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OECD FORUM: FUELLING THE FUTURE
Security, Stability, Development

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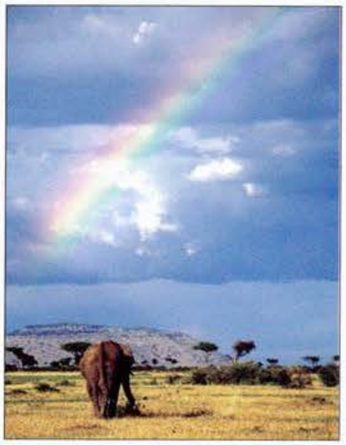

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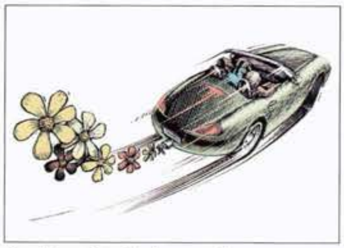

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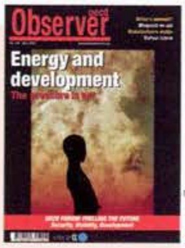

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An African child is silhouetted against a gas flare in Nigeria's southwest delta. Deadlines are slipping for the development goals, global warming and energy. As OECD Secretary-General Johnston puts it, "we need to explore promising alternatives to the dismal scenario which is currently unfolding".

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Pension crux

The OECD identifies three fundamental goals of pension reform in the developed world: The reduction of public pension liabilities, the diversification of the sources of retirement income, and the lengthening of working life (No.248, Spotlight on social affairs). While I fully agree with the latter two, I think it is necessary to qualify the first objective.

From an economic point of view, the OECD should be concerned about total pension liabilities, not just public pension liabilities. This is an issue that often creates confusion, and requires clarification: irrespective of ownership, pension liabilities represent huge claims on future economic output. In ageing societies, this represents a big problem, to which governments must find the correct policy responses. But it is a problem that largely transcends the debate about the relative benefits of public and private pension systems, however important that debate is.

The two other proposed goals address the crux of the problem. It seems inevitable, and has been argued thoroughly in these pages, that if people are living longer, and the relative size of the workforce is shrinking, then people will also need to work longer. This will require a big cultural change on the part of both employers and employees (and representative trade unions). But rather than just closing off options to retire early, the OECD needs to encourage governments to erect more attractive regulatory framework for people who delay retirement. It should also direct more effort into identifying the causes of job satisfaction and dissatisfaction, and act on the findings.

The third point about diversifying the sources of retirement income is also crucial. Dependence on one income source (usually a pay-as-you-go public pension scheme) is clearly risky, particularly in an era of globalisation and mobile capital, which may restrain the taxing capacity of future governments. Workers need to increase their savings, and place these savings in well-diversified assets. This is a function that private pension funds seem better placed to carry out than the public sector. Pension funds can also diversify geographically, investing in developing countries with young workforces and high rates of economic growth. This may be the most coherent form of diversification for pensioners in ageing, developed societies.

Brian McGarry
Economics consultant
Barcelona, Spain

In a nut-Shell

Bravo to Barnaby Briggs and Shell for their good neighbour policies (No. 246-247). Alas, good neighbours are not enough. Shell and other major oil companies should plough more of their profits from the recent oil price spike into real local initiatives in the poor countries they operate in, and with more than just friendly smiles to the locals. Such investment could make a difference, not just to Shell's business image, but to achieving the millennium goals.

Wynne Smythe
Oweri, Nigeria

The energy challenge

Donald J. Johnston, Secretary-General of the OECD

The Ministerial Council meeting and Forum this year provide a rich menu of issues for consideration including investing in energy, structural adjustment in response to globalisation, development challenges, as well as the progress of trade negotiations under the Doha Round.

These are all important. But my focus in this editorial is on the energy discussions within the OECD, which will for the first time bring together ministers of finance and of energy. Why is that important? Because the most recent *World Energy Outlook* of the International Energy Agency, a sister organisation of the OECD, concludes that meeting projected energy demand will require a cumulative investment of some \$16 trillion between 2003 and 2030.

How will such an investment be financed? Public funds, private capital, partnerships of both? And in what areas will the investments be made? Several facts that emerge from the projections are of great concern.

It is suggested, for example, that even after this major commitment of capital there will be virtually no change in the energy mix under the business-as-usual scenario. This means that without a radical change in direction, fossil fuels will continue to supply the bulk of energy demand. This in turn would suggest that greenhouse gas emissions, especially CO_2, will continue to rise, perhaps above the threshold beyond which many scientists believe that global warming will be irreversible, somewhere between 400-600 parts per million (ppm) of CO_2 in the atmosphere. Business as usual will see levels passing 400 ppm within seven years!

We hear much of the future of renewable energy such as wind, sun, biomass, wave and some hydropower. However, on this score the projection is most discouraging, suggesting that the proportion of energy generated from these sources will remain at its current level of around 14% in 2030. Given a projected increase in energy demand of 60% over the intervening period, this still represents a massive investment in renewable energy; but it is clearly not enough to reduce our reliance on fossil fuels.

Another factor to consider is that most of the increased demand will come from rapidly developing countries outside the OECD. For the major economies such as China, India, Brazil and Russia, the necessary investment in energy may be manageable. But the poorer countries will not join the mainstream of developed nations without a considerable investment in energy infrastructure. Finding sources for that investment will be quite a challenge, one that energy, finance and development ministers must address together in a coherent way.

Some scientists of considerable authority and widespread respect, such as Nobel Prize winner Burton Richter and James Lovelock, see nuclear as the most logical and proven technology to help address the twin challenges of meeting energy demand and reducing greenhouse gas emissions. This technology, however significant in some countries, such as France where it supplies some 80% of the electricity, remains controversial. But can we afford to ignore it, given the alternative scenarios we face, especially climate change?

Other environmentalists, such as Lester Brown, look to wind energy as the best answer to these challenges. However, while others see it of growing importance, many doubt that it can ever be capable of supplying the base load required by industrialised and industrialising countries. Clearly, some well-informed debate is needed on these questions, so that the facts at least can be definitively established. The policy choices would then be clear.

These issues also need to be discussed before making decisions about investments in research and development, as we need to explore promising alternatives to the dismal scenario which is currently unfolding.

Of course, some of that investment will be in the thermonuclear experimental fusion reactor, the ITER project, pursuing fusion as a future "silver bullet" that might meet our energy requirements. But this looks a long way off–almost certainly too far to prevent the emissions of fossil fuels reaching critical levels, unless we take other measures in the meantime. Nevertheless, it would help if the international consortium could settle on the site for this project, so that the real work can begin as soon as possible.

Given the fact that climate change is on the G8 agenda at the summit taking place in July in the UK, this discussion at the OECD may provide some useful preliminary insights, as should the meeting at ministerial level of the Roundtable on Sustainable Development, scheduled for early June.

We are fortunate at the OECD to be a unique organisation with the capacity to address all issues dealing with the future of energy. Here we have as sister organisations, the International Energy Agency and the Nuclear Energy Agency, as well as the expertise concerning technologies within the Global Science Forum and the OECD's fundamental expertise in economic analysis, financial markets and, of course, the environment. It would be a missed opportunity indeed were members not to combine all these assets into an integrated approach to addressing one of the most important global challenges of the 21st century. ■

Making globalisation work for all

Göran Persson, Prime Minister of Sweden
and Chair of the 2005 OECD Ministerial Council

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This year is one of great opportunity. I hope that 2005 will bring a stronger global commitment to shared growth, sustainable development and effective multilateralism. In July, the G8 will address climate change and poverty in Africa. In September, world leaders will meet at the UN Summit to advance global development and strengthen the United Nations. And in December, the WTO ministerial in Hong Kong could pave the way for further trade liberalisation that may boost rich and poor countries alike. To launch this summit season, the OECD Ministerial Council and the Forum which precedes it present an important opportunity for ministers and civil society to update and refine the international policy agenda in key areas.

We will meet under the unifying theme of "Enabling Globalisation". I am looking forward to chairing our discussions on how to maximise and spread the benefits of globalisation to all countries and all people. It is evident that the high-income part of the world, which the OECD represents, bears a special responsibility in this endeavour. It is a question of solidarity and shared humanity, but also of self-interest. To protect prosperity at home, we must be part of the sustained assault on poverty elsewhere. We can succeed only by engaging with the rest of the world. I am very pleased that ministers from key non-member states and developing countries will contribute to our discussions on how to better share the gains of globalisation. I expect us to make progress on some of the critical issues on the international agenda this year. The following four themes are of particular importance in my view.

Fighting poverty

We have made progress towards meeting the Millennium Development Goals, but results vary greatly by goal and by region. The good news is that we know that development works. The challenge now is to make it work everywhere. We must do more for those who live in the backyards of globalisation, especially in sub-Saharan Africa. I believe that a political momentum to this end is starting to build. OECD countries have collectively increased their development aid for three consecutive years, including by more than 4% last year, after three decades of stagnation and decline. But our collective aid effort still falls way short of the 0.7% of national income that we have pledged at the United Nations.

Fighting poverty should be an objective for all our policies. It is a task for finance, trade and agricultural ministers as much as for ministers responsible for development aid. We must be coherent in our approach. We cannot continue to give with one hand, and take with the other. It is my hope that OECD ministers will send a strong joint message to the UN summit in September 2005 on progress made and further efforts to fulfill the Millennium and Monterrey declarations. I expect that there will be broad agreement on the need to increase global aid volumes, to make assistance more efficient, to mobilise other resources for urgent development needs, and to eliminate trade-distorting subsidies.

Managing the environment

The point of departure for our deliberations is the realisation that today's pattern of world energy consumption is unsustainable. The world's near total reliance on fossil fuels is causing great environmental damage. At the same time, the OECD countries' growing dependence on imports makes us economically vulnerable to high energy prices. But we can choose another path. I look forward to our discussions on ways to mobilise investment for increasing energy efficiency, finding new sources of energy, and developing cleaner technologies.

The objective of increasing energy investment should be two-fold: to maintain strong growth while tackling decisively the threat of climate change. In February, the Kyoto Protocol became a legally binding treaty. But not even if fully implemented does the protocol halt global warming and its grave consequences. More countries need to accept caps on emissions of greenhouse gases. And we urgently need to start looking at a climate regime beyond 2012.

Turning change into a chance

Globalisation is a powerful force. We must learn to live with increased competition and the rapid changes it involves. We have all to gain from structural adjustment that leads to a more efficient division of labour and faster growth. But competitive pressure can also give rise to periods of unemployment and insecurity that affect people's everyday lives. We must ensure that globalisation is not perceived as a threat. We must facilitate change by providing bridges from the old to the new. People must feel secure in order to seek the full benefits of change.

This is about education and lifelong learning. It is about broad social security and active labour market policies. It is about equal opportunities for men and women on the labour market. Equality, justice and welfare are advantages in the globalised economy. I strongly believe in the close link between successful competitiveness and a strong welfare state.

Advancing the trade agenda

Open trade is a powerful engine for economic growth, employment and development. The implications of free trade reach far beyond economy. Poor and rich countries alike can gain from continued improvement and reform of the international trade system. Heading towards Hong Kong in December, I hope that all OECD members will engage constructively across the board to make progress in the Doha Development Agenda Round. A successful completion of the Doha Round is the best way to unlock the trading potential of developing countries and make a substantial contribution to development. The potential benefits are many times larger than the total official development assistance from OECD countries.

Globalisation offers great opportunity for all of mankind. Our task is to seize on the potential of globalisation while combating its costs and disadvantages. Let us take the opportunity provided by the OECD ministerial council meeting 2005 to make progress!

We could all be inspired by the compelling words of a Swede who towered on the international stage in the 20th century and who incidentally helped create what is today the OECD, former UN Secretary-General Dag Hammarskjöld, born a 100 years ago this year: "Future generations may come to say of us that we never achieved what we set out to do. May they never be entitled to say that we failed because we lacked faith or permitted narrow self-interest to distort our efforts." ■

• News brief •

Better boardrooms

Donald J. Johnston, OECD secretary-general, announced in April the launch of a high-level business group initiative to promote better boardroom practices in both developed and less-developed countries. The OECD already plays a leading role in spreading best practices in corporate governance, notably through its Principles of Corporate Governance that have become a standard for corporate reform efforts worldwide.

To continue this important initiative, the OECD is launching a new project–the Business Sector Group–to give practical guidance to board members, particularly directors, trying to improve their act. "Boards of directors worldwide have come under increasing criticism in the last several years for failing in their obligation to oversee the performance of management," Mr Johnston said in launching the new project. Noting recent corporate disasters that have resulted from malpractice, the secretary-general said that "this new OECD initiative will offer practical guidance and hopefully spur boards around the world to embrace an active and attentive role".

The group will provide concrete advice on how board members can put good corporate governance into practice, notably in the absence of detailed or prescriptive regulation, and will address a range of challenges that boardrooms face around the world. A draft report will be posted on the OECD website for public consultation and comment in late 2005.

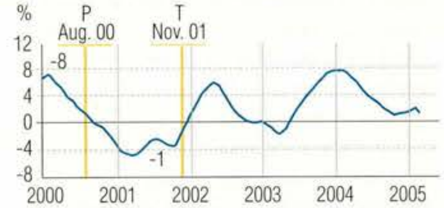
Ira M. Millstein, senior partner at Weil, Gotshal & Manges LLP, a US law firm, will chair the group. Mr Millstein chaired the 1998 Business Sector Advisory Group on Corporate Governance to the OECD that authored the report, *Corporate Governance: Improving Competitiveness and Access to Capital in Global Markets*. Other key members of the Business Sector Group will include: Peter Dey, author of the 1994 Dey Report on corporate governance, Canada; Sir Adrian Cadbury, author of the 1992 Cadbury Report on corporate governance, and former chairman of Cadbury Schweppes, UK; Gerhard Cromme, chair of the German Corporate Governance Code Commission and chairman of the Supervisory Board, Thyssen Krupp, Germany; and Dominique de la Garanderie, board director of Renault, France. Holly J. Gregory, a partner at Weil, Gotshal & Manges, LLP, will act as senior counsel to the group. ■

For more information, contact OECD Media Relations: Spencer.Wilson@oecd.org.

Slow growth ahead

Slowing trend

Composite leading indicators, annualised 6-month rate of change



Early signals of the CLI for turning points (P: peak, T: trough) in the reference series, e.g. a peak for August 2000 was predicted by the CLI, 8 months in advance (i.e. -8).

Source: OECD.

The OECD's composite leading indicators still point to slow expansion ahead in the OECD area, according to the latest figures. The leading indicators are designed to provide early signals of likely turning points in activity, but so far the trend remains weak. Leading indicators for the OECD area fell by 0.2 point in February. Its six-month rate of change was down, after three months of slight increases.

Data pointed to weakening performance for all G7 countries except Canada. In the US, the euro area, the UK and France, leading indicators fell by 0.1 point. The six-month rate of change fell in the US (after 3 months of increases) and in Italy. It has continued to drop in the euro area since December 2003, and for the past 12 months in France. In the UK, the six-month rate of change was stable, having fallen for three consecutive months. Leading indicators decreased more sharply in Japan, by 0.7 points, and its six-month rate of change was down for the second month in a row, having increased for the previous three months. In Germany, where leading indicators fell by 0.4 point, the six-month rate of change has been on a downward trend since January 2004. ■

Plus ça change…

"Electricity consumption, on average, is doubling every ten years throughout the world, and there is no sign of this rate decreasing. Although future needs can for some years be satisfied from conventional energy resources, eventually (perhaps within a few decades), both the most industrialised and less developed countries will be compelled to turn to nuclear power."

From "Atomic energy for Europe's future needs", *OECD Observer* No. 2, January 1963.

• News brief •

Saving oil in a hurry

What can we do in the face of an oil shortage or a continued oil price spike? In *Saving Oil in a Hurry: Measures for Rapid Demand Restraint in Transport*, expected for release in late April 2005, the International Energy Agency (IEA), a sister organisation of the OECD, proposes several measures for saving oil in case of a serious threat of oil scarcity. These include reducing speed limits to 90 km/h, imposing driving bans, lowering or cutting public transport fares, compressing the work week, and promoting car-pooling and telecommuting. These proposals could save up to one million barrels a day. However, some of the controls, such as managing car use according to number plates, are costly or difficult to implement.

These measures are all the more important as the IEA, concerned by oil costs and oil supply security, insists on toughening up one of its basic principles: importing countries should take energy saving measures if oil deliveries are reduced by one or two million barrels a day, instead of the original official figure of 7% of global oil supply (about six million barrels a day), agreed in the treaty that founded the IEA as an energy watchdog for industrialised countries after the oil crisis of the 1970s. A fall of just one or two million barrels per day would be roughly the equivalent of the drop caused by the 2003 Iraqi war. ■

More information is available at www.iea.org.

Job rate stable

Unemployment is holding steady in the OECD area, averaging 6.7% from November to February 2005, some 0.3 percentage points lower than a year earlier. The US unemployment rate fell from 5.7% in February 2004 to 5.4% in February 2005, and to 5.2% in March. The rate in Japan, at 4.7% in February, was 0.3 percentage point lower than a year earlier. But in the euro area, the jobless rate edged up from 8.8% in January 2005 to 8.9% in February, the same rate as a year earlier. It was a point higher than a year earlier in France, at 9.8% in February 2005, and in Germany, at 9.7%. The UK's rate remained low at 4.6% in December 2004. ■

Challenging goals

Five years after the UN Millennium Development Goals were established, the consensus is clear; the relief offered to developing nations simply is not enough. Official development aid (ODA) rose 4.6% in real terms to a record $78.6 billion in 2004, according to the OECD's Development Assistance Committee (DAC), but remains well below the 2015 goal of $195 billion.

Fifteen of the 22 members of DAC reported increased aid in 2004. The US led, with $19 billion. Though rising slightly, at just 0.16% of gross national income (GNI), it was the second lowest ratio in the OECD after Italy. The 15 EU members of DAC contributed 55% of ODA in 2004. The $42.9 billion donated by these nations represents 0.36% of their combined GNI.

ODA is expected to rise again in 2005-2006. If all donors deliver on their promises, aid should rise from 0.25% of GNI last year to 0.30% by 2006. Only five OECD countries exceeded the 0.7% UN target. ■

For more, see www.oecd.org/dac/stats.

Migration steadies

Fewer people emigrated to major OECD countries such as Australia, Canada, the US and major European countries including Germany and the Netherlands in 2003, according to the latest data. The US, for instance, welcomed 706,000 permanent immigrants in 2003, compared with just over 1 million in 2002.

The data, released in the latest edition of the OECD's *Trends in International Migration*, also show there were fewer asylum seekers in OECD countries in 2003-2004, reversing an upward trend. Numbers of asylum seekers in the 15 countries that were members of the EU at the start of 2004, fell by 25% during the year. France received more asylum seekers than any other OECD country, with 61,600 new applicants in 2004.

Despite initiatives to facilitate integration, immigrants, particularly women and younger people, have more difficulty than nationals to find work, the new report points out. In the Netherlands, for instance, the labour market participation rate of women (in work or looking for work) is 34 percentage points lower than that of nationals.

In a bid to improve management of migration flows, many OECD governments have imposed stricter laws on entry and residence of foreigners. The new report also shows that 12.3% of the US population in 2003 was foreign-born, compared with 9.7% in Europe (EEA and Switzerland), 19.3% in Canada, as much as 23% in Australia and just 0.8% in Japan. ■

Trends in International Migration 2004 can be ordered at www.oecdbookshop.org.

