programme meeting on NEPAD in March.

Parliamentarians

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The OECD maintains close relationships with parliamentarians in member countries. It strengthened this link in 2003 by launching a programme of high-level parliamentary seminars to disseminate its work to parliamentarians and obtain parliamentarians' views on OECD policy analysis. A seminar on Policy Coherence for Development was held in October 2003 and another on Health Policies in February 2004. More are planned through the year.

The OECD has longstanding institutional relations with parliamentarians through the Council of Europe and the NATO Parliamentary Assembly. Each autumn, the OECD Secretary-General participates in the Council of Europe debate on the work of the OECD. The Committee for Economic Affairs and Development of the Parliamentary Assembly of the Council of Europe visits the OECD for briefings each spring. Members of the Economics and Security Committee of the NATO Parliamentary Assembly hold an annual meeting with the OECD Secretariat every February.

The OECD Centres

www.oecd.org/contact

OECD Centres in Germany, Japan, Mexico and the US offer a closer, more convenient source of OECD books and information for many member countries and their neighbouring regions, as well as a tool to bridge the language gap in disseminating information to a wide audience.

Business and Industry Advisory Committee to the OECD (BIAC)

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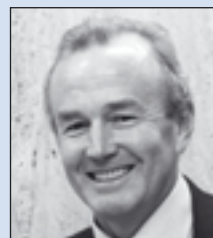
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Trade Union Advisory Committee to the OECD (TUAC)

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Administrative Committee:

- President:** John Sweeney, President of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO-USA)
- Vice-Presidents:** Luc Cortebeek, President of the Belgian Confederation of Christian Trade Unions (CSC-Belgium)
Kiyoshi Sasamori, President of Japanese Trade Union Confederation (RENGO-Japan)
Tine Auvig-Huggenberger, Vice President of the Danish Confederation of Trade Unions (LO-DK-Denmark)



TUAC General Secretary
John Evans.

General Secretary:

John Evans

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The OECD **Berlin Centre**, in co-operation with partners from business, labour and civil society, held several conferences and workshops in 2003 focusing on issues related to global governance and corporate social responsibility. Other events focused on global challenges in energy and health policy. A highlight of the year for the **Tokyo Centre** was the setting up of Friends of OECD in Japan, made up of around 300 members, who are expected to support and co-operate with the Centre's public affairs activities. Tokyo also opened an e-library offering visitors free access to *SourceOECD*.

The OECD **Washington Center** actively promotes *SourceOECD*, through which more than a million faculty members and students now have online access to the full range of OECD publications. A series of events in 2003 also raised the OECD's profile in Congress. For example, OECD Employment, Labour and Social Affairs director John Martin testified before a Joint Economic Committee Hearing on Medicare's Financial Crisis, and Deputy Secretary-General Herwig Schlögl briefed the Steel Caucus in both the House of Representatives and the Senate on the OECD's Steel Talks. The **Mexico Centre** provided strategic support in 2003 to increase OECD visibility and influence at relevant international meetings such as the WTO ministerial meeting in Cancun in September, and the UN Forum on Reinventing Government in Mexico City. The Mexico Centre also developed a monthly OECD section in "Este País" magazine.



Co-ordinator for the Programme on Global Environmental Governance at the Centre for Science and Environment, India. Anju Sharma, on the OECD Forum 2003 panel entitled "Climate Change, Energy and Development".

OECD Forum 2003

www.oecd.org/forum2004
oecd.forum@oecd.org

OECD member countries need to focus on the implications of the Doha development agenda trade talks and on ways to restore confidence in markets and governments. That was one of the key messages to emerge from OECD Forum 2003 on the theme "Grow, Develop, Prosper", which brought together some 1 000 people from 80 countries. The OECD Forum enables leaders from business, labour and non-governmental organisations to discuss key issues of the 21st century with government ministers and senior officials of international organisations. The Forum is held immediately before the OECD's annual ministerial meeting, allowing participants to shape the ministerial deliberations.



Chairwoman and CEO of AREVA, France, Anne Lauvergeon, on the OECD Forum 2003 panel entitled "Climate Change, Energy and Development".

New Zealand Prime Minister Helen Clark, who chaired the OECD ministerial meeting, gave a keynote address at the Forum. Other highlights included a trade ministers' panel, grouping ministers from OECD and non-OECD countries with the WTO Director General and the EU's Director-General for Trade. Economy ministers, including French Finance Minister Francis Mer, and Japanese Minister for Economic Policy Heizo Takenaka, led a discussion on "The World Economy in 2003".

OECD Forum 2004, "Health of Nations", will take place alongside the OECD annual ministerial meeting in Paris on 12 and 13 May. ■

The international fight against money laundering and terrorist financing

The Financial Action Task Force (FATF) is the international body responsible for safeguarding the global financial system against money laundering and terrorist financing.

A key element of work in 2003 was the revision of the FATF's Forty Recommendations, which strengthened the measures to combat money laundering and terrorist financing. When combined with the Eight Special Recommendations on terrorist financing, the revised Forty Recommendations create a comprehensive and consistent blueprint of action for policymakers.

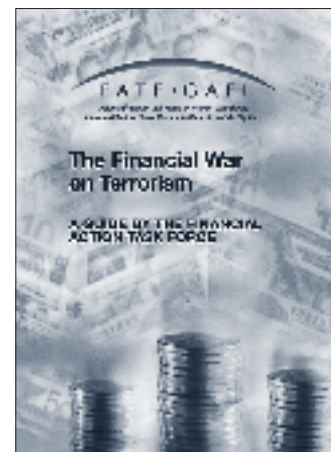
The Recommendations cover the criminal justice and regulatory measures that national systems should have in place to curb terrorist financing and money laundering, as well as preventive measures to be taken by financial institutions and certain other businesses and professions such as casinos, real estate dealers, lawyers and accountants, and international co-operation.

The FATF also strengthened measures to freeze and confiscate the assets of terrorists, in an interpretative note to its Eight Special Recommendations on terrorist financing. During 2003, the International Monetary Fund and the World Bank carried out a pilot programme using the FATF's Recommendations to assess countries' financial systems. The FATF welcomed the Fund and the Bank for the successful conclusion of this pilot program and encouraged them to continue their assessments on a comprehensive, uniform and permanent basis as a regular part of their financial assessment programme.

The Russian Federation and South Africa joined the FATF in 2003, increasing the membership to 33. The FATF also reported significant progress in persuading countries to join the international fight against money laundering. Egypt, St. Vincent and the Grenadines, and Ukraine were removed from the list of Non-Co-operative Countries and Territories (NCCT) during 2003 and early 2004, reducing the list of NCCTs to seven: Cook Islands, Guatemala, Indonesia, Myanmar, Nauru, Nigeria and the Philippines.