European Patent Office

Patents are a driving force in the social and economic progress of society. In the global economy, national markets and societies are increasingly interconnected. The liberalisation of markets leads to a breakdown of market barriers for products, making it more and more important for firms to protect their innovations beyond their own national borders.

The European Patent Office (EPO) offers the world's largest system for cross-border protection of innovations. **European patents cover up to 36 countries**, reaching a market of more than 540 million people.

The EPO acts as guardian of the innovation process in Europe and beyond. For investors and innovators from all over the world, European patents have become a pillar in their business strategy. **The EPO grants patents for inventions in all fields of technology, rewarding innovative solutions to technical problems with a strong protection right.** With more than 6 000 staff, including 4 300 highly trained scientists and engineers, the EPO is dedicated to supporting innovation and the competitiveness of enterprises.

European patents are a key protection instrument for the knowledge economy, where innovation and technical change act as catalysts for economic growth. A rising demand for patent protection testifies to an increasing need for enterprises to have their intellectual capital protected. **The EPO has aligned its patenting practice to the task of efficiently supporting the needs of its customers and society at large in the emerging knowledge economy.**

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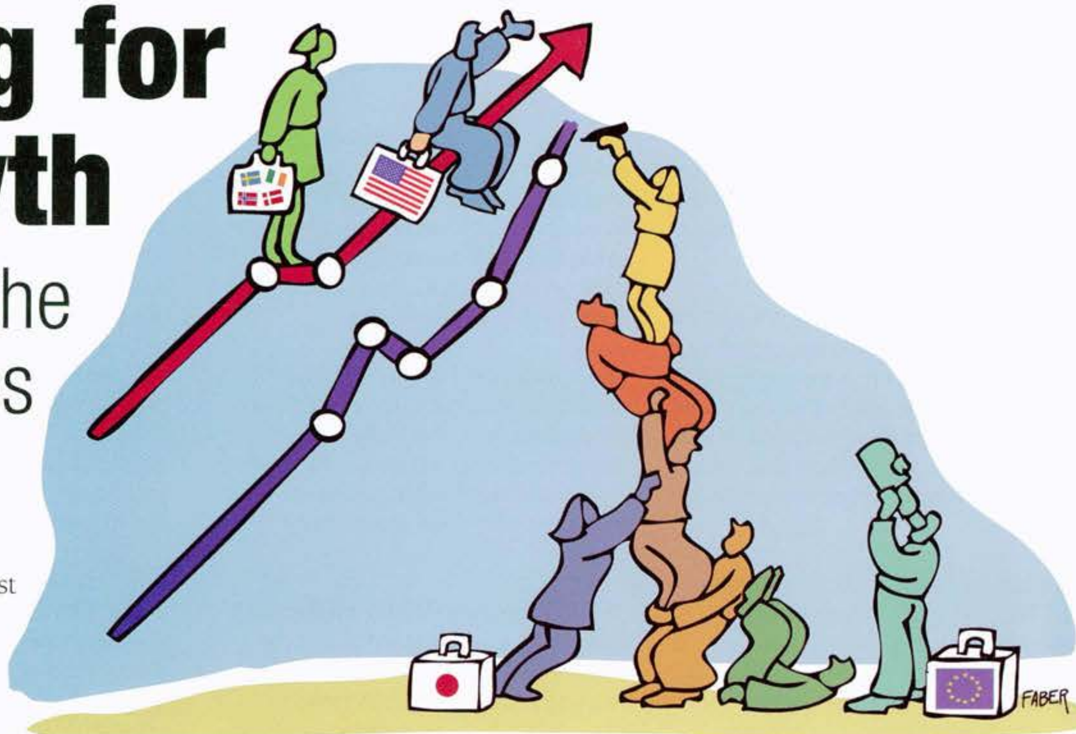
Going for growth
Getting the strategies right

Jean-Philippe Cotis,
OECD Chief Economist



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Disappointment about persistent economic underperformance is now widespread in several major OECD countries, particularly in the EU and Japan. At the same time though, governments accept that restoring growth is key to preserving standards of living, particularly at this time of rapidly ageing societies. Achieving this will be hard.

The story is becoming a familiar one. Economic catch-up, which was widely believed to be automatic, started to stall during the 1980s and degenerated into relative decline during the 1990s. Today GDP per capita in France, Germany or Italy is 30% below US levels. The trouble is, without action, this gap between leaders and laggards will increase over the foreseeable future. To put it in a nutshell, several countries are faced with a major growth challenge.

For Europeans, in particular, a wider gap hardly furthers the Lisbon Agenda's ambitious target of "overtaking" the US. Setting the bar high is worthy, but the approach has its drawbacks, not least because it tends to cloud the bleak reality of much of Europe's policy performance. In other words, before overtaking the US, the first objective should be to stop the relative decline. This will be hard to do in a context of ageing populations. There are encouraging signs. The UK, for instance, has done a better job than its European neighbours in closing at least a small portion of the gap with the US, but the bulk of the catching up still lies ahead.

Convergence will not come by itself, and clearly we economists must work harder to explain the need for reform. Benchmarking can help us. Through naming and shaming and, at times, praising, our message may finally get through. That is why we have launched a new series on "Economic Policy Reforms", starting with the first study, *Going for Growth*.

At the end of the day, being unable to keep up with competitors is nothing other than losing capacity, not just in economic terms, but in terms of learning from others, their successes and their mistakes. Regaining this capacity to learn implies first an ability to position oneself on an international scale and to evaluate the gaps that need to be bridged.

Assessing the extent to which one is lagging behind is, of course, unpleasant to some, especially if that gap is widening. The natural temptation is to belittle the significance of the comparison. In the end, aren't we all unique and truly incomparable! Surely our own choices and way of life are worth so much more than a vulgar GDP per capita statistic.

This reticence in the face of potentially misleading comparisons can be greatly exaggerated, but it is not without legitimacy. Nevertheless, recent methodological progress can help us.

The OECD has developed a diversified set of structural indicators in the areas of labour and product markets, which do a reasonably good job at explaining economic performance. And they show that in many cases, bad policies as opposed to legitimate societal choices can explain weak GDP performance. Ignoring these rigorous comparisons would be a mistake.

In any case, benchmarking is not just the business of governments, but of society as a whole, since there is no successful reform without the public's support. And in many countries there is a need to win over public opinion, to show that reform does not have to be about winners and losers.

So, what do these OECD indicators look like? First, we examine performance indicators such as GDP per capita and its main components: labour utilisation and labour productivity. These components are in turn subdivided. For instance, labour utilisation is broken down into overall rates of employment and number of hours worked per employee. Overall rates of employment are themselves split into employment rates by age group, and so on.

Alongside these performance indicators, there are policy indicators, dealing with labour and product markets. We evaluate the stringency of employment protection legislation, for instance, and the relative cost of unskilled labour.

Take the example of the UK. Its overall rate of labour utilisation is high, and its very good labour market performance is matched by very good policy indicators, too. The UK's success is not accidental. Its main challenge lies, of course, in the field of productivity. Over the past five years the UK performed better than its European counterparts but no better than the US. Yet, product market regulation indicators are generally excellent, unlike on the continent.

The sources of the productivity problem are to be found elsewhere, according to our assessment. One of them is the efficiency of the education system. In particular, the share of youngsters with only lower secondary education is very large and vocational training is not meeting the requirements of a modern workplace. Reforms are underway in these areas, but more should be done in terms of quality or coverage.

Assessing the extent to which one is lagging behind is, of course, unpleasant to some, especially if that gap is widening.

As for mainland Europe, there has been noticeable progress in the opening of product markets, markedly under Brussels influence between 1998 and 2003. This should show up in the next few years in terms of productivity increases.

As far as European labour markets are concerned, it is not obvious that the conditions are being met to stem the ongoing relative decline in terms of GDP per capita. There are glimmers of hope with the very recent reforms in Germany (unemployment insurance, working time) or Italy (employment protection legislation).

Overall, though, major European countries still lag behind in terms of GDP per capita, in large part because of a low rate of labour utilisation, and, more specifically, because labour force participation of ageing people is weak. People over 55 are basically absent from the labour markets, while they are still very active in Asia, North America and English-speaking countries, and in Nordic countries, too.

Is this a reflection of different cultural choices, with retiring early a reflection of a better way of life? Or does the gap stem from misguided policies that are hampering labour supply?

Our analysis suggests the latter is more responsible. We have computed "implicit tax on continued activity" indicators. This tax represents the income forgone by a person who would like to continue working despite the possibility of taking advantage of generous early retirement schemes. Where the implicit tax is high, the participation rate of ageing workers is generally well below OECD average.

Through rigorous econometric analysis, we have simulated what would happen in a state of the world where social and pension systems are neutral with respect to labour supply all across the OECD. And we find that in the absence of biased public policies, French people may wish to work as long as their American counterparts. In other words, policy, not preferences, has a lot to answer for. That means there is hope for reform.

This is not a superficial benchmarking exercise based solely on rankings, but it goes further to diagnose policies and their influence on performance. The OECD plans to publish this comprehensive benchmarking every two years. That will give a little time for economic reforms to develop and for indicators to evolve. The next benchmarking exercise will be delivered in early 2007.

Before that, we will publish a special issue, at the beginning of 2006, assessing progress achieved in the area of economic reforms over 2005. It will focus on the contribution of financial markets to long-term growth and short-term economic resilience. We will also look closely at the role of innovation policies.

Together with analysis of labour and product markets, taxation, pension systems and, to some extent, education, this will help build a complete picture of the economic policy landscape in OECD countries. Hopefully, the series will help the public to see reforms in a constructive, positive way, and serve as a catalyst for change designed to improve economic performance. That is, after all, what the OECD reform agenda is really about. ■

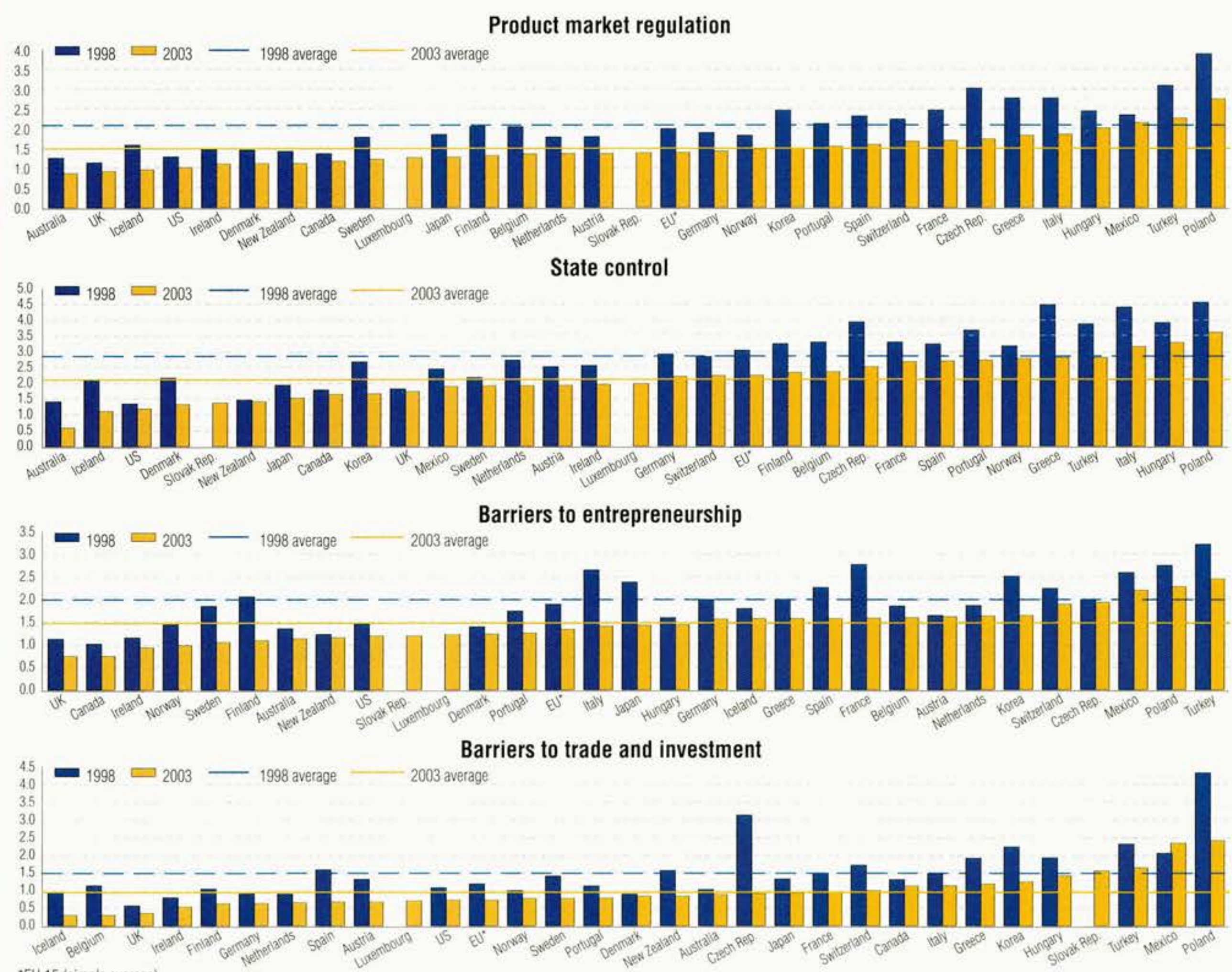
Reference

- OECD (2005), *Economic Policy Reforms: Going for Growth*, available at www.oecdbookshop.org.

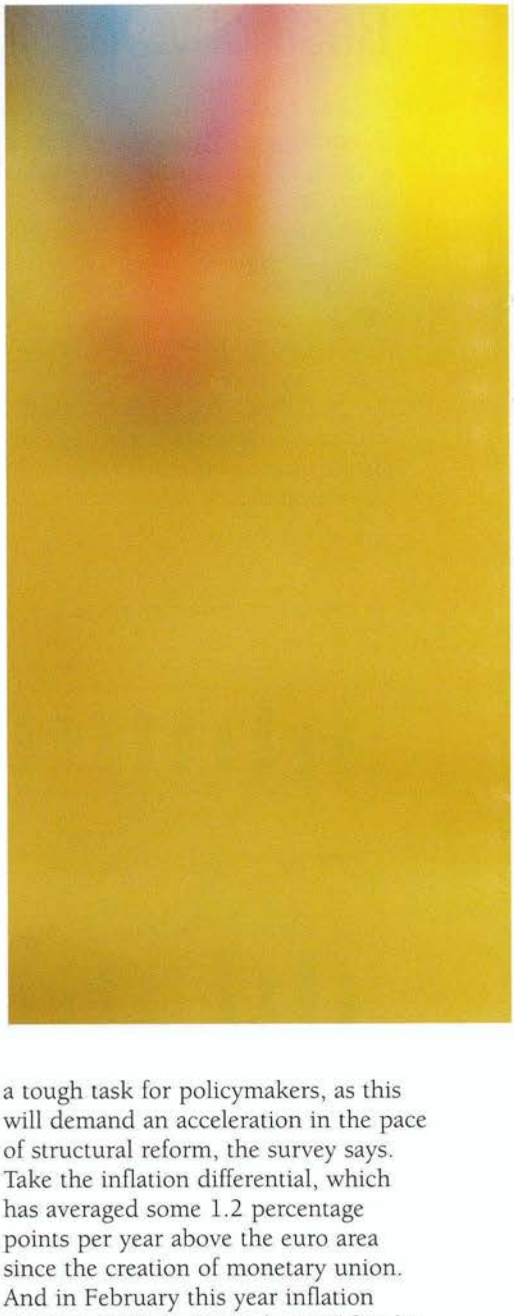
Restrictive business

Does the level of government regulation affect a country's economic performance? A first step in finding the answer is to assess the level of restrictions before looking at their effect. Consider regulations that constrain competition in product markets. These fell in all OECD countries in 1998-2003, according to *Going for Growth*. Particularly sharp declines were recorded in Finland, Belgium and Korea, as well as in the former Soviet bloc countries. However, despite good progress, many of these countries still retain a high degree of restrictive regulation compared to the rest of the OECD, with Poland having particularly high levels of state control, product market regulation and barriers to foreign trade and investment. Still, their levels of restrictiveness have fallen sharply since 1998.

Other countries with relatively restrictive product market regulation include Turkey, which is notable for its barriers against entrepreneurship. France, one G7 country whose state controls stand out, according to *Going for Growth*, also suffers from restrictive barriers to entrepreneurship despite making good progress since 1998. But its level of regulation in foreign trade and investment is about average. The least restrictive countries overall for product markets are Australia, the UK, Iceland, Ireland and the US. Australia is notable for its low level of state control in product markets, but when it comes to trade and investment, Australia's level of regulation control is relatively high. For more detail, see *Going for Growth*, visit www.oecd.org/eco/pmr or contact observer@oecd.org. ■



*EU 15 (simple average).
Note: The scale of indicators is 0-6 from least to most restrictive.
Source: OECD.



Spain's economy
Closing the gap

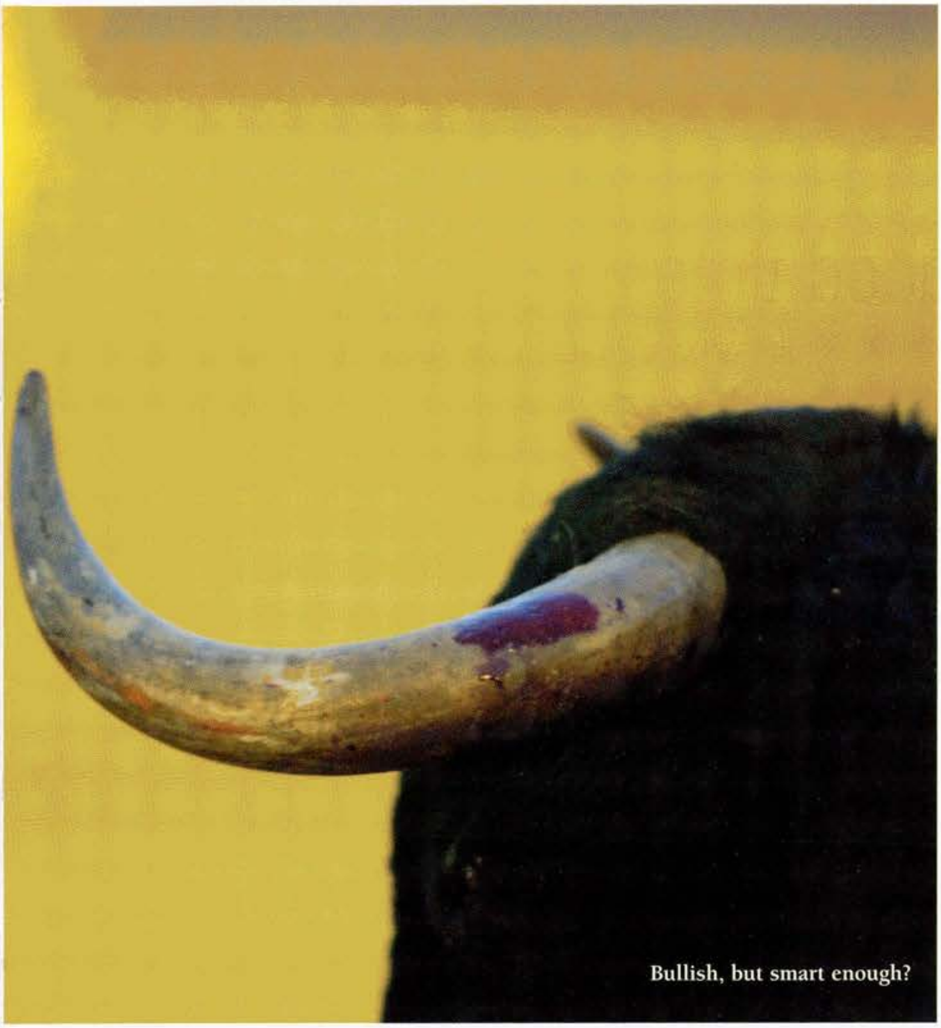
Spain's economy has been performing well, but more needs to be done to foster continuing convergence within the euro area, the latest Spain economic survey warns.

For a decade now, Spain's performance has been impressive. Growth has been robust at some 2.7% in 2004 and is expected to rise to 3% in 2006, allowing real convergence to occur at a fairly brisk pace. In fact, the gap in Spain's standard of living compared with the euro area has narrowed, shrinking from 20% below the average to less than 13% from 1995 to 2003. The gap with the OECD average is narrower still: Spain's GDP per head was some $24,500 in 2003, compared with an OECD average of just over $26,000, according to revised figures adjusted for differences in purchasing power issued in March 2005. Fiscal consolidation, the fall in interest rates due to the introduction of the single currency, structural reforms pursued since the mid-1990s and a surge in immigration have created a virtuous circle of rapidly rising activity sustained by strong job creation.

But the latest *OECD Economic Survey of Spain* also points to dark spots. Unemployment, at over 10%, has fallen sharply in recent years, but is still widespread. Productivity gains have also been meagre, and in fact trailed average gains in the euro area by some 0.2 percentage points over 1995-2003. Inflation, though, is relatively high, with the surge in house prices a cause for concern.

In particular, maintaining economic stability and competitiveness while promoting further convergence will be a tough task for policymakers, as this will demand an acceleration in the pace of structural reform, the survey says. Take the inflation differential, which has averaged some 1.2 percentage points per year above the euro area since the creation of monetary union. And in February this year inflation stood at 3.3% in Spain, but 2% for the euro area as a whole (see Databank). The gap is eroding Spain's competitiveness and must be reduced.

How? One measure is to improve the collective bargaining system and strengthen competition in the sheltered sectors of the economy. The property sector also needs to cool down; house prices have almost doubled in real terms since 1998, and the associated



Bullish, but smart enough?

©Marcelo Del Pozo/REUTERS

rapid increase in household indebtedness also makes domestic demand more vulnerable to higher interest rates.

Nor can the persistence of the inflation differential be ascribed to mere catching up, the report warns. Demand pressures partly explain the differential, though real wage gains have been moderate. Another reason, the report argues, is high nominal wage increases, which have remained above the euro area average despite lower productivity gains. As a result, even in several sheltered sectors, where demand pressures are stronger and effective competition is still quite weak, businesses have been able to pass on rising labour costs into prices.

Boosting productivity gains would help cure this, while upping the pace of convergence with the euro area at the same time. Productivity has been dragged down for a number of reasons: a large number of low-skilled workers entering the labour market is one, and problems arising in the education and training system are also partly to blame. Spain is lagging in human capital investment and technological development, which is hardly conducive to the emergence of high value-added activities. The government's objective is to raise performance, and this is to be encouraged, even though the results of such reforms will no doubt take time to be visible. The economy must avoid being locked into a specialisation in relatively low-technology sectors, the survey warns, in particular as it is likely to face growing competition from other countries with lower labour costs.

Although the appreciation of the euro, coupled with the rise in relative labour costs, has weakened price competitiveness in recent years, industrial firms have been able to maintain their market share until 2003 either by reducing margins or, more recently, by adjusting the workforce. This situation, which shows up in a widening dichotomy between developments in the exposed and sheltered sectors of the economy, will be hard to maintain.

Keeping a grip on public finances will also remain a challenge, particularly in view of the very decentralised institutional set-up, and the prospect of population ageing. The policy of balancing the government account in structural terms, which the authorities intend to pursue over the coming years, could result in a slightly expansionary macroeconomic policy stance, the survey says. For 2005, this poses no problem as the output gap–the difference between actual output and potential which can help measure demand-pull pressures–is still slightly negative, while growth will probably be close to potential. Though this projection is a little more pessimistic than that of the authorities, reflecting a somewhat higher oil price assumption, balancing the budget should be feasible because tax receipts are likely to remain buoyant. Looking further ahead, the persistence of low real interest rates and the property boom should keep domestic demand growing swiftly. In other words, fiscal policy should remain prudent. ■

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Russia's economy
Keeping up the good times

Rudiger Ahrend and **William Tompson**, OECD Economics Department

Russia is on a roll. Or is it? Much depends on policy, particularly towards energy.

The Russian economy has now entered its seventh year of expansion, confounding almost everyone with an average real GDP growth of just under 6.8% per annum during 1999-2004. But the economy has come to depend heavily on the performance of a small number of natural resource sectors, above all oil. The trouble is, oil-sector growth has been slowing of late, despite record-high prices. Add to this a number of persistent institutional weaknesses, and doubts start to creep in about Russia's capacity to sustain high growth over the longer term.

The role energy has played in Russia's expansion is striking. Natural resource sectors directly accounted for roughly 70% of the growth of industrial production in 2001-2004, with the oil sector alone accounting for just under 45% (see graph). This implies that natural resource sectors directly contributed more than one third of Russian GDP growth over the period, and the oil industry alone close to one quarter.

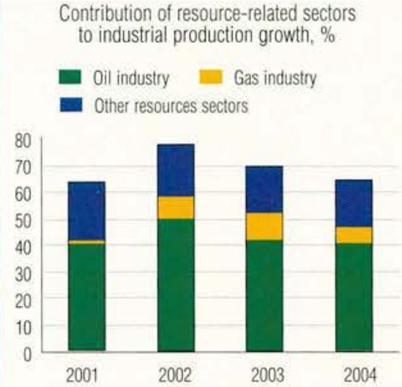
There are, of course, well known dangers associated with resource-dependent growth, and these underlie much of the scepticism about Russia's longer-term prospects, as well as much of the concern with diversifying economic activity in Russia away from natural resources. Nevertheless, given its current economic structure, Russia is destined to remain highly dependent on the performance of its resource sectors for many years to come. To sustain strong growth over the medium-to-long term, it will have to ensure that these sectors continue to develop, even as it tries to mitigate some of the risks involved.

Sustaining growth in such a resource-dependent economy will require a stable investment climate characterised by the rule of law and respect for property rights, as well as adherence to sound macroeconomic policies–and, in particular, exemplary fiscal discipline. Good fiscal policy cannot eliminate external vulnerability, but it can reduce it significantly. Fiscal irresponsibility, by contrast, will only magnify the effects of commodity price movements, probably leading to boom-and-bust cycles akin to those experienced by many commodity producers in the 1970s and 1980s.

The investment climate will be critical to any effort to foster economic diversification without resorting to the sort of old-style interventionist industrial policies that have failed in so many other countries. Even more than Russia's large resource-extraction companies, entrepreneurs engaged in new activities need a stable environment in which to do business. There have been some improvements in recent years, but businesses are still subject to far too much unnecessary regulation. Moreover, the weakness of the rule of law and the arbitrariness of enforcement mean that regulation all too often serves little purpose except to enrich corrupt bureaucrats.

The gas industry is arguably Russia's least-reformed major sector and undoubtedly one of its least efficient.

Resource driven



Source: Russian Federal Service for State Statistics, World Bank and OECD calculations.

A more appropriately designed tax system would also help foster investment in non-resource sectors, without necessitating market-distorting state intervention. The abolition of turnover taxes in 2001-2003 was a critical step, precisely because such taxes weighed far more heavily on processing sectors than on primary commodity producers. More generally, diversification can be aided by using the revenues generated by natural resource sectors to maintain low levels of general taxation.

Reform of the gas sector will also be vital, if Russia aims to enhance the growth potential of its resource sectors. The gas industry is arguably Russia's least-reformed major sector and undoubtedly one of its least efficient. Its performance in recent years has been decidedly lacklustre. Gas production has grown by around 1.5% per annum over the last five years, as against an all-industry average of over 6.7%, and the gas sector's record with respect to productivity and unit labour costs since 1998 has been by far the worst of any major sector in Russia. Its development continues to be constrained by the dominant position of OAO Gazprom, a state-controlled monopoly. But if other producers were given fair access to the trunk pipeline network and some access to export markets, then non-Gazprom producers could increase investment and output very rapidly indeed. And that would probably help stimulate better performance on the part of Gazprom itself.

Russia would probably be able to sustain relatively strong growth for some years to come, if it followed the right policies. Unfortunately, the case for optimism on this score has taken a beating over the last 18 months or so. The investment climate has suffered serious damage as a result of arbitrary actions on the part of the authorities, particularly the tax service, the prosecutors and the courts. Since mid-2003, the privatised oil company Yukos has been at the centre of a complex legal and political campaign directed by the state against its main shareholders.

The onslaught against Yukos has been the most visible such case, but it has not by any means been the only one. In the first nine months of 2004, the Federal Tax Service collected more than 470 billion roubles in tax claims for past years, as compared with 150 billion for the whole of 2003. This reflected a dramatic increase in the service's propensity to re-open tax cases from past years, often penalising taxpayers for practices that it had previously approved.

Meanwhile, the state has moved to tighten its grip anew on key "strategic" sectors, especially resource sectors. Reform of the gas sector appears as distant a prospect as ever. On the contrary, rather than introducing the market-driven dynamism of the largely privatised oil industry into the gas sector, the authorities seem intent on giving the still unreformed Gazprom a large slice of the oil business. Yet, greater state control would only lead to less efficiency and slower growth in one of the sectors that has been driving Russian expansion in recent years.

The results of these shifts are not hard to see. While GDP growth was an apparently respectable 7.1% in 2004, growth slowed across the year despite a significant fiscal stimulus and sharply rising prices for oil and other major export commodities. Fiscal policy was characterised by both tax cuts and substantial increases in spending, and the all-commodity price index for Russian exports was up almost 20% year-on-year. Nevertheless, investment growth slowed and capital flight rose sharply. Many factors contributed to the slowdown, but it clearly owed much to a policy-driven deterioration in the business climate.

The slowdown in growth, in turn, has contributed to mounting pressure to spend an increasing share of the windfall revenues generated by high oil prices. As of 1 March, the government had accumulated the equivalent of about 3.5% of projected GDP for 2005 in the fiscal stabilisation fund created last year. While the fund's primary purpose is to insure the budget against future declines in oil prices, the government is already spending quite a lot of the revenues previously earmarked for the fund. On current plans, reliance on windfall revenues to finance current expenditure is set to grow in 2006-2008.

There is little doubt that the authorities can support GDP growth rates for some time yet by using oil windfalls to pump up domestic demand–whether by pouring money into state-financed investment projects or simply by raising public sector wages and pensions. However, government investment tends to be highly inefficient, while further stimulating an already impressive consumption boom could very easily lead to a bust further down the road.

Some in the government seem to have woken up to the problem and have begun trying to repair the damage done to business confidence in 2003-2004, putting forward proposals to strengthen the security of property rights and reduce the scope for arbitrary tax enforcement. Given the responsiveness of Russian business to the signals emanating from the state, concrete steps to improve the investment climate could bring about a change in sentiment, and some revival in private investment, fairly quickly. However, the authorities' actions remain inconsistent, with initiatives intended to reassure investors coinciding with actions that cannot but rattle them, such as the recent back-tax demands to the oil company TNK-BP.

So can Russia keep up its strong growth? It should be able to, though much depends on the government's approach, and the signals we have seen on that front in recent months have been mixed. What is clear is that Russia will not sustain strong growth if its policymakers succumb to the temptation to treat oil windfalls as a substitute for good policy. ■

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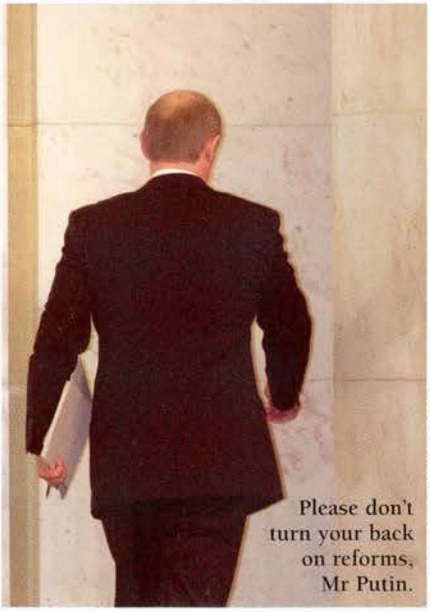

Please don't turn your back on reforms, Mr Putin.

Gestore della Rete di Trasmissione Nazionale Spa

GRTN is the electric grid operating company which was set up as a result of the liberalisation of the Italian electricity sector.

GRTN is vested with exclusive rights ("concession") to operate the national electricity transmission and dispatching service and to manage the national power transmission grid in a unified way, guaranteeing equal access to all eligible applicants.

GRTN's mission is to ensure the optimum operation of the Italian power system, providing security, reliability, efficiency and minimum cost of the electricity service.

GRTN:

- manages & operates the national power transmission grid;
- decides on actions of development and maintenance of the grid, guaranteeing the security and continuity of supply;
- connects eligible applicants to the national power transmission grid;
- manages power flows, the related interconnectors and the required ancillary services;
- sells electricity generated from renewable and so-called "assimilated" sources (CIP-6) in the market;
- assigns interconnection capacity on the 17 power lines interconnected with France, Switzerland, Austria, Slovenia and Greece;
- issues Green Certificates and enforces compliance of producers and importers with the renewables obligation;
- handles statistical data on and prepares demand forecasts for the national electricity sector.

Acquirente Unico Spa

It is the company of the GRTN Group that is vested with the task of procuring electricity for captive customers, households and small businesses all over Italy, under criteria of electricity service continuity, security and efficiency and of equal treatment (also in terms of tariffs) of customers.

Acquirente Unico purchases electricity mainly through the Electricity Market, but also through physical and/or financial bilateral contracts with domestic and foreign counterparts.

The electricity purchased by AU is sold to distribution companies, which serve captive customers.

Gestore del Mercato Elettrico Spa

It is the company of the GRTN Group that is entrusted with the organisation and management of the Italian Electricity Market, under criteria of transparency and objectivity, with a view to promoting competition between producers and ensuring the economic management of an adequate availability of reserve capacity.

In the Electricity Market organised by GME, electricity will be traded between producers and eligible customers, accessing the market directly or through wholesale customers.

Also Acquirente Unico will participate in the market in order to buy electricity for captive customers.

The price, which will be set in a transparent way in the Electricity Market for each hour of each day, will reflect the conditions of demand and supply expressed by market participants.

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Different potential

Services
A sleeping giant?

Dirk Pilat, OECD Science, Technology and Industry Directorate

Services already make a substantial contribution to OECD economies, but they could contribute so much more. They need to become more competitive, for a start.

"My name is not Frankenstein, though it rhymes with Einstein, perhaps". So joked Dutchman, Frits Bolkenstein, a former European commissioner, on a visit to Paris in April to defend his controversial and by then much amended directive on freeing up services in the European Union as part of the single-market programme. Mr Bolkenstein's particular mission was to reassure worried minds about trade and social effects of services reform in Europe, and his message was plain and serious, to be applied to services generally: like industry two or three decades ago, it was time for a change.

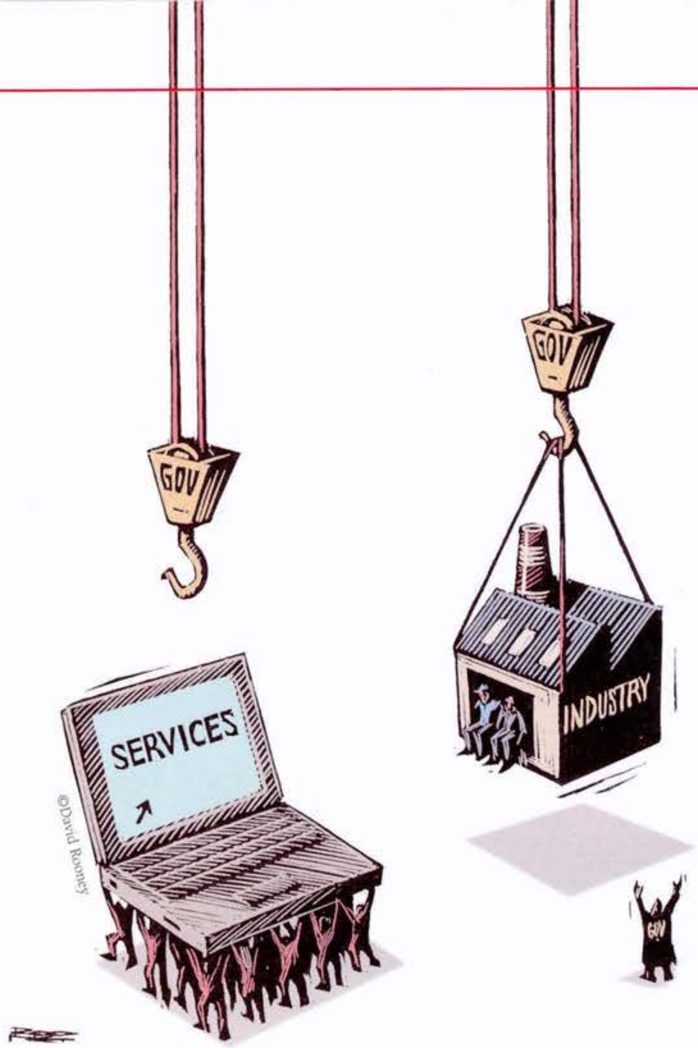
Many successful services companies owe their existence and success to the freeing up of markets.

Right across the OECD area, services, from plumbing and childminding to financial services and healthcare, have become a new testing ground of policy efforts to reform and free up markets, both at home and abroad.

Why now? The answer is twofold: first, unlike most goods, the market for services remains far too restricted, generating costs for operators and consumers alike, and holding down productivity. The second aspect is that, thanks to progress in information and communications technology, many services that are traditionally the preserve of the domestic market are much better placed than they were, say, 10-15 years ago, to benefit from freer access to the international marketplace.

There is another key reason why governments are taking services more seriously: jobs. Consider the facts. The services sector now accounts for over 70% of total employment and value-added in OECD economies. And it accounts for almost all employment growth in the OECD area. But despite the high overall share in employment, the proportion of the working-age population employed in services remains low in several countries, e.g. Greece, Italy, Korea, Poland and Spain. Also, the contribution of the services sector to aggregate productivity growth has been low in many countries, including Spain, France, the Netherlands, Italy and Japan.

Moreover, with globalisation, OECD countries are confronted with stiffer competition, which is already testing the capacity of some countries to create new jobs. Certain business services, like consulting and legal services, can now quite easily be purchased across borders,



in particular if they involve an intensive use of information technology and require little face-to-face contact.

Clearly, to make OECD economies more resilient and improve their competitiveness, the services sector must do better. Can governments help? Yes, through a combination of policies, based on sound macroeconomic fundamentals.

Opening up is a good starting point. Many successful services companies owe their existence and success to the freeing up of markets. Indeed, several of the most successful airline companies in recent years, such as Southwest Airlines and EasyJet, would not have existed if formal entry barriers to airline markets had not been removed. In some cases, the threat of foreign competition and access to international markets has spurred firms, such as France's retailer, Carrefour, to expand abroad and become more competitive.