The FATF is an independent intergovernmental body whose Secretariat is housed at the OECD. Its members are: Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council, Hong Kong China, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Kingdom of the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States. ■

www.fatf-gafi.org
contact@fatf-gafi.org



A practical guidebook for legislators, financial regulators and others involved in combating the financing of terrorism.

Nuclear Energy Agency

The Nuclear Energy Agency (NEA) is a specialised agency within the OECD that helps its member countries to maintain and develop, through international co-operation, the scientific, technological and legal bases required for the safe, environmentally friendly and economical use of nuclear energy for peaceful purposes. Its 28 member countries in Europe, North America and the Asia-Pacific region account for approximately 85% of the world's installed nuclear capacity.

The complexity of this technology, with its economic, technological and social implications, demands a particularly careful examination of such issues as the safety of nuclear installations, the disposal of long-lived radioactive waste, the radiological protection of workers and the public, and the decommissioning of nuclear facilities. All of these issues are reflected in the NEA's work. The 2003 edition of the annual *Nuclear Energy Data* provides an overview of the nuclear energy situation and trends up to 2030 in member countries.

The NEA also contributed to a number of broader OECD projects in 2003 in addition to its ongoing contribution to the Organisation's work on sustainable development, notably work on emerging risks in the 21st century and on lessons learnt from large-scale disasters. It co-operates with the International Energy Agency (IEA, *see page 102*) on issues of mutual interest.

The safety of nuclear installations and radiological protection

Regulatory authorities play an important role in helping to ensure the safety of nuclear installations. Heads of the nuclear regulatory authorities of OECD countries met in June 2003 with high-level government officials and executives from the nuclear industry to discuss ways of measuring, assessing and communicating nuclear regulatory effectiveness. They agreed that regulatory performance indicators are useful in improving effectiveness and efficiency, but are only part of the solution.

A joint workshop organised with the International Atomic Energy Agency (IAEA) in June 2003 highlighted the importance of nuclear safety management and safety culture. Specific, joint research projects continue to be set up at the international level under the aegis of the NEA on a full array of nuclear safety issues.

Recent NEA work on radiological protection has focused on shaping the next system of protection, currently being developed by the International Commission on Radiological Protection (ICRP). A joint NEA/ICRP workshop in April 2003 on "The Future Policy for Radiological Protection" provided significant input, including new approaches to the radiological protection of fauna and flora.

www.nea.fr
nea@nea.fr



Radioactive waste management and decommissioning

Managing radioactive waste concerns technical experts and the public alike. The NEA co-sponsored a high-level conference in Stockholm in December 2003 on political and technical progress in developing geological repositories for the disposal of high-level radioactive waste deep underground. The NEA Forum on Stakeholder Confidence also published an international overview of *Public Information, Consultation and Involvement in Radioactive Waste Management*.

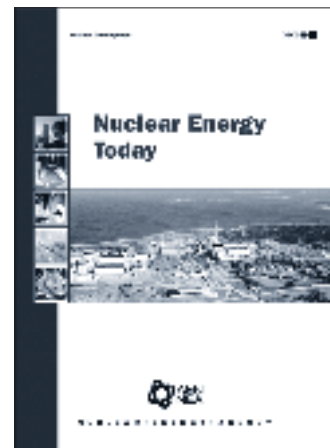
The NEA continued to conduct international peer reviews of national waste management programmes in 2003, when it published reviews of the Belgian and French research and development (R&D) programmes in this area.

Given that numerous nuclear power plants will reach the end of their operational life in the coming years, the decommissioning of these plants is becoming an increasingly important issue for many member countries. Two NEA reports published in 2003, *Decommissioning Nuclear Power Plants: Policies, Strategies and Costs* and *The Regulatory Challenges of Decommissioning Nuclear Reactors* examined decommissioning issues in detail.

Maintaining competence and providing for the future

The NEA was among the founding supporters of the World Nuclear University (WNU), launched in September 2003. It also continues to organise yearly summer sessions of the International School of Nuclear Law (ISNL), a joint programme with France's University of Montpellier 1.

The NEA is also continuing its involvement with the Generation IV International Forum (GIF), which is exploring new nuclear energy systems and the related research and development (R&D) needed for their deployment by 2030. The NEA helped develop a "technology roadmap" for the project, which involves 10 countries and the European Atomic Energy Community (Euratom). As requested by the GIF members, the NEA is planning to provide technical secretariat services for the forthcoming R&D phase. ■



World energy demand is increasing as the leading economies expand and developing economies grow. How can we meet that demand while protecting the environment and conserving natural resources, and what role can nuclear energy play? This publication provides authoritative and factual replies to the major questions the public and policy makers are asking about nuclear energy today.

International Energy Agency

www.iea.org

info@iea.org



The International Energy Agency (IEA) is the forum for energy co-operation among 26 OECD member countries. The war in Iraq in early 2003 focused much attention on the IEA's core function of responding to oil supply emergencies. The Governing Board met at ministerial level in April and ministers strongly affirmed their readiness to combat any disruption in oil supplies, including through the judicious use of emergency oil stocks, demand restraint and other appropriate response measures. The ministers welcomed the benefit of reinforced dialogue between producers and consumers of oil, as well as between the IEA and OPEC secretariats. The ministers encouraged the IEA Secretariat to reinforce a world-view in its work, since it is only through a more global framework that security can be assured.

The Russian Energy Minister, Igor Yusofov, attended the IEA ministerial meeting and was the first minister of a non-member country to address such a meeting.

Oil markets and security

The IEA's monthly *Oil Market Report* (OMR) is regarded as a reliable source of information on world oil market fundamentals, covering supply, demand, OECD stocks and prices. Subscribers to the OMR can now access, via password, an Internet portal to obtain disaggregated data behind each chart and graph.

www.oilmarketreport.org

omr@iea.org

Energy and climate change

The IEA continued work on emissions trading to examine ways to handle climate mitigation obligations in a cost-effective manner. Work is also under way on the evolution of mitigation commitments and the relationship between climate mitigation policies and energy security.

Energy diversification

Analytical work continues on market reform as the gas and electricity industries progress towards liberalised markets. Reliability of electricity supply is a new priority and security of gas supply an issue of growing importance.

Energy technology

At the Energy Technology Fair, held during the IEA ministerial meeting, the IEA showed the range of technologies that may be needed to confront the climate change challenge, including hydrogen, renewable energy, improved end-use efficiency and fusion energy.

The energy technology collaboration programme was expanded to include more work on hydrogen technologies and carbon sequestration through the IEA's new Hydrogen Co-ordination Committee and the IEA Zero Emission Technologies Strategy. Technology policy analysis also focused on hydrogen and carbon sequestration with new quantitative studies which cover technology development, cost estimates, policy issues and impacts on investment and energy markets.