Regulatory reform in services markets can create fresh opportunities, helping firms in meeting new demands, such as for leisure, health and care services. This would help increase employment. It would also sharpen the incentives for companies to innovate and improve their productivity.

While much progress has been made in opening services markets, further steps are needed, particularly in reducing public ownership in competitive industries, such as transport. Anti-competitive practices in professional services, such as rules that allow professional associations to regulate entry, conduct and prices in their industry, also have to be curtailed. And governments should do more to make life a little easier for young firms, by removing red tape, simplifying legal requirements, and so on.

For the firms themselves, real reform would entice them to look beyond domestic markets for opportunities abroad. Thanks to information and communications technology, firms can now operate internationally more easily. Digital delivery of many services, including healthcare, is now possible. Also, firms benefit because value chains are less constrained geographically, so enhancing innovation, quality and productivity.

The advantages may be clear, but entrepreneurs cannot derive these benefits if policymakers do not open their markets to international competition first. Multilateral talks are under way at the WTO to help reduce barriers in services. Their aim is to ensure a broad opening of markets and a wide distribution of the benefits, but in the meantime, OECD governments can benefit from opening their services markets now.

Not that opening up markets is cost-free: there are adjustments to be made in terms of policies for human resources and skills, legal frameworks and so on. But if services are to live up to their job-creating potential, employment frameworks must be made flexible enough to cater for new worker groups, such as those ready to work part-time or even at night, for instance.

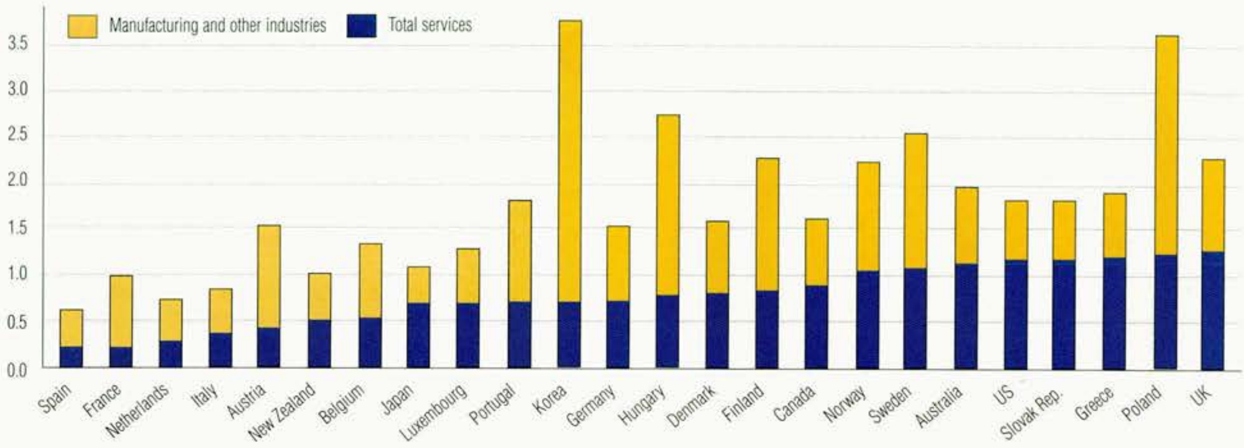
Governments should be wary of common obstacles, such as high labour taxes. These not only affect the job prospects for low-skilled workers but also increase the costs of personal services, such as childcare or gardening. As a result, many of these services will be provided as do-it-yourself or undeclared work. Overly strict workplace rules are also a problem, as they may hamper the development of certain services, such as tourism, or because they have adverse effects on the kind of labour mobility or organisational change that may be needed to improve productivity.

To help employees cope with family and work demands, governments should pursue family-friendly policies, such as providing better access to childcare facilities–this in itself would be employment-generating–and encouraging more flexible working-time arrangements. All this probably involves fostering new attitudes among all staff, including bosses, and may require new workplace arrangements.

The payback will be more effective human capital. Human resources are particularly vital for services, not least because many of them require close

Contribution of the services sector to productivity growth, 1990-2002[1]

Contribution to growth of value added per person employed, %



1. Or latest available year.
Source: OECD.

interaction with other people, be it colleagues or customers. And a skilled workforce also has the competitive advantage of adapting to new technologies and innovative workplace practices as they emerge. A shift towards a service economy may require changes to human resource and educational policies as a result. Ensuring a good supply of qualified personnel is important, but governments must be sure that education policies will continue to supply such skills over time. A properly functioning system will be one that encourages workers to keep up their skills throughout their lifetimes, and may rely on co-financing by firms, workers and governments, for instance.

Curiously enough, in OECD countries, with the exception of financial and business services, innovation policies tend to focus primarily on manufacturers' needs. Public spending on basic R&D, in both public laboratories and universities, does not typically address the long-term knowledge requirements for services, like improving the understanding of how technology should be deployed and used, management issues or how people might work in groups. Focusing more public R&D on these issues would help and is already being pursued by countries such as Japan and the US for some services, such as software. Stronger links between public research institutions and services firms, in software development or business management techniques, for instance, would also help.

An important link running through all this is, of course, information and communications technology. The services sector is being transformed by ICT (or IT as it is also called), as this not only enables innovation and productivity growth, but greater international reach. Some of the most successful services firms in recent years were pioneers in introducing new technology and developing innovative applications, such as airline reservations without physical sales points, interactive TV or digital tracking of postal packages. But they have also been able to profit from effective underlying infrastructure, which has allowed faster, often cheaper, access to better network services and applications, including broadband. Still too many countries lag in this area, and they should not be surprised if their service sectors are struggling, too. Without the right technology, so many services simply cannot reach their potential.

Part of the problem is policy and physical investment, but some of it is a matter of building more public trust in electronic networks. But as in any industry, public confidence will rise if the right reliable technology is in place.

Regulations and administrative rules, often dating from the days before electronic business, may also be at fault. Payment schemes are not always adapted to digital delivery; in healthcare services, for instance, a face-to-face meeting is often required between physician and patient before payment is approved.

The policies we advocate for services are fairly broad and mutually reinforcing. We know that freer, more educated markets work, with governments providing the frameworks and infrastructures needed, and assistance where markets fail. Any mix of policies to suit circumstances is possible, provided they move in this general direction.

Getting the mix right is important. After all, a healthy services sector benefits the entire economy. In services, it is indeed time for a change. ■

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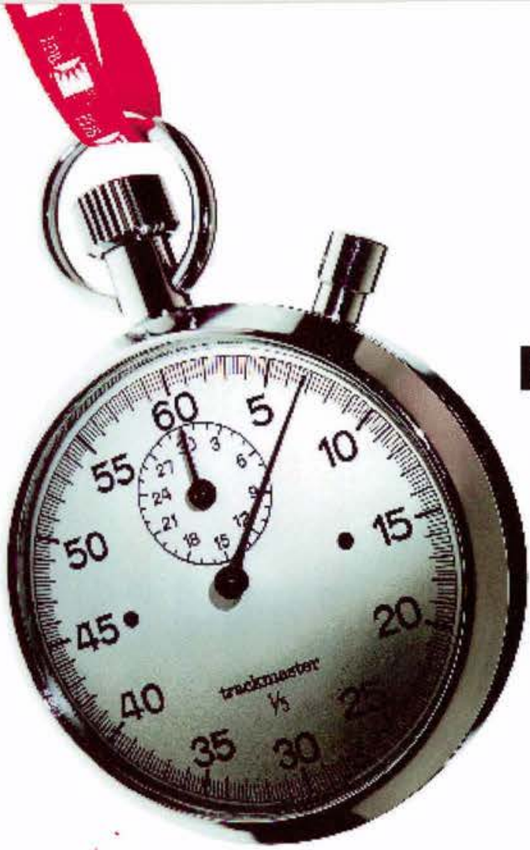
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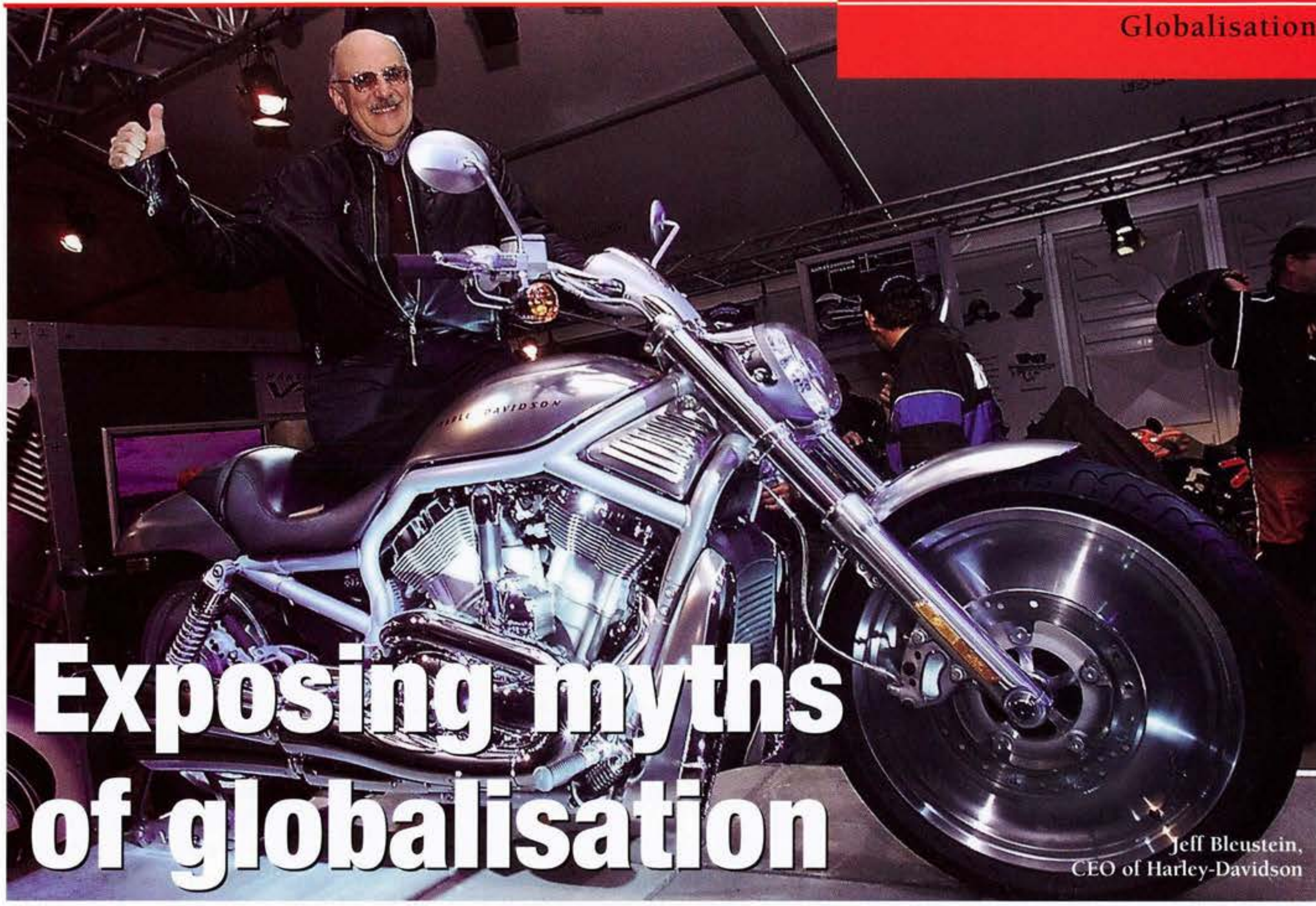


Exposing myths of globalisation

Jeff Bleustein, CEO of Harley-Davidson

©REUTERS/Walter Fritz

Ken Heydon, Deputy Director, OECD Trade Directorate

Globalisation brings benefits, though it has costs. Trade and structural adjustment help to maximise the first, and reduce the second.

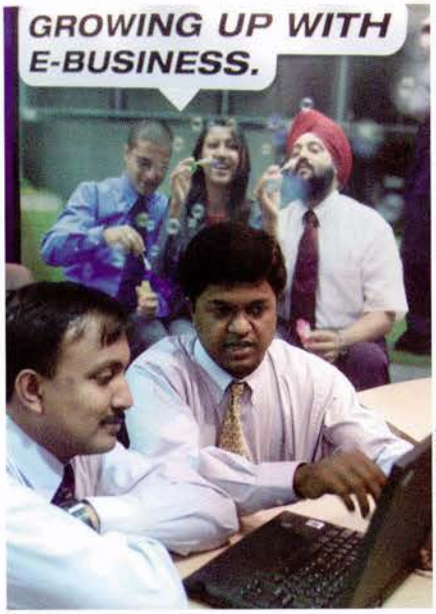
In 2003 the Harley-Davidson motor company marked its 100th anniversary by announcing record revenues and earnings for an 18th consecutive year. It had a market share of heavyweight motorcycles in North America of 48%, with more than a fifth of its sales being exports. Yet between 1973 and 1980, Harley-Davidson's market share in North America had plunged to 25% for heavyweight motorcycles! Its turnaround can be put down to many things, including trade arrangements, but reform and restructuring, introducing improved technology and new production methods, all played a key role.

Harley-Davidson is, of course, from the US. But outside the OECD, there are other successful cases. A much quoted example is India's information technology industry. Indian productivity lags behind high-income OECD countries in manufacturing, but in software and telecommunications services, that gap narrows. Thanks to these dynamic sectors and the regulatory reforms that enabled their expansion, in the 1990s India recorded the highest growth rate of services exports among the world's top 15 exporters.

There are many more stories like these that put globalisation in a clear light. And for those of us who believe strongly in the benefits of free trade, they help challenge some widespread misperceptions.

First, globalisation does not involve an accelerating shift of economic activity out of manufacturing and agriculture into services. In fact, over the past two decades, the transfer of employment into services has slowed down. This does not mean that the full potential of global services has been realised, but the pace of structural change between agriculture, manufacturing and services in the OECD economies has eased. To the extent that employment shifts are occurring, these are now taking place more between different parts of the service economy.

Second, the movement of white-collar jobs offshore is, in the overall scale of things, very modest. True, the OECD has identified industries that in old economic jargon are "footloose", in that they could operate just about anywhere, but in reality there are limits to this. The much talked of transfer of some 55,000 service jobs out of the US every quarter needs to be seen in the context of the over seven million jobs which are lost (and created) each quarter as part of the normal functioning of the US labour market. Other OECD countries such as France, Germany and Italy are experiencing even more moderate movement of service jobs abroad.



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And third, among developing countries, it is not just a handful of the largest, notably China, India and Brazil, who stand to gain from the process of trade liberalisation. For all but a very small number of countries, mostly in sub-Saharan Africa, the gains from multilateral freeing of trade will more than offset the losses that may arise because of erosion of preferences which many developing countries are granted.

Dealing with globalisation has two aspects to it. One, countries can choose to ignore it, but it will not go away. Or two, by being involved, countries can seek to shape its future and direction. But being involved also requires adjusting to globalisation, and being ready to embrace change.

Concrete examples of countries that have achieved this are not as thin on the ground as some sceptics suggest. India is not the only example, and our studies have case reports on sectors ranging from farming and fisheries through shipbuilding and steel to IT and healthcare. And beyond OECD countries, we cover as far-flung places as Chile and Lesotho.

Take, for instance, the South African car industry. This might not be a global force, but it has nonetheless emerged from several years of reform that did away with local content requirements and import substitution to become a competitive and robust manufacturer of components and vehicles. The key to the adjustment was, in sum, freeing up access to the wider market. We have documented plenty of examples like this from OECD countries too, such as Australia's shipbuilding industry or textiles in the Slovak Republic (see references).

True, in sub-Saharan Africa there are deep-seated challenges, reflecting an underlying economic vulnerability. Yet there are positive stories. The recent success of Kenya's cut-flower industry with serious investment, sometimes against the odds, is a good example.

Trade in services is just as much a key element in successful adjustment, too, as witness India or indeed Ireland. Ongoing OECD analysis finds that when account is taken of restrictions on services inputs into manufacturing–when firms are not able, for example, to access the best-value financial or engineering service–the "protection" that they receive actually turns negative. Services barriers mean that effectively they are being taxed, not protected.

But trade cannot do it all. It is a question of market readiness, for people, products, industries and countries. Even a top athlete cannot win a race with their hands tied behind their back. If there are rigidities in the domestic economy, opening up trade may actually make things worse. This means that trade liberalisation needs to be accompanied by genuine domestic reforms. This means more flexible labour markets, efficient and not overburdensome regulation, and economic policies that promote stability and growth, while respecting social and environmental needs. In other words, open trade can strengthen those economies that allow labour and capital to move from declining to expanding areas of activity.

And there will be declining areas of activity. Some firms will take the knocks and recast themselves as new operations. And many people who lose their jobs will, in less rigid environments, find new ones quickly enough, provided they have the right training and operate in a market where mobility is not an exception. But globalisation brings losers as well as these winners–for both people and countries. The pursuit of efficiency needs to be matched by considerations of equity. This is where governments have a vital role to play. For individual workers this will mean, in particular, the pursuit of active labour market policies that seek to match assistance–for example in job-search or training–to the actual needs of the people concerned. Building confidence and cohesion, not fear or isolation, is vital. As for countries that initially lose–the poorest and most vulnerable–and that are not yet able to benefit fully from the gains from trade, global and local action is needed to build up their export capacity, to strengthen their institutions and governance, and to improve their implementation of internationally-agreed core labour standards. But action must also require them to reduce their own, often high, barriers to trade.

This destroys another misconception of globalisation. As Professor Jagdish Bhagwati and others have documented, trade barriers between developing countries are on average higher than those between developing countries and the markets of the OECD. Allowing the poorest countries to stand apart from the process of market opening is not doing them a favour. They too, with help, stand to gain from the flows of trade and investment that are at the heart of globalisation. That is not to condone OECD trade barriers and distortions; these must be reduced as far as politically and practically possible in all markets, though particularly those that are critical for poor countries, like food and labour-intensive manufactures.

To echo Professor Bhagwati, capacity building is all very well, but industries must be allowed to develop traction, which can only come from being out in the marketplace. That is what trade adjustment means. Globalisation brings costs, but the costs of protection are far, far higher. ■

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Jobs and globalisation
Promise or threat

John Evans, General Secretary, Trade Union Advisory Committee to the OECD (TUAC)

"There has never been an economic discontinuity of this magnitude in the history of the world–these powerful forces are allowing companies to rethink their sourcing strategies across the entire value chain". So said Mark Gottfredson of Bain & Co., quoted in the *New York Times* (19 August 2004). This may be hype, but is there smoke without fire? Sure enough, some of this hype is marketed by the business services industry that wins from "outsourcing", but governments still take it seriously.

Alas, any serious discussion of the potential offshoring of jobs is hampered by the absence of reliable data on employment developments. The ILO's *Employment Report 2001* estimated that up to 5% of service sector jobs in the US and western Europe (2-10 million) could potentially be offshored to low-wage economies. A much quoted report by Forrester Research estimated in November 2002 that 3.3 million US service sector jobs would move offshore by 2015. The sectoral impact could be larger in financial services, for instance. The OECD has also produced figures, saying 20% of certain IT-related tasks were "potentially offshoreable" (*OECD Observer* No.245, November 2004).

The European Foundation for the Improvement of Working and Living Conditions, for the second quarter of 2004, found 163 cases of company restructuring leading to nearly 60,000 job losses, compared to the creation of slightly more than 16,000 new jobs. A part of this reflects a shift to new member states.