Relations with IEA non-member countries

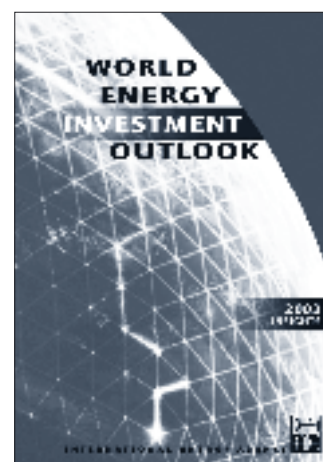
The IEA strengthened its relationships with China, India and Russia through collaborative efforts and implementing agreements. The IEA is contributing to energy policy capacity building throughout the Former Soviet Union and East and Central Europe with a focus on South East European energy policy convergence and strengthening the role of Caspian oil and gas supplies in world markets.

Following the decision to establish the Secretariat of the International Energy Forum (IEFS) in September 2002, the IEA assisted member and non-member countries in developing the format and goals of the IEFS and is a non-voting member of the IEF's Executive Board.

Energy statistics

After the success in 2002 of its first edition of *Renewables Information* book, the IEA published a second version in 2003. Moreover, in order to improve oil market transparency, the IEA together with five other international organisations, continued to play the role of catalyst in developing a worldwide information system on monthly oil statistics. ■

stats@iea.org



The *World Energy Investment Outlook 2003* assesses the investment that will be needed to 2030 across the energy supply chain at USD 16 trillion. Electricity generation, transmission and distribution will account for 60% of the total. The report also identifies the obstacles that must be overcome to mobilise investment in a timely manner, meet anticipated demand and ensure long-term energy supply security.

— European Conference of Ministers of Transport

The European Conference of Ministers of Transport (ECMT) is an intergovernmental organisation that enables ministers responsible for inland transport to co-operate on policy development. The ECMT marked its 50th anniversary in 2003, and also increased its membership to 50 as Armenia became the 43rd full member while Mexico became the seventh associate member. There is also one observer country. The ECMT is administratively part of the OECD and contributes to many of the Organisation's activities.

Political issues

The 50th anniversary ministerial meeting in Brussels in April concluded that the organisation has served members well over the past half-century but must continue to adapt to reflect changing transport needs and new institutional arrangements. The ECMT and the OECD agreed to create a joint Transport Research Centre to provide a broader and better-coordinated research outlook to help all members of both organisations in crafting transport policy. The Centre was set up in January 2004.

The next ministerial meeting will be held in Ljubljana (Slovenia) in May 2004.

Accessible transport

A special ECMT/EDF (European Disability Forum) prize for work to make transport more accessible, particularly for the handicapped, was shared by two municipal transport systems which have been dealing with this issue for more than 30 years: the Syndicat Mixte des Transports en Commun de l'Agglomération Grenobloise (France) and the Verkehrs Aktiengesellschaft (VAG) of Nüremberg (Germany).

Sustainable transport policy

Ministers agreed that the 50th anniversary meeting was an opportune moment to discuss the transport policy needed to meet the challenges of the coming years and to ensure that it is sustainable. It will not be possible to manage future projected traffic growth using traditional methods that concentrate on increasing infrastructure capacity. New incentives are required, as well as new methods of pricing, investment and managing demand.

Fifty Years of Transport Policy: Successes, Failures and New Challenges, published in 2003, outlined possible strategic directions for transport policy in the coming years. Ministers agreed on the need to strike a new balance between strategies for reducing transport demand and those aimed at increasing mobility, as well as the need to make greater use of new technologies that

www.oecd.org/cem
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New incentives, new pricing, and new instruments to better manage investment and demand are all required. This publication outlines a number of strategic directions for transport policy to meet these challenges in the coming years.

can improve the efficiency and security of transport systems. They said policymakers should not take a fatalistic attitude to accidents, but should make road safety an integral, permanent basis for transport policy.

Transport and environment

Ministers agreed on a strategy to ensure that sulphur-free fuels, which reduce emissions of major pollutants from vehicles, are available throughout Europe, particularly in Russia and its neighbouring countries, once international regulations on reducing emissions go into force in 2005.

They also recommended that member countries should systematically evaluate the economic, social and environmental effects of their transport plans and programmes. This resolution includes guidelines on best practice for appraising transport projects and policies and for improving the transparency of decision-making processes.

Sustainable urban travel

The ECMT is organising a series of workshops on implementing recommendations for sustainable urban travel policies adopted by ministers in 2001. A workshop for the US and Canada was held in Washington in November 2003, focusing on how urban travel policies are developed and implemented in a federal government system. Future workshops are planned in Russia and Japan.

Research

The ECMT holds regular round tables, seminars and symposia on transport economic issues. The ECMT organised its 16th international symposium in Budapest in October 2003 on the theme "50 Years of Transport Research: Experience Gained and Major Challenges Ahead". The major topics for debate were decoupling transport growth from macroeconomic growth, the opportunities and limits of deregulating the transport sector and how transport policies could best contribute to sustainable development.

During 2003, it published proceedings entitled *Transport and Exceptional Public Events (Round Table 122)* and *Vandalism, Terrorism and Security in Urban Public Passenger Transport (Round Table 123)*. *Transport and Spatial Policies, The Role of Regulatory and Fiscal Incentives (Round Table 124)* and *The European Integration of Rail Freight Transport (Round Table 125)* will be published in 2004. ■



This bilingual publication describes the main Acts of the ECMT Council of Ministers from the creation of the Conference in 1953 to 1 January 2003. It pares down the Acts of the Council of Ministers to the essentials and defines what constitutes the ECMT's achievements 50 years after the Conference's inception. The book comes with a CD-ROM containing the full texts of the ECMT Acts.

HOW THE OECD
WORKS



Executive directorate

www.oecd.org

The Executive Directorate (EXD) manages the OECD's assets, as well as its human, financial and information resources. It co-ordinates the programme of work and budget, a blueprint for OECD output that balances member countries' priorities against staffing and financial constraints. EXD is responsible for the OECD infrastructure and security, information and communications technologies, conference, language and documentation services.

The directorate will continue work on reforms under way such as in the OECD programme of work and budget, and the management of the renovation of the OECD's La Muette headquarters site in Paris (see box page 10). It will strengthen its budget and financial management and develop a new framework for managing corporate information. EXD will also review its human resources policies, update its strategy on security and contribute to the reform of the Co-ordinated Organisations system.



(Left to right)
Norway's Permanent Representative to the OECD Tanja H. Storm and Norway's State Secretary at the Ministry for Foreign Affairs Thorhild Widvey attending the OECD annual ministerial meeting.

Programme of work and budget

In January 2003, the OECD moved from annual to two-yearly budgeting. At the same time, the Organisation is implementing a results-oriented budget and management system. A set of agreed OECD strategic objectives and output areas is used as a framework in planning, budgeting, monitoring and evaluating projects. In 2004, the OECD will further strengthen its budget and financial management and begin systematic reporting on results.