The hype of many business commentators goes beyond the data, but there has nonetheless been a worsening in relations between trade unions and employers. Business attitudes are increasingly dictated by international competitiveness and global "fads". This does not just affect OECD countries, nor is it North-South. From the US, through the EU, to the Philippines, the threat of relocation to an offshore site is now a standard ploy in wage negotiations.

Put plainly, the acceleration of international offshoring and the relocation of industrial and service sector activities, whatever spin economists put on it, have heightened the sense of job insecurity among many groups of workers, and not just blue collar ones. To them, talk of long-term benefits is not a comfort. To them, globalisation is a threat to decent living standards.

What can we do? No, the response must not be for national borders to be permanently closed to flows of physical capital or goods. But neither can we accept passively the working of economists' "relative price effect" in terms of labour. Whatever the regression, one we must avoid is a "race to the bottom" in employment standards.

A "whole of government" policy response in the industrialised countries is now needed to deal with the consequences of offshoring on jobs. Governments must guarantee core workers' rights on a global basis. A specific focus is needed on stopping the spread of abuse of labour rights in export processing zones and in supply chains.

OECD governments in particular must encourage dialogue and negotiations between trade unions and businesses, supported by targeted regional and industrial policies, as well as active labour market policies to help affected communities. The OECD Guidelines for Multinational Enterprises should be a benchmark for good practice in managing change. Trade unions and forward-looking employers are negotiating these issues both at the national and international level through the sectoral Global Union Federations, leading to the conclusion of global framework agreements. The focus of such agreements must be to achieve early negotiations to maintain sustainable employment, avoid compulsory lay-offs, and to promote internal firm-level redeployment and up-skilling. Workers' rights must be respected and developed everywhere and companies must recognise and negotiate with trade unions, wherever they are. Sufficient time must be allowed for the socially acceptable management of change. This may at times require the use of trade measures allowed for under the WTO Agreement on Safeguards.

These are neither unreasonable demands nor business constraints. On the contrary, by addressing the employment dimension more fully, structural adjustments would be more sustainable. Only then will globalisation become a promise, not a threat. ■

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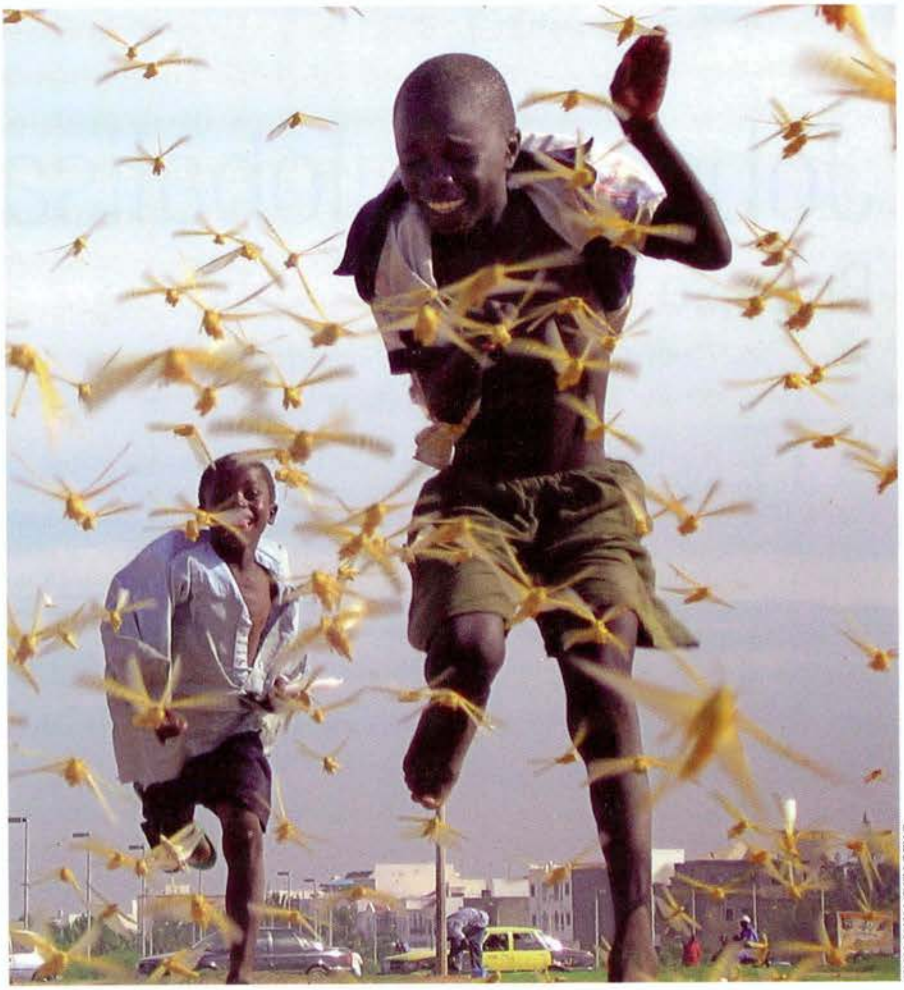

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Africa's economy
Aid and growth

The recent history of the world's second largest continent has been plagued by internal conflict, famine and disease. But recent economic prospects for Africa are looking more favourable than they have for a number of years.

Although 2004 was a tough year for Africa, with the humanitarian crisis in the Darfur region of Sudan, strife in Zimbabwe and conflict in Côte d'Ivoire, the continent nonetheless managed to post a 5% increase in economic activity. The rise represents an eight year high for growth across Africa. A closer look suggests this might not be just a one-off.

The latest *African Economic Outlook* from the OECD Development Centre, which looks at prospects for 29 countries, accounting for some 90% of output, points to a number of factors to explain the region's strong performance. Higher prices for oil and metals played a significant part, while a notable increase in official development aid as well as improved economic stability also helped. This is hardly just luck.

Take inflation, which reached historical lows of 7.9% in 2004, despite higher oil prices. Generally better weather conditions were a boon on the supply side, but there are other reasons. The CFA countries (Communauté Financière Africaine)–a dozen or so Francophone countries from Chad to Gabon whose franc is pegged to the euro–profited from low inflation worldwide and a cushion against higher dollar-denominated commodity prices.

Those with floating exchange rates also managed well, reaping the benefits of generally prudent monetary policies and the weaker dollar, the new report says. Even in southern Africa, where inflation stayed in double figures, price rises still slowed to around 11% from 16% a year earlier, though Zimbabwe and Angola remained above 20%.

So, where is the growth coming from? For the second year in a row, activity was particularly strong in oil-producing countries, as new oil fields came on stream in Angola, Chad and Equatorial Guinea. Metal prices have also soared. Agricultural production has picked up after the drought that affected some eastern, central and southern African countries in 2003, and the locust infestation that afflicted west and north African countries in 2004 has been contained.

Africa's prospects

Average economic growth rates of African regions, %

Region	1996-2002	2003	2004(e)	2005(p)	2006(p)
Central Africa	3.9	5.0	14.4	4.1	5.5
East Africa	4.1	2.3	6.8	5.2	5.1
North Africa	4.3	5.1	4.6	4.8	5.2
Southern Africa	3.1	2.6	4.0	4.6	5.2
West Africa	3.6	7.0	3.4	4.9	4.8
Total	**3.8**	**4.4**	**5.1**	**4.7**	**5.2**

Note: Due to lack of data, these aggregates do not include Liberia and Somalia.
Source: Authors' (e) estimates; (p) projection.

Central Africa led the way in growth terms with an estimated real GDP increase of 14.4% in 2004, though this should slow to trend levels of about 4-6% in 2005-2006. Equatorial Guinea and Congo profited from higher oil prices and increased production capacity.

East Africa recorded the second highest real GDP growth. After struggling with devastating crop failure in 2003, Ethiopia returned to growth in 2004. Activity in this region is forecast to remain robust in the coming two years, although Mauritius and Madagascar will face strong competition in the textile sector from China with the end of the Multi-Fibre Accord, the report says.

North Africa is expected to continue strong in 2005-2006, led by Egypt, though oil-producing Algeria is facing capacity problems.

Despite the general rise in economic activity, **west Africa** recorded a sharp slowdown in growth last year. Although prospects are more robust for 2005 and 2006, there are risks. The area remains plagued by the continued political turmoil in Côte d'Ivoire, one of the region's key economies. Nigeria, Africa's most populous country and largest oil producer, saw growth slow to 3.7% as capacity constraints and labour unrest took their toll.

Southern Africa is another region affected by turmoil, with Zimbabwe in crisis, but growth has been robust, thanks to high prices for South African and Angolan commodities. Oil is not the only source of this increased activity; **metal** prices jumped 16% in 2004, buoyed by strong demand in China for everything from Zambian copper to gold from South Africa, the world's leading producer.

The general rise in global commodity prices has had a positive impact on the trade balances of many African countries, although oil prices have hurt importers. Exporters of oil and metal ore have been the real winners. For most other countries, gains from higher-priced commodity exports have been roughly equivalent to losses from more expensive oil. Prices of some commodities have fallen though, such as cocoa in 2003-2004 and cotton in 2004, affecting the trade balances of west African countries like Mali and Benin. This volatility is a reminder of Africa's dependency on the commodity markets, which can threaten even oil and metal producers.

The *African Economic Outlook* is quite upbeat about overall growth prospects, posting a solid average of around 5% for 2005-2006. The forecast relies on a buoyant global economy though, as well as fewer regional conflicts and good weather conditions. None of these can be assured of course, but as the report suggests, struggling to gain market access makes matters worse.

The report urges sharper reductions in harmful agricultural subsidies from importers, and the elimination of trade barriers that squeeze African goods out of global markets. It calls for real progress in talks on trade for development, in particular the Doha round, and the accompanying need for policies that will make it easier for the continent to cope with swings in commodity prices and the challenges posed by globalisation. Development aid is one of those policies.

Aid ache

The fact is, despite recent good growth, Africa remains a desperately poor continent. Poverty and disease are widespread, and sub-Saharan Africa has the world's highest illiteracy. Conflict is also a threat.

Incomes remain terribly low–even in South Africa, GDP per head in current exchange rates is less than $4,000 a year. In many other countries, incomes are not only far lower or negligible, but have fallen back in real terms. Assessing progress by looking at income per head is misleading in Africa, the *African Economic Outlook* warns. To halve the monetary poverty in Zimbabwe means to reduce poverty from 36% of the population in 1990 to 18% in 2015, but in Morocco from 2% to 1%.

There is a growing sense that barring great effort, the Millennium Development Goals will simply not be reached by 2015. Progress means tackling the basics, like hunger, which affected some 28% of the population in 2000-2002, and combating diseases like AIDS, tuberculosis and malaria. Solving these requires finance.

The recent international commitment to raise more aid will be a boon, but as the *African Economic Outlook* points out, global aid levels have already increased in recent years and Africa has been the main beneficiary. The launch of NEPAD (the New Partnership for African Development) and debt relief initiatives for poor countries have all helped (see references). According to the OECD's Development Assistance Committee, total official development aid rose by 7% in real terms in 2002, and a further 5% in 2003 to its highest level ever (in nominal and real terms) at US$69 billion. On the other hand, this is only catching up, for while aid per capita for Africa has increased since 2000, it has fallen since 1990.

Based on donors' commitments, substantial growth in official development aid is expected to continue until at least 2006. However, the only countries meeting the longstanding UN target of 0.7% of gross national income are Denmark, Luxembourg, the Netherlands, Norway and Sweden. Ireland aims to reach it by 2007, Finland by 2010, and France in 2012. If these commitments are met, aid will reach US$100 billion by 2010.

With the 2015 deadline to reach the goals, pressure is building to find new effective ways to finance development. Some innovative proposals have been floated, from taxes on speculative international capital flows–the so-called Tobin tax–through taxes on weapons dealing to the UK government's suggestion to set up an International Finance Facility, a bond issue that proponents think could boost aid to as much as $100 billion per year in 2010-2015. All of these proposals are outlined in the *African Economic Outlook* and in previous editions of this magazine (see references). Apart from questions about their feasibility, they all suffer from a basic problem: finding agreement in good time.

The bottom line in all these approaches is that African growth notwithstanding, reliable and effective aid is essential for African countries, to help deal with basics as well as commit to long-term development plans.

This raises one of the thorniest issues of all: can African institutions handle the aid and will it get through to the people that need it most? Politically, there are some encouraging signs, according to the *African Economic Outlook*. Despite black spots like Zimbabwe, democracy is flourishing, with more political parties and freer elections. South Africa, Namibia, Uganda and a few others also stand out for the independence and integrity of their judiciaries. Elsewhere, there are worrying signs with recent declines in the quality of policing, the judiciary and the prison system. Citizen influence and rights need to be greatly improved, the report warns.

Meanwhile, the capacity of institutions to deal with aid is a problem, particularly as corruption, "the bane" of Africa, has increased since 2000. Improving governance will be a challenge for all international initiatives focusing on Africa, whether those led by the UN, the G8 or the UK's Commission for Africa (see next article).

As for the business environment, there are several challenges, though a key one is how to fill in what the *African Economic Outlook* calls the "missing middle", between large global firms and the informal sector. SMEs are starting to grow in some countries, but there is a lot more work to do on this front.

In sum, assuming the economies of Africa can continue to grow, how can the connections be made so that a virtuous circle of change might finally be triggered? Without pressure to improve institutions, to invest aid to meet the MDGs, and encouraging more small business activity, then recent growth, however positive, may end up being for nought. ■

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Oiling development

Another resource which Africa is perhaps less noted for is oil. And it could become a serious source of finance for development in certain countries. With a total estimate of more than 100 billion barrels, Africa held nearly a tenth of the world's oil reserves in 2003. There are a total of 13 oil-producing countries on the continent. Nearly half of these are in north Africa. In sub-Saharan Africa, the oil producers can be divided into three categories; the old ones where production is in decline are Congo, Cameroon and Gabon. Then there are those where production is still on the increase: Angola and Nigeria, which is the continent's biggest producer. The new members of the club are Equatorial Guinea, Chad and São Tomé.

OPEC member Nigeria is one of the top ten oil producers in the world, with an output of over 2 million barrels per day. Moreover, according to the IEA, west Africa, together with Latin America, will contribute to most of the non-OPEC production increase until 2030. Africa as a whole is expected to see an increase in oil supply of 4.9 million barrels per day by 2020.

So how can this strong position be used for development? Many oil countries have suffered from the so-called "oil curse", finding themselves heavily indebted and impoverished. According to the *African Economic Outlook*, some oil-producing countries are now seeking to take advantage of the high prices prevailing since 2003, to make better use of surplus revenue from this windfall and to improve transparency and governance in the oil sector. A first step is cleaning up corruption. Some countries have signed up to the Extractive Industries Transparency Initiative (EITI), a programme that encourages governments and private companies to share information regarding their oil income. Several nations now have specific regulations for the use of oil revenue. In Nigeria and Congo, the budget is based on a very conservative estimate of the price of oil. Any surplus is deposited in a special account with the central bank. In Algeria, the government's budget for 2005 calls for a significant reduction of the primary non-oil deficit in order to reduce the government's dependence on volatile oil income. Of course, high oil prices mean recent windfall gains for some, but because they mean higher import prices, many African oil importers will still see them as a curse. ■

Development aid
Getting it right

Jagdish Bhagwati, University Professor at Columbia University and Senior Fellow at the Council on Foreign Relations.

When is too much not enough? When it is development aid, of course. Here is why.

Foreign aid, in the doldrums for years after the Cold War ended, is back with a splash. We need more aid, everyone is saying, to fight poverty and disease, and in particular to help us meet the Millennium Development Goals whose 2015 deadline looms. "Killer app" solutions, like Tobin taxes on capital, are being floated about with abandon, all in the name of aid. Forums, commissions, declarations, book launches, field trips to Africa, tsunami relief: it is all quite heady stuff, as leading politicians, lead singers and lead actors band together, or outgun each other, to show how they champion the cause of the world's poor. Twenty years ago, Dubliner Sir Bob Geldof launched Live Aid to raise money for famine relief. Today, the emphasis is on Big Aid. One could almost say, with all this attention, aid has never had it so good.

But it could be so much better. To explain, let's look first at how aid can be too much. In the main, proponents of aid ask for hugely enhanced aid flows. UN Secretary-General Kofi Annan has echoed and endorsed the longstanding proposal that each OECD country spend 0.7% of gross national income (GNI) on foreign aid. Many have gone on to suggest that the bulk of it be spent in Africa.

There are real reasons to worry about all this. Indeed, there are several skeptics who argue that such targets, while well-meaning to be sure, are overambitious. These are not indifferent, morally defective folks who wine and dine while Africans starve. Rather, they include distinguished developmental economists familiar with the history of aid and even some Africanists with experience of the continent. Their main worry is that the absorptive capacity in many (but by no means all) of the countries, where the substantially increased aid funds will be spent, is limited. Yes, we can certainly increase aid flows, as the Blair Commission and some others persuasively argue, but should aid be raised for every country by the same amount and at the same speed?

Surely, greatly expanded aid will often result in waste. When one reads about enormous shortages of doctors and nurses in nearly all countries of Africa, and also recognises that training local professionals often adds to the "brain drain", one must ask how realistic are the projections of substantially augmented aid flows when one cannot be sure of effective distribution and necessary follow-through and monitoring.

Take malaria nets, which are supposed to be quite cheap and easy to get hold of, assuming the funds are there to obtain and distribute them, of course. Yet, remember: most nets also require beds, which are not easy to come by. As Prime Minister Indira Gandhi famously said, when asked to raise India by its own bootstraps, Indians often cannot afford boots!

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But the worst is not that aid might be wasted. It may even lead to harm. For those who believe (as my colleague Jeffrey Sachs appears to believe) in the so-called "oil curse"–i.e. that sudden increases in wealth wind up hurting a country through profligacy and corruption–it seems probable that corruption will overwhelm the aid recipients as bureaucrats and politicians in these countries become awash in funds.

It is often suggested that plurilateral monitoring within Africa, to which nearly 25 countries have agreed as part of the African Peer Review Mechanism under NEPAD (New Partnership for African Development), and to which the OECD is contributing its expertise, will mitigate such outcomes. But surely that is a trifle too optimistic when, for instance, one sees the understandable inability of President Mbeki to condemn President Mugabe and the predictable difficulty that Nigeria faces in rooting out long-festering corruption. A danger is that the support for even modest aid could disappear as much larger sums are squandered, undermining the credibility of foreign aid as a policy. Big aid targets then become the next big mistake.

If only we could think of assistance to developing countries differently, and indeed more appropriately, as aid funds spent not just *in* Africa but *for* Africa, big targets such as aid at 0.7% of national income from the rich OECD countries could be seen as not ambitious enough. For, while there are limits to what we can spend directly in Africa *for* Africa, the ability to spend money productively here in our own backyards, on Africa's behalf, is far greater.

So, while the foes of enhanced developmental spending at 0.7% of gross national income are right if we focus only on what we can spend *in* Africa, the Big Aid advocates are wrong at the same time; because, if they expanded their notion of foreign aid to include a variety of productive spending that can assist African development, they would see the 0.7% target is an unambitious cop-out. Bigger targets would become possible.

Targets and morals

In practice, aid flows have reflected two principles: that aid must be a moral obligation that takes the form of a commitment commensurate with a donor's resources; and that, in turn, the resulting flows must be used efficiently. When the aid is to be used simply to provide consumption, as in a famine or flood, the requirement of efficient use is easier to fulfil than when investments are to be undertaken, though in some countries even the ability to distribute food and medical supplies has been hobbled by lack of local infrastructure and reasonable governance.

Because aid has been thought of as a moral obligation, the aid community has always gravitated towards targets for donors. The original 1% of GNP was promoted by Sir Arthur Lewis–later a nobel laureate in economics and adviser to Hugh Gaitskell–who wanted a target for the Labour Party platform. Many over the years have called for much larger aid flows to address world poverty. Among them was Andrei Sakharov who proposed a "tax on the developed countries equal to 20% of the national income"! In practice, however, even the 1% target was quickly reduced to 0.7% for official aid and 0.3% for private capital flows–providing comfort to the donors but violating common sense because aid, which should be an unrequited flow of assistance, should not be confused with a commercial transaction with mutual gains, such as private capital flows.

But the targets have always posed this problem: how are they to be translated into political obligation? Of course, if the resulting aid flows are wasted or squandered, it will be impossible to sell them politically. The problem has always been; even if absorptive capacity is assured, would rich nations be able to get politicians to accept the aid commitment?

When the earliest aid proponents, such as the Swedish economist and intellectual Gunnar Myrdal and the pioneering development economist Paul Rosenstein-

Rodan, proposed in the 1950s that aid be given out of altruistic motives, this was considered to be a pie in the sky. Ever since, the practical aid proponents have always sold aid as being in the enlightened self-interest of the donors. The Cold War helped for many years: if we did not help, the Soviets would take over. But then this argument was played out and the aid proponents turned to other, less compelling arguments. The Brandt Commission argued aid spending would promote employment, ignoring the fact that there was no Keynesian unemployment at the time, and the obvious retort that domestic spending would do this even better and at lower cost; no wonder they were ignored. Then, in the US, the case was made that if we did not help Mexico, the "peso refugees" would stream in, though the argument ignored the fact that a slight improvement in Mexican prosperity would only finance more bids to cross the Rio Grande, where the lifetime improvement for a poor Mexican worker is estimated at a quarter million US dollars! Today, the war against terror has been invoked, in face of repeated evidence that the terrorists are not afflicted by poverty and illiteracy but come typically from the educated middle class.

This ceaseless attempt to convert altruism into self-interest is illustrated beautifully by the story where a rich man and a poor man are praying side by side in church. The rich man says: "Dear Lord, I pray that you give me a million dollars since my loan is coming due". The poor man takes his turn and says: "Dear Lord, please give me a dollar so I can buy some bread or I will starve". So, the rich man pulls out of his wallet a hundred-dollar note, shoves it into the pauper's hand, and says: "Take the hundred dollars and buy as much bread as you need. But get out of here as I need the Lord's undivided attention"!

Communications and empathy

Dramatic change is needed. Moral obligation is easy for cosmopolitan elites to assert. But it will simply not work if there is no strong empathy that bonds nations or communities across borders.

If we expand our notion of aid to include a variety of productive spending that can assist African development, we would see the 0.7% target as an unambitious cop-out.

Adam Smith, writing over two centuries ago, put the matter beautifully when he wrote how "a man of humanity in Europe" would react to disaster in China: "If he was to lose his little finger tomorrow, he would not sleep tonight; but provided he never saw them, he would snore with the most profound security over the ruin of a hundred million of his brethren [abroad]."

But today, thanks to Internet and the revolution in communications, we can no longer snore our way through pestilence. The aid proponents sense there is spring in the air. We are now poised politically to leap forward into Big Aid.

Yet, unless the anxiety over absorptive capacity is resolved, this changed sentiment will end in frustration. And it is that conventional focus of aid–what is spent in the recipient countries–which must be abandoned. The phrase "foreign aid" encourages this notion; it is time to revert to the older phrase: "development assistance", with aid to be spent for, as well as in, recipient countries.

Consider, for instance, the development of vaccines and cures for yellow fever, malaria and other diseases. Just as the British established the Institute for Tropical Medicine, the same approach could absorb far more substantial public monies today to win the war on disease in Africa.

One could compensate cotton producers who are opposing the removal of US subsidies that undermine the cotton exports of the four cotton-exporting African nations. Innovative research for African crops could be financed on an ample scale, with the same results that Norman Borlaug achieved through the invention of the new seeds that led to the Green Revolution in developing countries. A Gray Peace Corps could be established that systematically, and with careful logistics and planning, deploys the senior citizens in our ageing society to spend periods in Africa to alleviate the enormous shortages of African skills that are crippling development. The possibilities are limitless. So, too, or so, then, are the possible expenditures by the rich countries for development assistance.

The certain consequence of this re-think on development assistance would be that a target of 0.7% of gross national income, which the "Big Aid" proponents seem to embrace, is not ambitious enough. With empathy for development now strong, and with our ability to devise and implement programmes at home that would assist the poor nations, we should aim higher. Let us return to the original 1% target, for a start.■

Professor Bhagwati is also the author of *In Defense of Globalization* (Oxford, 2004), and has written extensively on foreign aid. He is a member of the UN secretary-general's Advisory Committee on NEPAD/Africa.

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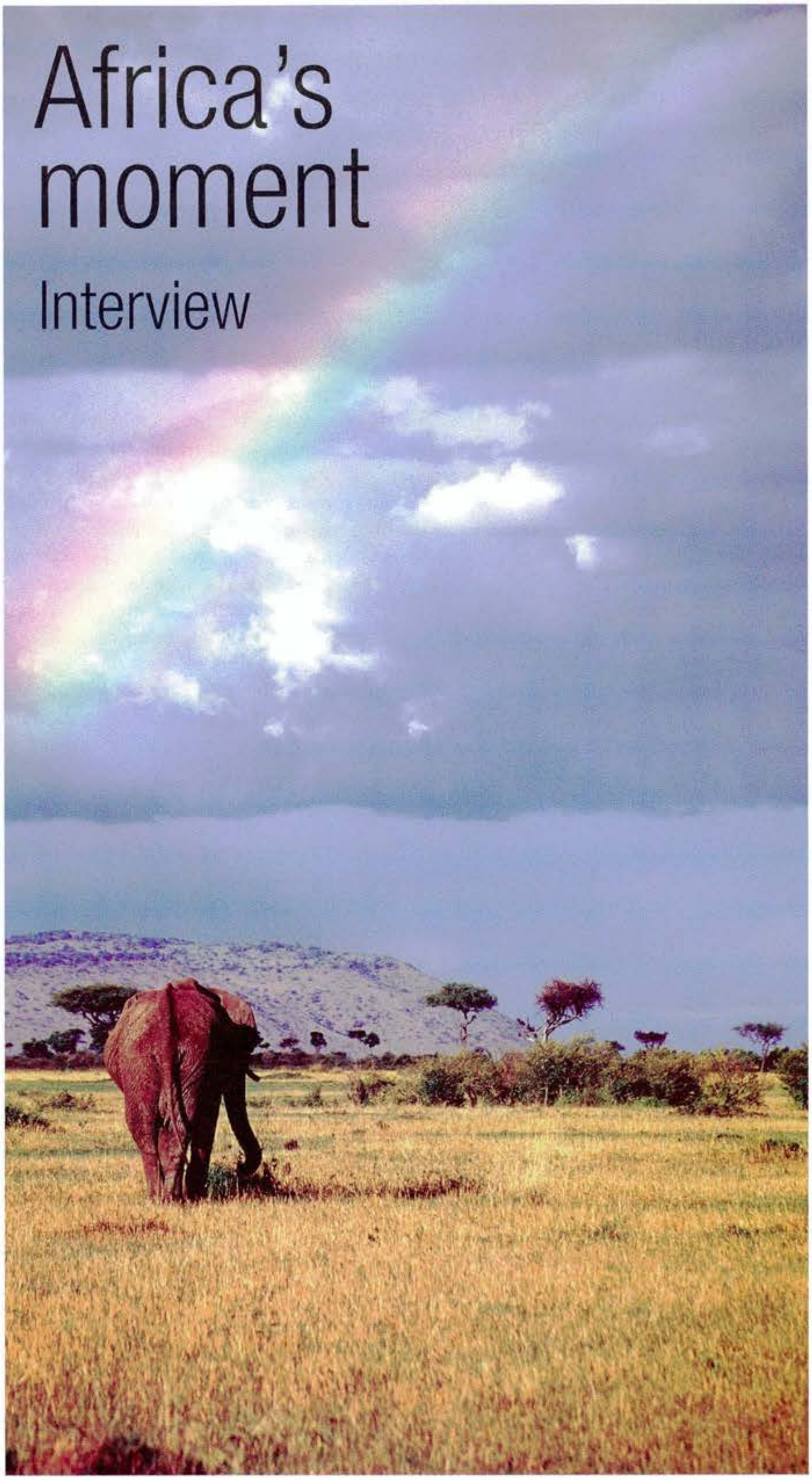
Africa's moment

Interview



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In September the United Nations convenes the first major summit to review implementation of the UN Millennium Development Goals, and to rally support for more progress to cut poverty and boost development in an effort to meet the 2015 deadline. Determined action, as well as some new ideas, may well be needed.

One such idea is the Commission for Africa, launched by the UK prime minister Tony Blair in February 2004. Mr Blair has made Africa one of the main focuses of both his chairmanship of the G8 this year and, in the second half of 2005, the EU. The commission's aim is to take a fresh look at Africa and at the role the international community can play in its development. A major report, containing clear recommendations for the G8, the EU and other developed countries as well as Africa itself, was published on 11 March.

This is not the first time Africa has been the focus of public attention. In fact, 2005 is a symbolic year, not just because of the UN meeting. It is the 20th anniversary of Live Aid–that event's organiser, Dubliner and 1980s pop star, Bob Geldof, is one of the 17 commissioners for Africa–and it is the 25th anniversary of the seminal Brandt Commission report, *North-South*.

What new hope does the commission really bring and how can it succeed? We asked Myles Wickstead*, head of the secretariat to the UK Commission for Africa, to explain.

OECD Observer: How do you, Mr Wickstead, both as head of the secretariat to the Commission for Africa, and as someone with considerable experience working in Africa, explain this renewal of interest? Is it different this time, is this Africa's moment?

Myles Wickstead: Yes, I believe that this is Africa's moment, for the very important reason that Africa is showing signs of real progress and renewal. Some of the elements of this are the formation of the African Union, the creation of NEPAD, the construction of the African Peer Review Mechanism, the development of real poverty reduction strategies, the increase in democratically elected governments and the decrease in the proliferation of conflicts. All these elements point to the fact that Africa is taking charge of its own development.

There are also a number of things happening that are putting the spotlight onto Africa–the UK presidency of the G8 and the EU, the review of the UN Millennium Development Goals in September, and the restart of the Doha trade round at the WTO Ministerial in Hong Kong in December. And, of course, the work of the Commission for Africa! The coincidence of these things provides a fantastic opportunity to help Africa.

People have talked of a Marshall Plan for Africa. Is that how you would describe the report's recommendations?

I think that there are pluses and minuses in the use of the term "Marshall Plan for Africa". There needs to be a massive renewal of interest in and support for Africa, so in that context it is entirely appropriate.

However, that expression doesn't capture the whole story. Europe had been devastated by the war when the original Marshall Plan was conceived. The important point about what is happening in Africa now is that it is already beginning to make real progress. We should get behind that. The Commission for Africa's recommendations must not be seen as a massive handout by the international community; we must recognise the effort Africa is making to renew itself.

There are those who doubt Africa's capacity to absorb and deal with more aid, who think that the real issues are institutional and poor governance, including corruption. These are dealt with in the report. What is your view?

You are absolutely right that there are capacity issues in Africa and that governance and corruption are important.

In the report we clearly say that if everything were ideal we should be increasing external assistance at once by $50 billion per annum–a tripling of existing concessional flows. But because of capacity constraints, we recommend that we should first increase aid by $25 billion per annum for five years and then, if governance continues to improve and capacity continues to develop, we should increase aid by a further $25 billion per annum.

Is there any one cause that you think more than any other is responsible for Africa's under-development? Or is this being too simplistic, with reasons changing, depending on the time and place?

I think it's difficult to point to one single cause for Africa's under-development. First, it is important to recognise Africa's great diversity–there is so much variety in individual countries' endowments, histories and development experiences, that it would be difficult to identify only one driver or cause that affected all of them in the same way. Second, African countries' under-development is the result of a number of interrelated causes–which is precisely the story of our report. We can't pick out and deal with single issues; we have to deal with the whole package, and that includes governance, peace and security, health and education, economic growth and Africa's capacity to trade. But also, it is important to look at the constraints resulting from the policies of the international community and the problem of debt, in many cases acquired decades ago under corrupt dictators.

We can't pick out and deal with single issues; we have to deal with the whole package.

As someone who knows Africa so well, what key message would you like to see taken from the report, by developed countries on the one hand, and African countries on the other?

I would like to emphasise the importance of a real partnership between Africa and the international community. NEPAD envisages partnership at three levels.

The first type of partnership is that within African countries–these are partnerships between governments and their citizens. The second type is partnerships between various African countries and regions. And finally, there is the partnership between Africa and the international community.

The commission's report focuses on the third level of partnership. The report encourages the international community to get behind and trust Africa. Africa must earn that trust; the international community must be ready to give it. That is the nature of the partnership. It will benefit all of us. That is why the report is called "Our Common Interest". ■

*Myles Wickstead has been the head of the secretariat to the Commission for Africa since it was formed by the UK prime minister, Tony Blair, in February 2004. Mr Wickstead has a long history of working in Africa, and from 2000 until his appointment, was based in Addis Ababa as British ambassador to Ethiopia and Djibouti (non-resident). From 1993-1997 he was head of the British Department Division in Eastern Africa, based in Nairobi. Former positions include head of the European Community and Food Aid Department at the Overseas Development Administration (1990-1993); Co-ordinator of the 1997 British government's International Development White Paper, "Eliminating World Poverty"; and on the Executive Board of the Counsellor (Development) in Washington DC (1997-2000).

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Africa

Farming sense

Christie Peacock
Chief Executive of FARM-Africa*

Investing in African agriculture would help poor people to help themselves.

The World Bank forecasts that in Africa and the Middle East, the number of "absolute poor" will increase between now and 2015. Nearly 80% of these people live in rural areas. Their options to improve livelihoods are largely restricted to agriculture.

To prevent this from turning into disaster, development aid in sub-Saharan Africa must focus on the rural areas, exploring innovative ways to raise the productivity of poor people's natural resources and, as a result, generate broad-based, pro-poor economic growth. This may sound like an old story to some, especially those that remember the Green Revolution, but in the noisy debate about issues like corruption, investment and health, it is a basic truth that is all too easily overlooked.

Yes, there are other policy options, such as mineral extraction and tourism, or institution building, which will all contribute towards economic growth as well as generating much-needed foreign exchange and stability. But their impact on actual poverty reduction is limited and rarely manages to improve the livelihoods of the majority of poor people.

Productivity on African farms must be increased. There are some success stories but, on the whole, the situation is bleak. In the past 30 years, Africa has turned from being a food exporter to a net food importer. Crop yields are no higher today than they were in 1980. Africa's share of world agricultural trade fell from 8% in 1965 to 2.5% in 2004. The main issue facing national governments and multilateral and bilateral donors is essentially how best to achieve significant increases in agricultural productivity. Direct budget support (DBS) is becoming an increasingly popular tool to support developing countries. But is this instrument able to nurture the kinds of new thinking so crucial to revitalising the agricultural sector? The answer is: probably no.

Africa's small-scale farmers and herders need improved technical agricultural support services, access to a range of input and output markets, improved crop varieties, better storage and distribution facilities and livestock

Direct budget support has not helped the cause of farmers, but local initiatives can work.

improvement, but realising these changes has proved to be problematic. So how should donors invest their money? The option of supporting sometimes corrupt, often inept, ministries of agriculture, whose past and current record in this field is weak, looks unpromising. However, devising a private sector/community-based model to provide a range of agricultural support services, such as credit, seeds, fertilizers and veterinary drugs, needs to be piloted and this will not be realised without technical and financial support from donors.

But under the unimaginative DBS funding framework, can innovation of this kind avoid being blunted by bureaucrats, so adept at mismanaging their own resources? The fact is, there is a link between the decline in investment specifically in agriculture and a decline in performance of the sector. There are other contributing factors, but direct budget support has not helped the cause of farmers.

In contrast, local initiatives can work. Consider the case of Ugandan widow Nanyoni Sharifa. At 44, she is just one example of someone whose life has changed beyond recognition, because money was invested locally. Ms Sharifa is a cassava grower who has seen yields fall from eight tonnes to one tonne per acre since the early 1990s as a result of the cassava mosaic virus.

Two years ago she joined the farmers association in Nakasongola, which had just won a $57,000 grant from the Maendeleo Agricultural Technology Fund to test out new varieties of cassava.

They set to work on farmer field trials, and hit on two or three varieties that were particularly productive. Surplus yields for the 500 farmers led them to chip, dry and grind cassava to produce flour for bread, biscuits, doughnuts and cement!

The project so impressed the Japanese International Cooperation Agency, an official government body, that it has just invested $40,000 into a processing plant close to the village. Now Nanyoni Sharifa is a member of the executive committee, motivating villagers to grow cassava to supply the plant.

"Before the project, there was often famine because of the diseased cassava plants but now everyone has enough food. We can also afford to pay for secondary school fees and medical bills," she said.

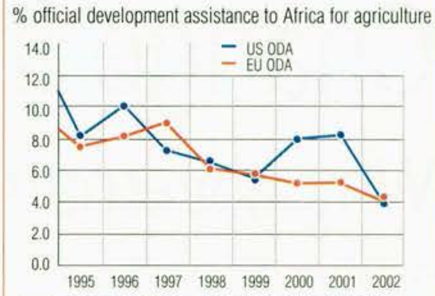
True, the project is small-scale, but it illustrates a key point in the debate about development–the need to transfer knowledge and expertise where it is needed most: in the rural areas where most people in Africa live.

The Maendeleo Agricultural Technology Fund, set up by the Gatsby Charitable Foundation and the Rockefeller Foundation, is managed by FARM-Africa and has an annual budget of nearly $2 million to make agricultural technologies accessible to farmers in east Africa. It is a pioneering model achieving quantifiable success, but there is an urgent need for more of this type of funding to develop the work further.

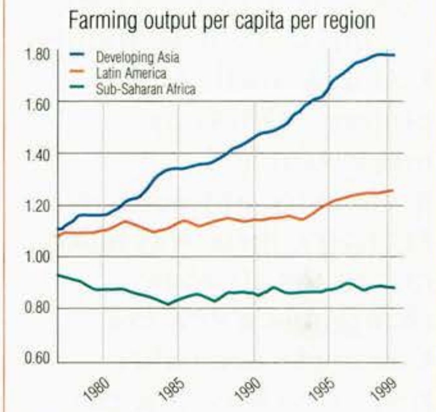
Invest at the grass roots in existing activities and growth will follow–only then will we stem the tide of rural migrants flooding into urban slums, and bring about equity and social justice so deserved by the rural poor. And only then will the over-reliance on food aid and unreliable government budgets be halted.

Everyone in poverty relief cites the fact that over a billion people live on less than a dollar a day. But while debates about trade reform are pertinent, they tend to focus on African elites. They end up ignoring the vast majority of people who live on less than a dollar a day and

Farm struggle



Source: Calculations based on data from the OECD Creditor Reporting System.



Note: 1961 = 1.00
Source: FAO.

beyond the reach of services and infrastructure.