Human resources management

www.oecd.org/hrm

The service is responsible for recruitment, support to managers, staff administration, training, well-being activities and counselling services. In 2003, the focus was to continue reviewing human resource policies to develop a coherent employment framework that meets the Organisation's requirements.

In 2004, further measures will be proposed to ensure that the OECD maximises the abilities of its staff in a mutually satisfactory manner. The main focus will be on adapting the employment framework, including a reinforced performance assessment scheme and the implementation of e-recruitment. The latter tool will contribute to streamlining human resources processes and ensuring that the OECD remains competitive in the job market to recruit and retain staff with the highest possible skills and competencies.

Financial resources management

Financial instructions and procedures were introduced in 2003 to complement the revised Financial Regulations and Rules. These will allow for more effective and efficient financial management within the Organisation in the areas of expenditure, income, treasury and procurement. The enhanced

financial systems will support better control, reporting and management of resources as well as the shift to a results-based budget.

Annual financial statements are prepared in accordance with international standards, certified by independent auditors and made public (*see box page 11*). The OECD has revised and clarified its financial policies and procedures to ensure flexibility and accountability, in line with best practice principles of governance.

Procurement and contract management

www.oecd.org/pcm

This service provides centralised guidance for the OECD on all procurement and contracts management issues and its mission is to ensure transparent and competitive procurement practices and policies, allowing the Organisation to contract for consistently high quality goods and services at best value prices. Priorities in 2003 were the negotiation and amendment of all contracts affected by the Site Project and the subsequent adaptations needed to contracts for central services as a result, as well as aligning the OECD's procurement procedures to the revised OECD Financial Regulations and Rules implemented in 2003. In support of the revised regulations, the service will continue to actively ensure consistent contract administration and best procurement practices.

DID YOU KNOW...

that more than 33 000 national delegates attended OECD meetings in 2003?

Strengthened security

In the present international context, it is important to strengthen security measures for OECD staff, delegates and visitors. The OECD monitors potential threats and responses in collaboration with the French authorities and security experts from member countries. New facilities are being installed to prevent and detect intrusion, and risk and response levels are being refined. Selection, training and evaluation of security personnel have also become stricter.

Infrastructure services

Much of the work in 2003 was devoted to refurbishing offices and completing technical installations in the Tour Europe at La Défense in Paris to house 1 000 staff during the renovation of the La Muette headquarters site (*see box page 10*). The moves were planned extensively in advance and implemented in phases, with minimum disruption to the functioning of the Organisation. They also provided the occasion to regroup directorate staff across the whole of the OECD site. The Chardon Lagache annex started to be vacated and the procedure for selling the annex was launched.

The moves also provided an opportunity to reduce paper storage. A total of 1.9 linear kilometres of documents were received from directorates and were weeded out in preparation for archiving. Fire safety and asbestos containment work continued on the New Building at the La Muette headquarters site, which will remain operational until the second phase of the renovation in 2006.

Some 450 staff will change offices within the La Murette site during 2004 and 150 staff will move off site so that the first phase of the construction work can begin. Conditions will also be improved in the other major annexes.

Information and Communications Systems

The Executive Directorate provides staff and delegates with advanced high-quality information and communication technology (ICT) facilities. In line with OECD guidelines, ICT security and anti-intrusion measures were significantly strengthened in 2003 in response to increasing threats from computer viruses and spam. A new statistical information system was introduced to improve the efficiency of statistical processing, publication and online dissemination, and to simplify data access. New computing tools to support policy analysis in the macroeconomic and agriculture areas were also deployed. The OECD Web site was entirely revamped and strengthened to make information easier to find and quicker to retrieve (see box page 94). A major upgrade to keep desktop computers, software and telephones up to date was completed, along with work to equip new offices in La Défense with ICT facilities. Corporate management systems were improved and new facilities were introduced to help manage and report on the Programme of Work and Budget.

Use of the OECD member country information network (OLISnet) expanded significantly. The OLISnet service enables more than 11 000 officials in OECD countries to access a wealth of information on OECD policy and committee work, via their Internet browser and a secure connection to the OECD. This provides access to more than 140 000 committee documents, event information, publications, statistical products, an e-mail alert service, discussion groups for committee members and selected information from the OECD Web site.

Conference and language services

The OECD organised 2 700 days of conferences at headquarters and elsewhere in 2003, and translated some 80 000 pages of documents and publications. A three-year project to replace the audio conference equipment will be completed in 2004. ■



(Left to right)
Mexico's Finance Minister Francisco Gil Diaz and Germany's State Secretary at the Federal Ministry of Economics and Labour Alfred Tacke attending the OECD annual ministerial meeting.

Who does what

www.oecd.org/about

The secretariat in Paris carries out research and analysis at the request of the OECD's 30 member countries. The members meet and exchange information in committees devoted to key issues, with decision-making power vested in the OECD Council.

The Council is made up of one representative for each member country plus a representative of the European Commission, which takes part in the work of the OECD. Each member country has a permanent representative to the OECD who meet regularly in the Council. The Council meets at ministerial level once a year to discuss important issues and set priorities for OECD work. The committees discuss ideas and review progress in particular areas of policy.

There are about 200 committees, working groups and expert groups in all. Some 40 000 senior officials from national administrations come to OECD committee meetings each year to request, review and contribute to work undertaken by the OECD secretariat.

The committees are: Economic Policy Committee; Economic and Development Review Committee; Committee for Monetary and Foreign Exchange Matters; Environment Policy Committee; Chemicals Committee; Development Assistance Committee; Public Governance Committee; Trade Committee; Committee on International Investment and Multinational Enterprises; Committee on Capital Movements and Invisible Transactions; Insurance Committee; Committee on Financial Markets; Committee on Fiscal Affairs; Competition Committee; Committee for Scientific and Technological Policy; Committee for Information, Computer and Communications Policy; Committee on Consumer Policy; Committee on Industry and Business Environment; Maritime Transport Committee; Steel Committee; Tourism Committee; Employment, Labour and Social Affairs Committee; Education Committee; Committee for Agriculture; Fisheries Committee; Territorial Development Policy Committee.

The International Energy Agency (*see box page 102*) and the OECD Nuclear Energy Agency (*see box page 100*) deal with energy issues. Work mandated by the Council is carried out by the OECD secretariat's various directorates.



Kiyotaka Akasaka, who took up his post as OECD Deputy Secretary-General on 25 August 2003.

Economics Department (ECO)

www.oecd.org/eco

The Economics Department examines economic and financial developments in OECD countries and in selected non-members. This work is carried out under the auspices of the Economic Policy Committee (EPC) and through the Economic and Development Review Committee (EDRC) which assesses policies in individual member (and some non-member) countries. Three subsidiary bodies of the EPC – the Working Group on Short-Term Economic Prospects, Working Party No. 1 on Macroeconomic and Structural Policy Analysis, and Working Party No. 3 on Policies for the Promotion of Better International Payments Equilibrium – also carry out multilateral and structural surveillance.

The department provides an overall macroeconomic framework to identify priority issues needing multilateral attention. It assesses the implications of a broad range of structural issues in an economy-wide perspective, drawing on work by a number of OECD specialised committees. This currently includes work on the economic implications of ageing, labour market policies, environmentally sustainable growth, public expenditure and tax policies, education and health systems, product-market competition and growth performance.

The twice-yearly *OECD Economic Outlook* presents analysis of recent macroeconomic developments and near-term prospects, highlighting key policy issues, and includes articles on various macroeconomic and structural topics. About 20 *OECD Country Surveys* are published annually under the responsibility of the EDRC, working with the EPC on chapters dealing in depth with a structural topic.

Statistics Directorate (STD)

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stdcontact@oecd.org

The Statistics Directorate collects economic statistics from across the OECD. These are standardised to make them internationally comparable, and are published in both printed and electronic form. The monthly *Main Economic Indicators* is one of the directorate's principal publications. Other specialised publications cover foreign trade, national accounts, employment and unemployment, and there are also regular releases of updated figures, including monthly unemployment rates and changes in consumer prices. Other parts of the OECD publish data and indicators for specialised sectors. In collaboration with statisticians from member countries and other international organisations, the OECD has played a major role in developing new data systems to respond to new policy concerns such as national accounts, energy supply and use, research and development, environment, social aspects and service industries. The Statistics Directorate is also in charge of the co-ordination of all OECD statistical activities and of the development of the new OECD statistical information system.

Environment Directorate (ENV)

www.oecd.org/env
env.contact@oecd.org

The Environment Directorate helps member countries to design and implement efficient and effective policies to address environmental problems and to manage natural resources in a sustainable way. To encourage more sustainable consumption and production patterns, the directorate examines the interplay between the environment and economic, sectoral or social concerns. It works with other directorates on key issues such as trade and investment, agriculture, transport, climate change, and environmental taxes and is a key contributor to the OECD's work on sustainable development. The directorate produces regular peer reviews of member countries' environmental performance. It keeps a permanent watch on environmental performance, compiles environmental data and indicators and produces future-oriented outlooks of environmental conditions. Its programme on environmental health and safety includes work on chemical testing and risk assessment procedures, co-ordinating data and laboratory practice standards, and harmonising methodologies for assessing the safety of modern biotechnology products. The work of the directorate supports the

implementation of the OECD Environmental Strategy for the First Decade of the 21st Century, adopted by OECD countries in 2001.

Development Co-operation Directorate (DCD)

www.oecd.org/dac
dac.contact@oecd.org

The Development Co-operation Directorate (DCD) supports the work of the OECD's Development Assistance Committee (DAC) and of the OECD as a whole by assisting with policy formulation, policy co-ordination and information systems for development. The 23 DAC members constitute the world's major aid donors. The DAC's mission is to foster co-ordinated, integrated, effective and adequately financed international efforts in support of sustainable economic and social development. Recognising that developing countries themselves are ultimately responsible for their own development, the DAC concentrates on how international co-operation can contribute to developing countries' capacity to participate in the global economy and overcome poverty. The DAC Chair issues an annual *Development Co-operation Report* on the efforts and policies of the DAC members, containing official development assistance (ODA) statistics compiled by the DCD. Under the authority of a Deputy Secretary-General, the DCD works closely with other OECD directorates on issues of policy coherence for development, addressed by OECD ministers in their 2002 statement "OECD Action for a Shared Development Agenda".

Public Governance and Territorial Development Directorate (GOV)

www.oecd.org/gov
gov.contact@oecd.org

The Public Governance and Territorial Development Directorate helps countries to adapt their government systems and territorial policies to the changing needs of society. This involves improving government efficiency while protecting and promoting society's longer-term governance values. Under the auspices of the Public Governance Committee and the Territorial Development Policy Committee, the directorate analyses how governments manage the public sector, improve service delivery and make policy implementation more coherent. The directorate promotes innovation in territorial development policy and helps countries manage the current shift from providing subsidies to enhancing territorial competitiveness and from sectoral to place-based policies. It also develops recommendations on best practices and identifies emerging challenges such as e-government.

One of GOV's primary functions is to create a forum where countries can exchange ideas on how to address governance challenges. Top government officials meet in specialised working groups on budgeting and management, policy making, regulatory reform, human resources management, managing conflict of interest, e-government, territorial policy in urban and rural areas, and territorial indicators.

Trade Directorate (ECH)

www.oecd.org/ech
ech.contact@oecd.org

The work of the Trade Directorate supports a strong, rules-based multilateral trading system that will maintain momentum for progressive trade liberalisation and rules-strengthening while contributing to rising standards

of living and sustainable development in both OECD and non-OECD countries. It supports the process of liberalisation flowing from multilateral trade negotiations and the effective functioning of the multilateral trading system, centred on the World Trade Organization (WTO). Analytical work undertaken under the auspices of the OECD Trade Committee seeks to underpin the rationale for continued trade liberalisation and foster an understanding of the links between trade liberalisation and a range of issues of public concern. This work advances an informed debate, helping build consensus on a range of pertinent issues. The directorate is involved in analysis and preparations for ongoing and future trade negotiations that may cover new categories of trade rules, such as those for the environment, competition policy and investment policy. At the same time, its analysis of evolving trade issues and policies can help forestall problems that emerge under the pressure of ever-intensifying competition. And its unique work in export credits steers countries away from distortive trade.

Directorate for Financial and Enterprise Affairs (DAF)

www.oecd.org/daf
daf.contact@oecd.org

The Directorate for Financial and Enterprise Affairs (DAF) promotes policies and best practices designed to keep markets open, competitive and sustainable while combating market abuses and economic crime through international co-operation. DAF supports seven main committees and working groups: the Competition Committee; the Committee on Financial Markets; the Insurance Committee; the Committee on Capital Movements and Invisible Transactions; the Committee on International Investment and Multinational Enterprises; the Working Group on Bribery in International Business Transactions; and the Steering Group on Corporate Governance.

DAF works with government officials through these committees and groups to analyse emerging trends and prepare recommendations favouring policy convergence and best practices for national action and international co-operation. Its work covers many fields including finance, insurance and private pensions; competition law and policy; corporate governance; anti-corruption; and foreign direct investment. Consultation with representatives of business, labour, other non-governmental organisations and non-member governments is increasingly important. DAF activities often result in recommendations, standards, principles or legally binding obligations supported by monitoring or peer reviews to promote effective implementation.

Centre for Tax Policy and Administration (CTPA)

www.oecd.org/ctp
ctp.contact@oecd.org

The Centre for Tax Policy and Administration (CTPA) supports the Committee on Fiscal Affairs (CFA) and its subsidiary bodies. The CFA promotes internationally-accepted tax standards and provides a forum for exchanging views on tax policy and tax administrative matters, as well as delivering a significant part of the OECD co-operation programme with non-OECD economies. The CFA brings together high-level representatives from national capitals and observers from major non-member economies who play a central role in formulating and implementing tax policies. The *Model Tax Convention*, the *Transfer Pricing Guidelines* and the annual publications on *Revenue Statistics* and *Taxing Wages* make up some of the major guidelines and publications resulting from the work of the CFA.