By all means support African governments to change and develop, but industrial nations need to balance that by offering real support to community-based organisations on the ground, too. It is only then that progress can be made. Work with what people have and help them to help themselves. ■

*Dr Christie Peacock is the Chief Executive of FARM-Africa, an international NGO working with farmers and herders in eastern and southern Africa. It aims to make a lasting difference to peoples' lives by providing practical help, enabling them to produce more food for their families.

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Change in the Middle East

Why governance counts

Crispin Hawes, Middle Eastern Political Risk Consultant*

When the OECD recently co-launched a new Middle East and North Africa project (MENA) on investment and governance in Jordan in February, there was much talk in the air about change and a new era. Coming so soon after Iraq's elections, this can only be expected, but to long-term observers in the region the rhetoric could have seemed all too familiar, not least because MENA has been promoted in various guises before. Every initiative has its time of course, but can this one work now?

It has been all too tempting to see the events of recent months in the Middle East as the result of the US-led action in Iraq, as positive evidence that democracy is finally leading peoples across the region to take to the streets in order to emulate the Iraqi experience.

The reality, of course, is somewhat different. Many Arabs will celebrate the removal of Saddam Hussein and some will hope that US or international pressure will encourage their own governments to relax the almost uniform autocratic grip on power that regimes exert from Rabat to Tehran. But few will look at the daily death toll in Iraq and firmly believe that change forced from outside is the only way forward.

In many cases, change has been coming for some time. Take the deterioration in the Lebanese-Syrian relationship, in which it should be remembered that Rafiq al-Hariri played a key role for over a decade. This is as much a result of the unwinding of the Syrian regime in the aftermath of the death of the current president's father as it is a result of a desire to emulate the events in Iraq. Also, protests in Egypt over whether the president should be accorded a fifth term in office stem more from longstanding fears of the imposition of a dynastic succession than from a new US-inspired doctrine.

A more certain driver of change in the region is the onset of serious economic challenges that have been exacerbated by the autocratic nature of the regimes that dominate the region. It is against this backdrop that the success of MENA and indeed any transformation in the region will be judged.

Demographic pressures are building across the Middle East and North Africa but, unlike the graying OECD, the imbalance is towards youth. Total fertility rates remain above three births per woman in almost every country, the notable exceptions being Iran, Tunisia and Algeria. While governments have expressed a desire to address demographic issues, few have been willing to tackle the problem aggressively for fear of antagonising populations by appearing to trample on traditional social norms. The result is that across the region the age-distribution within populations has shifted towards a youthful majority. While this trend is typical of developing economies, in certain Arab states the imbalance has already become critical: in Saudi Arabia, for example, the fertility rate remains above five births per woman and unofficial data imply that at current rates some 60% of the population will be under the age of 17 by 2010.

Population growth in itself is not a worry; in fact, it could become a driver of economic growth. But such is the tenacity with which some of these autocratic regimes keep their grip on power that few can be expected to wholeheartedly embrace economic reforms, not least because the regimes themselves often depend on controlling access to foreign exchange.

Within oil economies such as Libya or Iraq this means retaining absolute control over the national oil company, and therefore export revenues. Within non-oil exporters like Egypt or Tunisia it tends to take the form of parceling out trade franchises to key sources of support, to tribal, familial or military interests. The result is that inward investment becomes restricted to specific, controlled areas which tend to benefit regimes' support bases.

Governments manage their fiscal expenditure by lurching from "boom to bust", often rescued by resurgent oil prices–non-oil exporters, like Egypt and Jordan, benefit from oil booms as Gulf states pull in extra labour.

Is this short-sighted? Undoubtedly to some, but when the ambition of regimes tends overwhelmingly to be the perpetuation of the current system of government, longer-term exigencies are often relegated to a secondary order of importance. As we found under any totalitarian system, these tendencies eventually lead to broad under-performance in the region's economies, with real incomes failing to grow at anything comparable to the experience of other emerging markets. Continuing high population growth, and slow and uneven GDP expansion underpin growing political dissatisfaction.

In economic terms there are few exceptions in the region of any note. Scholars and oil producers have long been fond of describing the dependence on energy extraction as a curse, but even among countries where hydrocarbons exports play a relatively small or negligible role, autocracy remains all too dominant. Can MENA encourage fundamental change in the pattern of economic management and therefore in the pattern of government? Are there signs of change on the ground?

It is hard to say. Supporting protests in Beirut, Cairo, or even Riyadh or Tehran, that call for greater democratic reforms plays well with television audiences in the US, Europe and Japan, though real change in the region is likely to come not from cosmetic alterations to the terms of national elections, but from the extension of real economic power beyond the autocratic centre. The expansion of capital market investment in Egypt in the 1990s did little to achieve that, and the growth of manipulated, restricted capital markets in Saudi Arabia and the Gulf will not do so either.

Free trade deals would seem a logical place to start. But while these agreements satisfy terms set by international treaties and organisations such as the WTO, they do little to broaden economic power within the signatory states. In signing "free trade" agreements that deal only with tariffs rather than the right to compete for trading rights within those economies, there is a risk of crystallising economic power in the hands of the emerging oligarchs, rather than fostering democratic change.

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If it is to prove more long-lasting than similar initiatives in the past, the MENA programme will have to move beyond the well-trodden path of governance talk to creating real change and accountability in the region's states. While the security imperatives of the present time could slow this process, the introduction of capital markets can be used to benefit the distribution of economic power away from the centre. Reporting standards for listed companies in emerging markets are often far more lax than those that would be required on the NYSE or in London. Insisting on international standards for MENA markets would go some way to clarifying the nature of economic power in many of these states.

There is hope elsewhere too. In historically highly autocratic states, such as Algeria and Morocco, the economic imperatives of relations with the EU are creating some momentum towards reform, but the danger is that, with Abdelaziz Bouteflika reveling in his electoral success of the past year and Mohammed VI in Morocco focused on addressing the cause of Islamist radicalism in the country, the impetus will be lost. It will be the task of the MENA programme, particularly through the OECD's governance dimension, to learn from past failures.

Democratisation can be a long game; remember, not all OECD countries were democracies when they joined the organisation. They are today. Whether this kind of influence for real lasting change can be brought to bear in the Middle East remains to be seen. ■

*Mr Hawes is a former Middle East economist at the Economist Intelligence Unit in London and former Director Middle East and Africa at Eurasia group in New York.

Tsunami reflections

Turning pledges into action

Khalid I. Rahman, Deputy Director General, Regional and Sustainable Development Department, Asian Development Bank (ADB)

Lessons are still being learned after the tsunami at the end of 2004. This includes honouring aid promises and tracking disaster relief.


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The earthquake and resulting tsunami that struck south and southeast Asia in late December caused massive destruction and left more than 300,000 persons dead or missing, and many more injured. An estimated $7.76 billion will be required for rehabilitation and reconstruction in India, Indonesia, the Maldives and Sri Lanka. In Indonesia's Aceh province, the livelihoods of 44% of the population have been affected, while in India some 700 villages in five states and union territories suffered extensive damage. In Sri Lanka, 100,000 homes were destroyed and 65% of the country's fishing fleet was damaged or lost.

Though dozens of resorts catering to wealthy tourists were destroyed or seriously damaged, the vast majority of those who perished or suffered loss across the path of the killer waves were poor. Entire communities were wiped out, along with critical human resources needed for recovery, such as school teachers, healthcare providers and public servants.

While everyone is no doubt aware of the powerful impact of this natural disaster, its sheer scale bears repeating. And just as Indonesia felt like it was starting to come to grips with its painful experience, another earthquake struck off the coast of Sumatra on 28 March, again killing hundreds and wreaking havoc. This latest tragedy reinforces the growing appreciation of the need for all those engaged in responding to such crises to collaborate closely to provide timely and effective assistance.

From relief to rebuilding

The international public response to the December disaster was impressive, as local and international communities contributed an unprecedented volume of assistance to the affected countries. In the first days, efforts concentrated on saving and preserving lives, before quickly turning to the prevention of disease. In Sri Lanka, 51 welfare centres were opened up on the day of the disaster, and more than 600 more within one week. Shelter, food, water, clothing, sanitation and medicine have all been provided. Designated areas have been created where children can safely play and recover from the trauma they have suffered.

Yet much remains to be done, and several more billions of dollars will be required over the coming years to complete the rebuilding task. While survivors have at least basic shelter, it could still be several months before many people have new homes constructed. There is still a need for medicines and care, including social and psychological support. This is being provided in part by NGOs, which have made important contributions to bringing social cohesion back to devastated communities. Temporary clinics, set up for the rescue and relief phases, will have to be replaced by permanent pharmacies and hospitals. Educational facilities must be rebuilt. In Sri Lanka, more than 20 donors have committed funds to repair or construct 168 schools in the country. Grants and small-scale soft loans are helping entrepreneurs and small business operators to get restarted.

Notwithstanding bright economic prospects for Asia as a whole over the next few years, the fact remains that in areas affected by the tsunami, local economies have been devastated and must be rebuilt from the ground up. This means fixing roads, rail lines, utilities and port facilities; restoring electricity and communications links; replacing lost fishing boats; and repairing hotels and resorts, some of which have reopened. The profound local infrastructure needs are highlighted by the state of the 240-kilometer stretch of road along Aceh province's west coast, between the cities of Banda Aceh and Meluloboh. One third of the coastal road was erased, while another half was seriously damaged. Only 10% of the 171 bridges along the route survived. The environment also demands attention across the affected region, having suffered from coastal erosion, groundwater contamination, soil salination and accumulated debris.

There are also legal matters to resolve, about entitlements and so on. The trouble is that many of the government offices that kept birth, death and marriage certificates, property titles, and insurance, bank account and court records have been destroyed.

Determining land ownership and helping vulnerable people protect their property could take years to process, not least as people either return to where their homes once were or decide to live further away from the coast.

Tracking the funds

At least $3.54 billion has been pledged to rehabilitation and reconstruction efforts by donor countries and international agencies, including the ADB, which has launched the $600 million multi-donor Asian Tsunami Fund to provide grants. Still, as anyone working in development or disaster relief knows, pledges are one thing, ensuring that these sums reach their destination and are used effectively is another. And the pledges made in the wake of the tsunami, with its unprecedented media coverage and public outpouring, are particularly vast.

That is why, at a high-level co-ordination meeting hosted by the ADB in mid-March, representatives of donors and the affected countries agreed to implement a tracking matrix to co-ordinate, monitor and manage relief efforts. They were unanimous that the matrix needs to be "owned" by the affected countries, and that it should complement monitoring systems established by these countries.

The meeting also concluded that donors who choose not to place their funds through government budgets should share all information through common country-led databases. NGOs and private donors also are urged to do the same.

Donors and the affected countries agreed to implement a tracking matrix to co-ordinate, monitor and manage relief efforts.

Affected countries should keep their information systems updated, preferably on an open-access website, such as Indonesia's e-Aceh.org. Participants also noted the benefits of aggregating these country data into a system that would allow progress and measurable results to be tracked across all tsunami-affected countries. This would enable accountability, to ensure that pledged funds are actually spent according to commitments.

The tracking matrix should help everyone concerned to assess what sectors are receiving needed support and which ones are not. It will also assist in preparing national budgets and in determining the results of aid, in other words, whether aid is delivering improvements in people's lives. Furthermore, the matrix will help ensure that the world does not lose sight of the development needs of the tsunami-affected countries. The ADB and the United Nations Development Programme are now consulting with concerned governments to develop a proposal for common national tracking systems to allow for the aggregation of data from these systems into a regional summary tracking matrix.

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Such huge sums being channeled into the region obviously increase the risk of corruption, of middlemen and suppliers, as well as officials. This is why the OECD and the ADB, working alongside governments, businesses and NGOs, such as Transparency International, are trying to ensure that aid delivery and reconstruction work can take place without being distorted by corruption. Priority is being given to maximising the effectiveness of existing laws and procedures to minimise and deter corruption in tsunami relief and reconstruction.

The earthquake that launched the massive tidal wave lasted only a few moments, but it would not be an exaggeration to say that the tsunami changed us all forever. It has taught us several lessons, about our own mortality, about development, about the environment. It also taught us about aid and solidarity, about working together across continents. People from all over the world contributed to the relief effort. We must think about post-disaster aid differently now, and work together to monitor and control it so that the precious funds are spent wisely. Public institutions, like the ADB and the OECD, have a special obligation to share their considerable expertise and knowledge toward this objective. ■

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Energy policy
No silver bullet

Claude Mandil, Executive Director, International Energy Agency (IEA)

Oil prices may be high, causing more than a little anxiety among governments and the public. Yet, it is precisely at such times that a calm look at the energy situation is needed.

Although newspaper headlines are typically dominated by events of a short-term nature, it is crucial that we keep our eyes on the medium and longer-term pressures that economic, security and environmental demands place on our energy system.

This is what the IEA's *World Energy Outlook* tries to help us to do. It coolly provides policymakers and industry experts with insight into the evolution of energy markets and analysis of the key challenges that we must overcome to ensure the existence of secure, efficient, environmentally acceptable and flexible energy systems and markets worldwide.

The latest edition appeared in 2004 at an extremely volatile and uncertain moment in world energy markets. Soaring oil, gas and coal prices, exploding energy demand in China, war in Iraq and electricity blackouts in many OECD countries reflected the many transformations buffeting the energy sector.

Our experts avoided hype, but they nonetheless paint a sobering picture of how the global energy system could evolve from now to 2030. The message is simple: without new government policies or an accelerated deployment of new technology, world energy demand is set to rise by 60%. Some 85% of this increase will be in the form of carbon-emitting fossil fuels: coal, oil and natural gas, while two thirds of the new demand will come from developing countries, especially China and India. The world will need to invest $16 trillion to maintain and expand energy supply to ensure this demand is met.

Sobering indeed. These projected market trends raise serious concerns about energy security and sustainability.

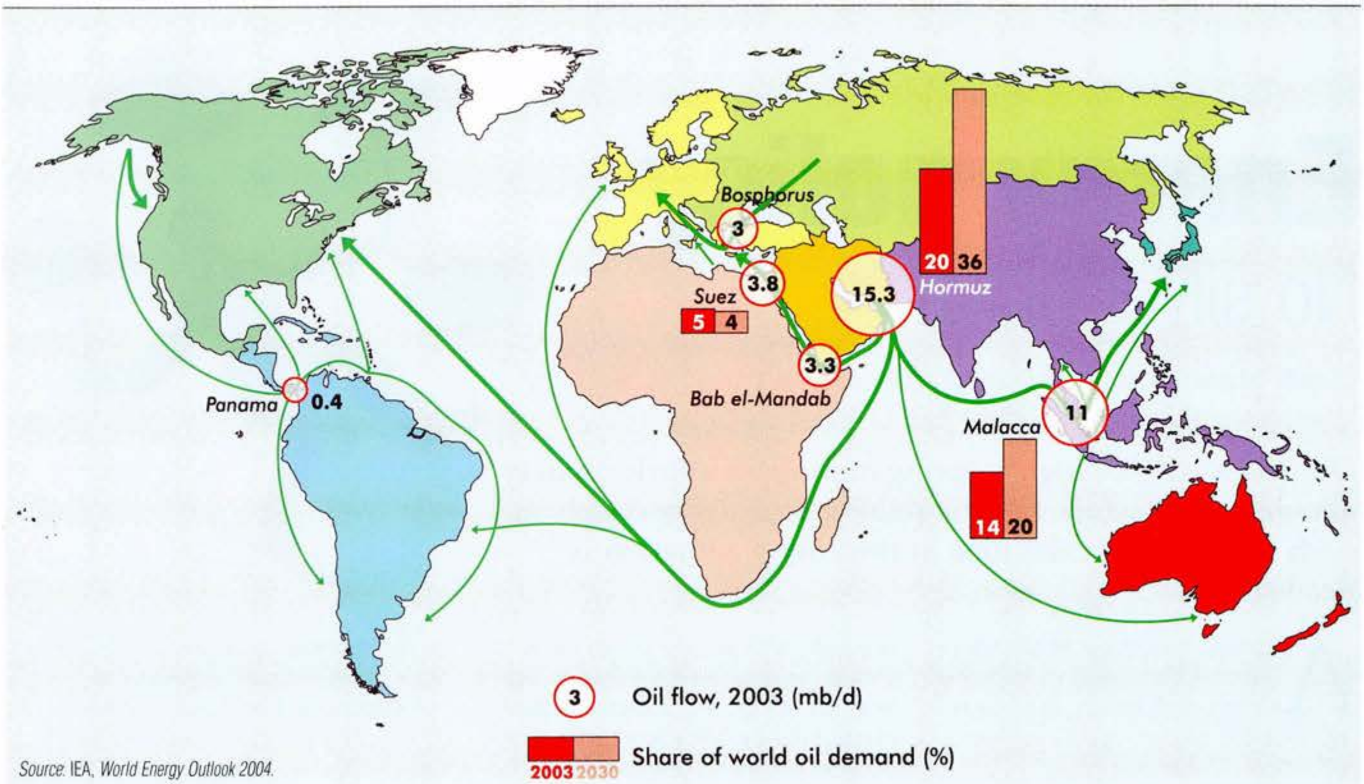
Major oil and gas importers–including most OECD countries, China and India–will become ever more dependent on imports from a few distant, often politically unstable parts of the world. We will be looking at this more closely in the 2005 edition, but for now it suffices to point out that while this booming trade will strengthen the mutual dependence among exporting and importing countries, it will also exacerbate the risks that wells or pipelines could be closed or tankers blocked by piracy, terrorist attacks or accidents.

The future is not set in stone. More vigorous government action could steer the world onto a more sustainable energy path.

There are environmental implications, too. Emissions of carbon dioxide will grow marginally faster than energy use. They will be more than 60% higher in 2030 than now. Well over two thirds of the projected increase in emissions will come from developing countries, which will remain major users of coal–the most carbon-intensive of fuels.

Little dent is expected to be made in the 1.6 billion people–a staggering one quarter of the world's population–who currently lack electricity. In fact, the ranks of those using traditional fuels such as wood or other biomass in unsustainable and inefficient ways for cooking and heating will actually increase. Providing these people with access to modern energy services would contribute to each of the economic,

Oil flows and major chokepoints, 2003



Source: IEA, *World Energy Outlook 2004.*

social and environmental dimensions of human development.

Thankfully, the future is not set in stone. More vigorous government action could steer the world onto a more sustainable energy path. In an alternative scenario, the *World Energy Outlook* considers the impact of environmental policies that countries around the world are already examining, as well as the effects of faster deployment of energy-efficient technologies.

It demonstrates that global energy demand and carbon dioxide emissions can be dramatically reduced. As can dependence on imported energy in major consuming countries and the world's reliance on Middle East oil and gas. The energy-efficient technologies needed to achieve the bulk of these savings are currently available and are affordable. However, even in this alternative scenario carbon dioxide emissions would be higher in 2030 than today. In other words, the action we outline could slow carbon dioxide emissions, but not reduce them.

For that to happen, technological breakthroughs would be needed that dramatically alter how we produce and use energy. Carbon capture and storage technologies hold out the tantalising prospect of using fossil fuels in a carbon-free way. Advanced nuclear reactor designs or breakthrough renewable technologies could one day help free us from our dependence on fossil fuels.

Governments have an important role in implementing the policies needed to spur the development and implementation of such technologies. In formulating responses it is important to recognise that there is no silver bullet to a sustainable energy future. Regions and countries have different resources upon which they wish to draw, as well as different preferences and infrastructures to bear in mind. Accordingly, no single fuel or technology should be canonised, nor should any single fuel or technology be crucified.