The CTPA works with other directorates on policy issues where design of tax policies and administration influences significantly sector-specific issues, such as education, environment, financial markets and bribery.

Directorate for Science, Technology and Industry (STI)

The Directorate for Science, Technology and Industry helps OECD member countries adapt to the challenges of the “knowledge-based” economy. The directorate provides analysis to underpin government policies emerging scientific, technological and industrial issues, and offers a forum for policy dialogue. The Committee on Industry and Business Environment examines framework conditions for industrial competitiveness and entrepreneurship in the context of globalisation and the shift towards knowledge-based economies; it addresses policies that affect the performances of economies at sectoral and firm levels. The Committee for Scientific and Technological Policy examines how to stimulate innovation and effectively fund and manage science systems; biotechnology, especially its application to human health and sustainable development, is part of the agenda for intense discussion. The Committee for Information, Computer and Communications Policy addresses the many issues involved in promoting the effective and socially beneficial application of information and communications technologies, including electronic commerce, in particular in areas such as telecommunications policy, Internet governance, information security and privacy. The Committee on Consumer Policy focuses on consumer protection in the online marketplace. In areas such as shipbuilding, steel and tourism, the STI works with member countries as well as key non-members to monitor developments and support negotiations towards the adoption of commonly agreed standards or “rules of the game”.

www.oecd.org/sti
dsti.contact@oecd.org



Directorate for Employment, Labour and Social Affairs (ELS)

The Directorate for Employment, Labour and Social Affairs (ELS) oversees work on the interrelated policy areas that can promote employment and prevent social exclusion. Its activities are focused on four main themes: employment and training, health, international migration and social issues. Employment-oriented social policies are considered a key to helping the inactive working-age population get into work and combating poverty and social exclusion. The impact of population ageing on the labour market, the financing of social protection systems, and the implications for migration flows and policies, are another major theme of the directorate’s work. Health, given the impact it can have on society’s well-being as well as its cost to governments, is also a priority.

www.oecd.org/els
els.contact@oecd.org

The directorate monitors employment and earnings patterns, and the annual *Employment Outlook* offers analysis of key labour market trends and policies. The flows and effects of how and why people move between countries are studied and summarised in *Trends in International Migration*. Health and social trends are monitored regularly in *Health at a Glance* and *Society at a Glance*. The directorate also looks at the effectiveness of healthcare and social welfare programmes, the role of women in the labour force and how technology affects workers.

Directorate for Education (EDU)

www.oecd.org/edu
edu.contact@oecd.org

The Directorate for Education helps member countries achieve high-quality learning for all that contributes to personal development, sustainable economic growth and social cohesion. The directorate helps countries design and implement effective policies to address the many challenges faced by educational systems. In particular, EDU develops strategies for promoting lifelong learning in coherence with other socio-economic policies. It focuses on how to evaluate and improve outcomes of education; to promote quality teaching and to build social cohesion through education. Its current activities also include work on the adjustment needed by tertiary education in a global economy, as well as on the future of education.

The directorate produces regular peer reviews of educational systems of member and non-member countries. Progress in education and training systems is presented in an annual compendium of statistics and indicators, *Education at a Glance*. The Programme for International Student Assessment (PISA) provides direct assessment of the levels of achievement of 15-year-olds every three years. Major policy messages from the work are published in the annual *Education Policy Analysis*. Investigations of long-range trends and innovations in education are the specific focus of the Centre for Educational Research and Innovation. The Programme on Institutional Management in Higher Education addresses governance and other strategic issues affecting universities and other institutions, while the Programme on Educational Building focuses on infrastructure.

Directorate for Food, Agriculture and Fisheries (AGR)

www.oecd.org/agr
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The Directorate for Food, Agriculture and Fisheries provides analysis and advice to help governments design and implement policies that achieve their goals, in effective, efficient and least trade distorting ways. It also helps member countries identify policies to achieve sustainable management of agricultural and fisheries resources, and maintains policy dialogue between OECD countries and major non-member economies on issues of mutual interest. The work of the directorate covers three broad areas: agricultural policy reform, agricultural trade liberalisation and environmental sustainability. The annual report *OECD Agricultural Policies: Monitoring and Evaluation* provides unique, internationally comparable information on policy developments and assesses their impact. In the area of agriculture and trade, the *OECD Agricultural Outlook* highlights expected market trends and the likely impact on global markets of alternative future policy scenarios. Concerning sustainability, activities are under way to measure (and increasingly to explain) the environmental performance of agriculture and to examine policy measures and market approaches aimed at addressing environmental quality. The OECD annual *Review of Fisheries* examines policy developments in fisheries. The directorate also manages a programme to develop product standards that facilitate trade and a co-operative research programme for sustainable agricultural systems. Consultations with civil society and a range of other communication efforts directed to governments and various public interest groups are key elements of the directorate's activities.

Public Affairs and Communications Directorate (PAC)

www.oecd.org/about

The Public Affairs and Communications Directorate (PAC) makes information about the OECD's work available to the public in a timely manner, contributing to the transparency and openness of the Organisation. PAC presents "work in progress" on the Internet to elicit public comment, and is responsible for media relations. It also handles the publication (including foreign rights and multilingual translations) and marketing of some 250 books a year, as well as managing a fast-growing online bookshop, the *OECD Observer* magazine, "Policy Briefs", the "Annual Report" and the Ministerial "Key Information" booklet. The directorate manages the OECD's relations with the Business and Industry Advisory Committee (BIAC), the Trade Union Advisory Committee (TUAC), the Council of Europe and the Economics and Security Committee of the NATO Parliamentary Assembly, and is increasingly involved in policy dialogue with civil society. It organises the annual OECD Forum, which brings together leaders of government with business, labour, academics and other civil society organisations to debate issues on the OECD ministerial agenda. PAC is also responsible for OECD centres in Berlin/Bonn, Mexico City, Tokyo and Washington, and serves as a point of contact with other international bodies, parliamentarians, non-governmental organisations and the general public.

Executive Directorate (EXD)

www.oecd.org

The Executive Directorate manages the OECD's assets, as well as its human, financial and information resources. It co-ordinates the programme of work and budget, a blueprint for OECD output results that balances priorities against staffing and financial constraints. EXD is responsible for the OECD infrastructure and security, information and communication technologies, conference, language and documentation services.

Centre for Co-operation with Non-Members (CCNM)

www.oecd.org/ccnm
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The Centre for Co-operation with Non-Members serves as the focal point for policy dialogue between the OECD and non-member economies around the world. It co-ordinates a number of programmes linked to the key themes of OECD work such as the OECD Global Forums which cover sustainable development; knowledge-based economy including biotechnology and e-commerce; governance; trade; international investment; agriculture; competition; and taxation. The Centre also co-ordinates regional as well as country programmes with major non-member economies such as Brazil, China and Russia.

Development Centre (DEV)

www.oecd.org/dev
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The Development Centre serves as the OECD's strategic interface with the international development research community, to support the OECD's strategic priorities through research-based policy analysis and dialogue on development issues, with special emphasis on policy coherence issues. It also helps deepen the OECD's partnership with developing countries and

various state and non-state actors interested in making a contribution to OECD policy deliberations; and provides a focal point for stakeholders in government and civil society, research and academia and the media concerned with economic development in the poorer countries. The Development Centre's membership is entirely voluntary, and includes most OECD countries and some developing countries wishing to be engaged in the Organisation's development dialogue.

Gender Co-ordinator Programme

www.oecd.org/sge/gender

Gender equality remains central to social and economic policy in all OECD member countries. A substantial portion of the OECD's economic and social policy advice will affect men and women differently and it is therefore good practice to determine where gender analysis is needed to ensure continued relevance, enhanced effectiveness and equality of outcome. The OECD Gender Co-ordinator works closely with directorates to integrate gender into the substantive work of research and policy analysis. Gender equality among OECD staff is a matter of central concern to the Organisation, and the Co-ordinator also advises on an action programme to increase gender equality in recruitment, promotion and conditions of work. ■



(Left to right)
Habiba Sarabi, Afghan Minister of Women's Affairs, and Bea ten Tusscher, Chair of the Development Assistance Committee (DAC) Network on Gender Issues, at the OECD/UN joint workshop on "Gender Equality and Reconstruction in Afghanistan" held in July.

OECD Directory

Economic growth and stability

Economic growth

www.oecd.org/economics

An agenda for growth

www.oecd.org/growth/agenda

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Doha Development Agenda (DDA)

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— Ministerial Chair's summary

This year marks the 30th anniversary of New Zealand's accession to the OECD. Accordingly, it was my great pleasure to have had the honour to chair this meeting of the OECD Council at ministerial level.

Our discussions were enriched by the valuable perspectives brought to us through the presence of non-member economies. The important discussion at the OECD Forum and the dialogue with the Business and Industry Advisory Committee to the OECD (BIAC) and Trade Union Advisory Committee to the OECD (TUAC) also fed into our meeting.

The economic outlook

The ministerial council meeting took place at a time when the international environment is difficult and uncertain. It was appropriate therefore that the focus of the agenda was on growth and development, and on restoring confidence.

While a few countries' economies are performing strongly, for others the prospect of a solid recovery is still some way off. Expectations overall are of modest growth this year, picking up somewhat next year.

While geopolitical uncertainty over recent years has not been helpful to recovery, pre-existing macroeconomic imbalances and deep-seated structural problems have played a large part in producing the current economic downturn. Short-term and long-term issues therefore need to be addressed, but they must not be seen as independent – the best-short term policies are also good long-term policies.

Policies to maintain confidence and enhance growth

Many ministers noted with concern the divergence of growth rates in the OECD area over the 1990s, and the fact that under current policies, this divergence looks set to continue. This presents additional policy challenges for the OECD membership as a whole, given the fact that our future prosperity is interdependent. At a minimum, it means lost opportunities, lower world growth, and lower well-being than could otherwise be the case. Concerns were expressed that it could also impact on the economic relationships between our economies.

Many ministers spoke of the need to reinforce multilateral co-operation on economic and trade issues, to bolster confidence and help support growth in the short run, and to help redress this divergence over the longer term. The OECD can play a strong role in leading the debate, and distilling best practice from countries' experiences, especially in terms of what makes for a successful approach to reform.

There was a large measure of agreement on the nature of the challenges we face in maintaining and enhancing growth over the longer run, including



(Left to right)
Helen Clark, Prime Minister of New Zealand and Chair of the ministerial meeting, Donald J. Johnston, OECD Secretary-General, and Supachai Panitchpakdi, Director-General of the World Trade Organization.

the impact of demographic change, increasing productivity, and achieving appropriate labour market flexibility. Addressing these challenges is not easy and policy solutions can not simply be imposed on communities.

For most countries, efforts to improve participation and employment are a priority. Education and training, removal of barriers to entry into the workforce, and measures to encourage older people to stay in work were all identified as common policy prescriptions. Allowing all to play their full part in society and the economy is important both to generate growth and to improve social cohesion and well-being. In considering labour market reform, the right balance must be struck between removing rigidities, protecting vulnerable workers, making work financially worthwhile, and providing an adequate level of social security.

The meeting focused on the economic and fiscal pressures which will flow from the demographic changes expected over the next forty years. Ministers identified a number of policy responses, including increased migration flows, productivity improvements and greater labour market participation. Many ministers noted that demographic changes were bringing into question the sustainability of existing state pension regimes and highlighted the need for ongoing sound public finances.

There was an emphasis on how to improve productivity to drive growth – notably on the need for an environment which encourages innovation and enterprise, the take-up of new technologies and investment in skills, knowledge and ideas. Many ministers noted that trade liberalisation would enhance domestic competition and innovation. Particular attention was paid to the service sector which is becoming an increasingly important part of most economies. The proposal tabled by Japan was referred to the OECD Council for further consideration. It was agreed that the OECD should continue work on how economic performance in the service sector can be enhanced.

Confidence and trust in the institutions of governance and the marketplace were identified as being of fundamental importance for growth. In this respect ministers underscored the need for governments to translate the political will to tackle the issues into concrete action.

The meeting also received a report from the dialogue with BIAC and TUAC which had stressed the importance of confidence for promoting growth and in this context the need for good corporate governance, even if there were alternative views expressed about how this should be achieved. The Chair indicated to the meeting that further consideration should be given to allowing BIAC and TUAC observer status at future Ministerial Council Meetings.



(Left to right)
Berglind Ásgeirsdóttir, OECD Deputy Secretary-General, Geir H. Haarde, Minister of Finance, Iceland, and Sigrídur Snaevarr, Permanent representative of Iceland to the OECD.

Sharing in the gains: promoting growth and investment in developing countries

For this part of our agenda, we benefited from hearing the perspectives of invited ministers from developing countries.

It was noted that at Doha, Monterrey and Johannesburg, OECD members affirmed their commitment to promoting sustainable economic growth,

achieving the United Nations Millennium Development Goals, and lifting many millions of people out of poverty.

Ministers agreed there was scope to do more to assist developing countries, particularly in Africa, to gain from globalisation. This will require a focus on capacity building and a coherence of other policies necessary to encourage growth.

Investment – domestic and foreign – is vital for financing economic development. Confidence to invest requires political stability, sound economic policies, absence of corruption, and good governance in both the corporate and public sectors. ODA flows are a complementary and necessary source of funding.

It was noted that the OECD is active in many of these areas. There was wide support for the OECD Council to look at a proposal from Japan for additional work on a strategy to promote investment in developing countries.

Ministers stressed that the access of all countries to markets and technology is an essential ingredient for growth. There was acknowledgement that OECD members' policies are important to this end, particularly in respect of the way in which those policies impact on developing countries' export prospects.

If investment into developing countries is to thrive, these countries need markets to sell their products into. Ministers recognised that a major factor in encouraging further investment in developing countries will be the continued opening of global and regional markets.

Business must also be partners in the development process. The OECD Guidelines for Multinational Enterprises have encouraged businesses to take into account not only economic and financial factors, but also the developmental, social and environmental implications of their undertakings.



International trade issues

There was an unambiguous sense of commitment by ministers to making the WTO negotiations successful, recognising that the WTO Doha Round is a once in a generation opportunity which we cannot afford to miss.

There was frank acknowledgment that important deadlines have been missed. And there remain real divergences of views. But there was a will to tackle those divergences.

There was a sense of needing to shift gears to get from Cancún to the end of the negotiations by the end of 2004.

Ministers were clear on the following three points:

- A full commitment to the level of ambition for these negotiations set for ourselves at Doha.
- A full commitment to building momentum to get the job done by January 2005.

■ A balanced outcome for all, with development being central to the negotiations and a commitment to making the decisions needed.

There were really useful signs of detailed engagement. That was particularly the case with non-agricultural market access, where there is an important deadline in Geneva in May. There were emerging building blocks for that item brought forward at this meeting: concepts such as a formula getting low duties to zero, meeting special and differential needs and sectoral tariff elimination possibilities. There is a need to be ambitious and building blocks are emerging.

There was also a useful convergence on setting a business-like agenda for the way forward. Ministers were seized of the value of setting an action agenda: the five or six ministerial decisions where political attention will be needed over the coming months. The need for leadership at this critical time was a central theme of the discussions. There is obvious transatlantic co-operation – despite areas of difference on matters of substance – to move forward to a successful outcome.

The discussion showed there is no great mystery about the sorts of decisions needed now:

■ Taking the key decisions on access issues like agriculture, industrial products and services so that substantive negotiations beyond Cancún can commence. The access hurdle is central. This is where tangible gains are potentially huge and our developing country participants made this clear – especially on agriculture.

■ Making sure the development dimension is fully reflected in those areas and that the other development issues on the Doha Development Agenda (DDA) are advanced such as on issues of special and differential treatment. The Agreement on Trade Related Aspects of Intellectual Property (TRIPs) and health is particularly important here. A number of participants stressed the need to settle this and developing country participants emphasised its significance to them.

■ Taking the decision on the so-called Singapore issues set down in Cancún.

■ Getting decisions on a political direction or the precise scope of systemic issues such as dispute settlement, environment, geographical indications and rules.

Finally, the analytical capacity of the OECD to support negotiations was emphasised. There were also a number of ideas on how the value of the OECD can be further maximized. These will be taken up in the Council to work out the “whether” and “how” to deal with them. The OECD’s intellectual and practical capacity is needed on such issues.

OECD reform

Finally, ministers were concerned that the OECD continue to be able to work effectively. In this regard, ministers were pleased to note the Secretary-General’s report on the progress on reforming the organisation, and the road map for further measures recently adopted by the Council. Ministers will look to making decisions on key reform issues at their 2004 meeting. ■



(Left to right)

Randall S. Kroszner, Member of the US Council of Economic Advisors with Peter Costello, Australian Treasurer.

PRACTICAL
INFORMATION



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March 2004

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European Conference of Ministers of Transport

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OECD Organisation Chart

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March 2004

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| Trade Directorate | Directorate for Financial and Enterprise Affairs | Centre for Tax Policy and Administration | Directorate for Science, Technology and Industry | Directorate for Employment, Labour and Social Affairs | Directorate for Education | Directorate for Food, Agriculture and Fisheries |
|-------------------|--|--|--|---|---------------------------|---|

Ambassadors, Permanent representatives to the OECD

March 2004



Left to right:

Australia
His Excellency Mr. Ian K. Forsyth
Austria
His Excellency Mr. Ulrich Stacher
Belgium
Her Excellency Ms. Régine De Clercq
Canada
Her Excellency Ms. Jocelyne Bourgon



Czech Republic
His Excellency Mr. Jirí Maceška
Denmark
His Excellency Mr. Peter Brückner
Finland
His Excellency Mr. Jorma Julin
France
His Excellency Mr. Dominique Perreau



Germany
His Excellency Mr. Hans-Stefan Kruse
Greece
His Excellency Mr. Georges E. Krimpas
Hungary
His Excellency Mr. Károly Lotz
Iceland
Her Excellency Mrs. Sigrídur Asdis Snaevarr



Ireland
His Excellency Mr. John Rowan
Italy
His Excellency Mr. Francesco Olivieri
Japan
His Excellency Mr. Seiichiro Noboru
Korea
His Excellency Mr. Kyung-tae Lee

*Left to right:*

Luxembourg

His Excellency Mr. Hubert Wurth

Mexico

Mr. Alejandro Ramirez Magaña (ad interim)

Netherlands

His Excellency Mr. Frans Engering

New Zealand

His Excellency Mr. Adrian Macey



Norway

Her Excellency Ms. Tanja H. Storm

Poland

His Excellency Mr. Jan Bielawski

Portugal

His Excellency Mr. Basílio Horta

Slovak Republic

His Excellency Mr. Dušan Bella



Spain

Her Excellency Ms. Elena Pisonero

Sweden

Her Excellency Mrs. Gun-Britt Andersson

Switzerland

His Excellency Mr. Wilhelm B. Jaggi

Turkey

His Excellency Mr. Sencar Özşoy



United Kingdom

His Excellency Mr. David Lyscom

United States

Her Excellency Ms. Constance A. Morella

European Commission

His Excellency Mr. John Maddison

— OECD member countries with date of membership

| | |
|----------------------|-----------------------|
| Australia, 1971 | Korea, 1996 |
| Austria, 1961 | Luxembourg, 1961 |
| Belgium, 1961 | Mexico, 1994 |
| Canada, 1961 | Netherlands, 1961 |
| Czech Republic, 1995 | New Zealand, 1973 |
| Denmark, 1961 | Norway, 1961 |
| Finland, 1969 | Poland, 1996 |
| France, 1961 | Portugal, 1961 |
| Germany, 1961 | Slovak Republic, 2000 |
| Greece, 1961 | Spain, 1961 |
| Hungary, 1996 | Sweden, 1961 |
| Iceland, 1961 | Switzerland, 1961 |
| Ireland, 1961 | Turkey, 1961 |
| Italy, 1961 | United Kingdom, 1961 |
| Japan, 1964 | United States, 1961 |