Still, there are a few basic points that we must all remember. Economic development cannot be achieved without energy and cannot be sustained unless the energy supply is secure. But energy production and use must also be environmentally sustainable. Finding the right balance between these requirements is a challenge we all face. ■

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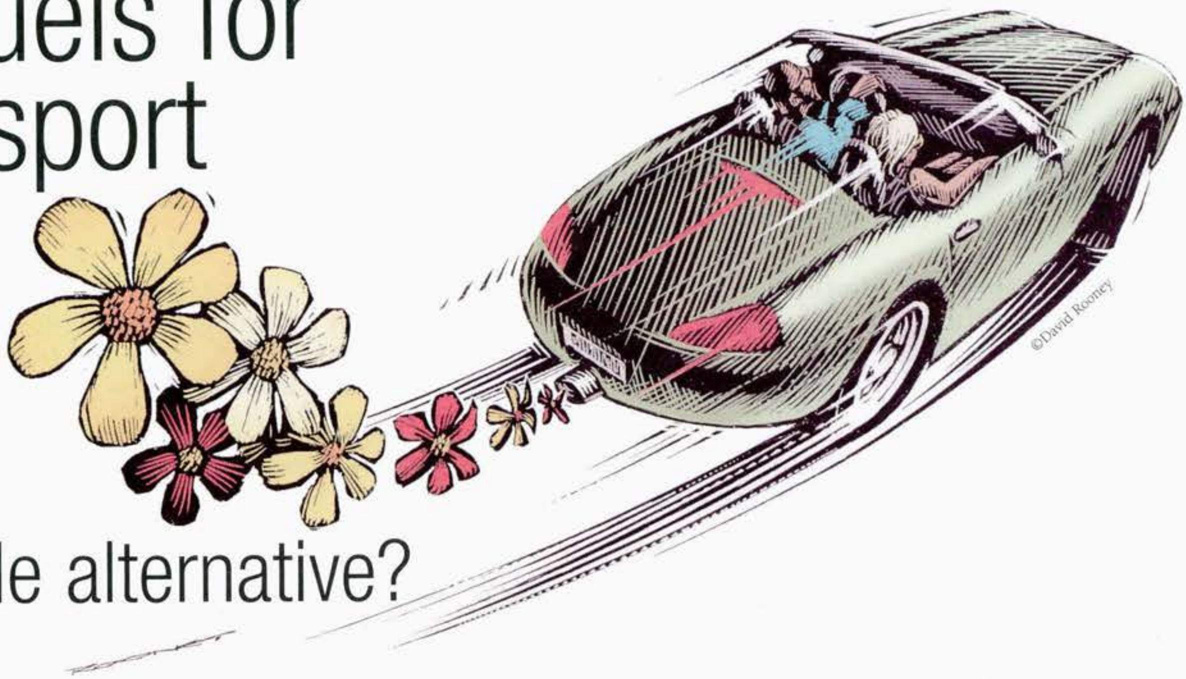
Biofuels for transport



A viable alternative?

Lew Fulton, International Energy Agency

Can biofuels truly compete with petrol? Recent projections suggest that ethanol could represent up to 5% of the world's transport fuel by 2010. That figure may seem modest at first glance, but it is significant, considering no other alternative fuel has had an equivalent impact on the gasoline market in over 100 years.

The main question facing biofuels is not whether they can work, but how they might be developed further. Any large-scale development remains stifled by numerous issues. The IEA, a sister organisation of the OECD, has identified several areas requiring extended research, but while there is a need to better quantify the various benefits and costs of biofuels, there is enough evidence to confirm that these fuels could represent serious alternatives to conventional fuels or, at the very least, complements to existing transport fuels. Energy and agricultural policies should aim to maximise the benefits of these fuels with minimum costs for governments and societies.

The production potential, cost and the environmental impacts of producing ethanol, biodiesel and other liquid and gaseous fuels are still uncertain. Biofuels are currently derived from crops such as corn and wheat for ethanol, and soy and rape for biodiesel. In Brazil, the main source of ethanol is sugar cane. These alternative fuels are not only largely compatible with current vehicles, they are blendable with existing fuels. In fact, low percentage ethanol blends, such as E10 (which contains 10% ethanol by volume) are already dispensed in many service stations worldwide and used in regular gasoline vehicles. To go beyond 10% blends, minor engine and fuel system modifications are needed, which are inexpensive. Still, in Brazil, an increasing number of new cars are compatible with virtually any combination of gasoline and ethanol.

However, the use of these fuels for transport remains low across the world. Currently leading the way in consumption of ethanol for transport are the United States and Brazil. Nonetheless, in the United States, ethanol represents less than 2% of transport fuel; but in Brazil it now accounts for well over 30% of motor fuel demand.

While biofuel production costs are fairly easy to measure, the benefits are difficult to quantify. Biofuels can be expensive, at up to three times the price of petrol, though the gap has narrowed with recent sharp oil price rises. The high cost of biofuels has traditionally kept their usage

In Brazil, an increasing number of new cars are compatible with virtually any combination of gasoline and ethanol.

Leading Qatari LNG Producer: RasGas, the Power of the Drop

In a little over a decade since it was first established – only five years after shipping its first cargo of liquefied natural gas (LNG) – Ras Laffan Liquefied Natural Gas Company Limited (RasGas) has already established itself as a major force in the expanding natural gas market, acquiring new customers and an enviable reputation for technical and commercial excellence at a relentless pace.

Qatar has the good fortune to have the world's largest reserves of non-associated gas in its offshore North Field and the Government has ensured that the nation maximises the opportunity this presents by developing a myriad of related industries that will create and sustain the long-term security and wellbeing of its people.

As the pace of gas development has grown and world demand for environmentally friendly LNG has increased, Qatar's commitment and vision to expanding the country's LNG industry has remained absolute.

RasGas typifies this vision by striving to become not just an active player but also, 'A Pacesetter' in the world of LNG supply. With its record of completing major projects ahead of schedule, of operating modern LNG trains safely, a reputation of transparent business practices, the vision to overcome the perceived challenges of the country's geographical location and the ability to secure new worldwide customers, RasGas has achieved a number of milestones in its short history.

Two fundamental elements in RasGas' success story are its long-term Sales and Purchase Agreements (SPAs) with KOGAS in 1995 and Petronet LNG Limited of Indian (PLL) in 1999. To supply the KOGAS SPA, RasGas constructed its first two LNG trains. In March 2004, to fulfil the requirements of the Petronet SPA, RasGas inaugurated Train 3, the largest in the world to date with production capacity amounting to 4.7 MTA.

In recent years, RasGas (II) has also entered into agreements with leading energy companies: Edison Gas S.p.A., Endesa Generacion S.A., the Chinese Petroleum Corporation (CPC), Exxon Mobil Corporation, Fluxys LNG, FPL Group Resources LLC and Distrigas.

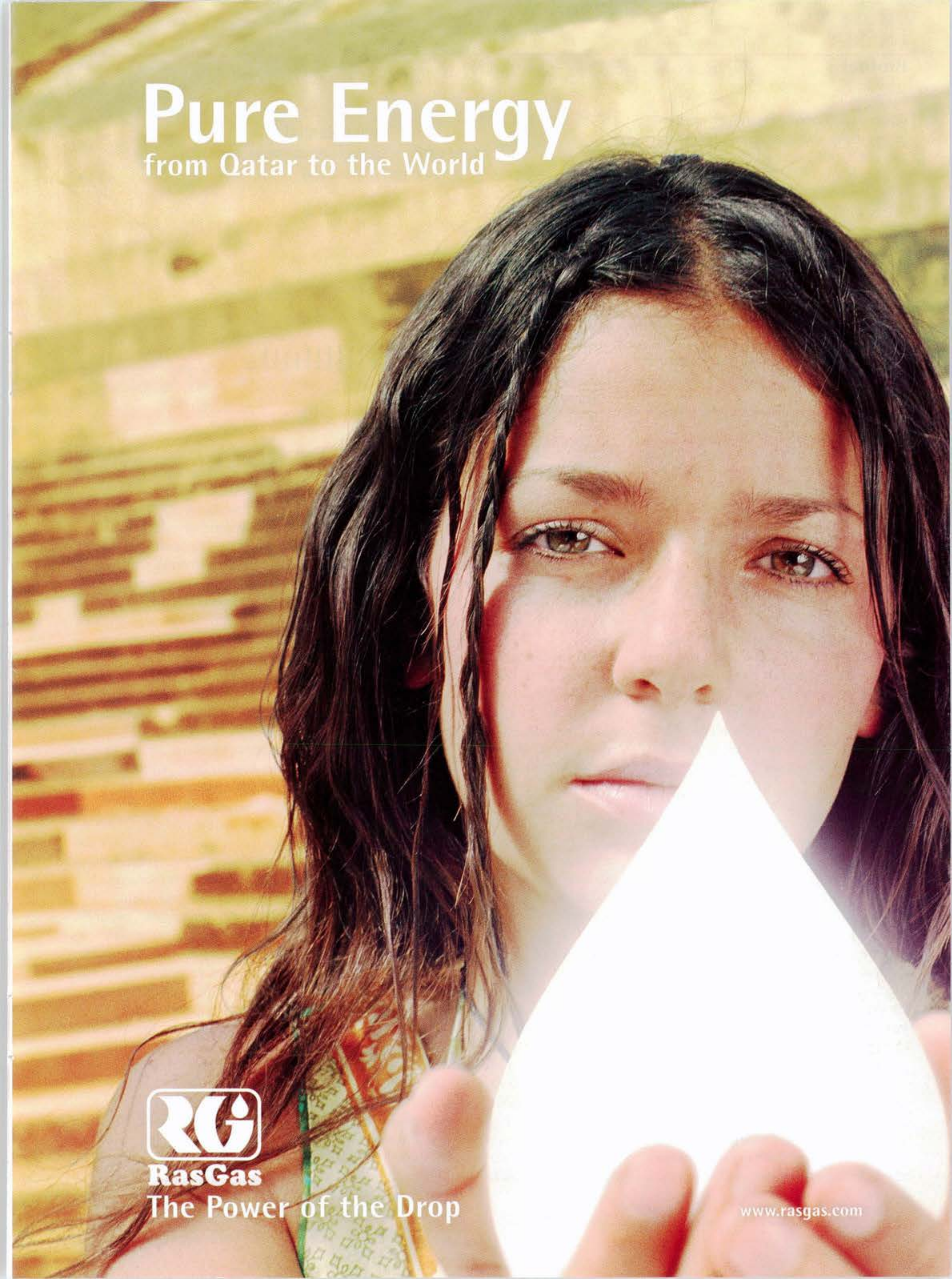
To accommodate its new ex-ship SPAs, RasGas (II) has also concluded several time charter deals. The completion of these agreements has increased the RasGas long-term charter fleet to a total of 14 ships, further underscoring the company's commitment to provide safe and reliable transportation to its growing customer portfolio.

The Company has also been designated as operator to manage and supervise the design, construction and operation of helium facilities on behalf of RasGas, RasGas (II) and Qatargas. The Ras Laffan Helium Project will extract raw helium from the LNG process and will make Qatar one of the world's leading helium producers.

RasGas Company Limited has also been appointed to construct and operate the first phase of the Al Khaleej Gas Project (AKG-1) for and on behalf of ExxonMobil Middle East Gas Marketing Limited.

Before the end of the decade, RasGas' expansion is expected to include four additional trains including two giant 7.8 MTA trains to feed US supplies with total production expected to rise from 6. 6 MTA in 2000 to 37 MTA by 2010.

For additional information contact RasGas Public Relations Department at Tel : +974 – 4857438, by fax at +974 – 4857386, or visit www.rasgas.com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down in IEA countries, though with oil prices rising and technical improvements, they are rapidly becoming more attractive. Also, with increasing production scale and experience, biofuel prices will likely drop. On the benefit side, increasing the use of biofuels can improve energy security, greatly reduce greenhouse gases and many pollutant emissions, and improve vehicle performance. Their production can also enhance rural economic development. These benefits are difficult to quantify as they are externalities, and not reflected in the market price of biofuels.

Over the next decade the cost of producing advanced biofuels, such as from ligno-cellulosic feedstocks–the green parts of plants–may drop noticeably. In fact, prices may fall to below the costs of producing conventional biofuels, since the biomass feedstocks may be much cheaper, including crop and forestry wastes, and due to dedicated energy crops such as grasses or trees that can be produced on marginal lands.

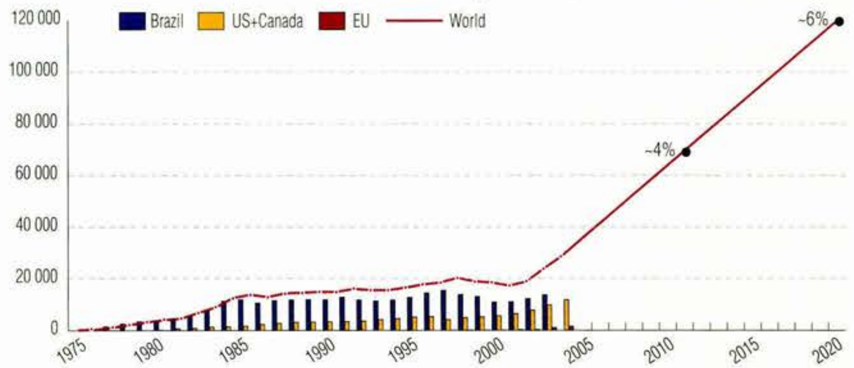
From a greenhouse gas point of view, cellulosic ethanol is good news, since it is nearly carbon-neutral. The cost for reducing greenhouse gases from these advanced biofuels may drop to $50-$100 per tonne over the next decade, much lower than today's cost of using grain crops in IEA countries.

It is in the developing world that the outlook for production of biofuels appears most promising. The cost of producing ethanol from sugar cane in Brazil is now close to the country's cost of gasoline on a volume basis. The sunny, warm climate encourages relatively high feedstock yields per hectare. Labour costs are low, too, and efficient co-generation facilities producing both ethanol and electricity have been developed. Production costs continue to drop with each new conversion facility, which currently provide CO_2 reductions at a cost of $50/tonne or less.

However, there is a mismatch between those countries where biofuels can be produced at lowest cost and those where demand is rising most quickly. If biofuel needs and requirements of IEA countries over the next decade were met in part with a feedstock base abroad, then the costs of biofuels could drop substantially. Diversifying biofuel sources also could benefit energy security, as a chief source of uncertainty is weather-related. Since heavy rain or sudden drought can damage the plants that yield these fuels, planting a variety of crops over a large area could help protect against loss.

Fuel potential

Potential ethanol share of world motor gasoline use, million litres



Source: OECD.

New conversion technologies are being developed which aim to make better use of the entire plant, not just the sugar or starch components. In addition to improving the economics and environmental characteristics of the fuel, this will substantially increase the potential feedstock supply. It will allow biofuel crops to be grown in new areas, such as grasses on pastureland, reducing competition with food crops. These new technologies, including both conversion of lingo-cellulose to ethanol and conversion of any type of biomass to diesel fuel via thermo-chemical conversion, have the added benefit of requiring very little fossil fuels during any phase of development and processing, so net greenhouse gas emissions are very low.

A key long-term concern is that higher usage of biofuels will lead to land being drawn away from other purposes, including food, animal feed or fibre. This could lead to higher food prices for consumers. According to IEA projections, a 5% displacement of gasoline and diesel fuel in the EU would require about 15% of available cropland to produce the relevant feedstocks. In the US, a slightly higher share would be required.

But these trade-offs are made more complicated by extensive farm subsidies in many countries. For example, some crop price support schemes that may be paying farmers not to grow crops, could be replaced by incentives to encourage production of crops for biofuels instead, and in some cases this is happening. After all, the cultivation of crops for biofuels would provide an additional product market for farmers and bring economic benefits to rural communities.

A key question, of course, is: are biofuels really green? Apart from reductions in greenhouse gases, ethanol and biodiesel provide certain air quality benefits compared to gasoline and diesel fuel, though the net impacts are complex and depend on each situation. These fuels typically emit less carbon monoxide (CO), sulphur dioxide (SO_2) and particulate matter, particularly valuable when emissions control systems are weak, as in some developing countries. On the other hand, some emissions are typically higher with biofuels–such as emissions of hydrocarbons, and toxic compounds like aldehydes from ethanol.

Another advantage is that biofuels can reduce wastes through recycling–in particular, agricultural wastes from cropland, and waste oils and grease that can be converted to biodiesel. However, a big question is the net impact of growing biofuels crops on the earth's soils and ecosystems. If production were to increase many times, the land requirement would be quite large. The level of "sustainable" production of biofuels, from this point of view, is still unclear. But there may be some opportunities to use biofuel crops, like grasses, to protect sensitive lands and provide improved habitats for birds and other animals.

Despite these uncertainties, biofuel production could have good potential; the IEA estimates that ultimately half or more of road transportation fuels worldwide could be displaced by biofuels, perhaps in the 2050-2100 timeframe. But this will depend on many factors, including global food requirements and land productivity.

Given the benefits, there is little wonder that many IEA countries, including the US, Canada, several European countries, Australia and Japan are considering, or have already adopted policies that could result in significantly higher biofuel use over the next decade. Though many IEA countries are encouraging domestic biofuel production, the low cost of ethanol from Brazil and, eventually, from other developing countries, make it a very attractive prospect to import. International trade in biofuels, even to complement domestic production, will likely develop over time.

If all policies and targets are fully implemented, biofuel use could more than double worldwide over the next five years or so. Even though that means an ethanol share of gasoline of only 4% or 5%, that would be a huge leap in a petroleum industry that has not faced real competition in over a century. ■

References

- IEA (2004), *Biofuels for Transport: An International Perspective*, OECD, Paris.
- Visit the IEA website: www.iea.org.

Fuel that pride

Thierry Desmarest, CEO, Total group*

It is all too easy to criticise large companies, especially when they are doing well. Time to stop the "big bad business" bashing?

France is a country with more than its fair share of great industrial leaders. This is largely due to its steadfast policies in favour of growth and corporate mergers, which have produced world leaders in the pharmaceuticals, banking, steel, automobile and oil industries. So why the surprise or concern at the profits they are making? Should we not, on the contrary, be rejoicing in their success? Their profits, on a par with those of their competitors, are the only real guarantee of their independence.

The French have welcomed the emergence of these industrial champions, but find it hard to accept what it takes to stay ahead of their international competitors. This paradox may well seem surprising. Why should anyone have any interest in seeing our firms, brand names, products or services relegated to the sidelines of a constantly changing global economy? It is all the more surprising to see France's disaffection with its "industrial champions" when these enterprises are so much admired elsewhere in the world.

Total, the world's fourth-largest oil and gas group, which it is my honour to head, now ranks among the most prominent firms on the international stage.

So what, you will say? After all, it is so much more fashionable to scoff at successful firms and their workforces who, through trade, promote French economic and industrial excellence. So much so, in fact, that the high-flying Total group is now an object of suspicion, drawing disapproval, and claims that we owe our performance solely to a healthy economic environment and a favourable business climate. Total is accused of free-riding, which belittles all its efforts to gain market shares or promote expansion. In other words, we do not deserve our success.

Yet our growth, higher than that of the competition or the oil market, has shown how right we were to adopt a pro-active long-term strategy, launched in the 1990s and boosted by a three-way merger. The aim was to achieve critical mass in a market where geographical coverage, investment capacity and performance are the keys to economic survival.

Should we be embarrassed at our successes? Our performance today is a guarantee for tomorrow, for the future of the group and its independence. Corporate growth in the oil industry depends on maintaining high levels of investment. In 2005, Total will have

Standing out abroad

poured $12 billion into project development. This investment policy has never wavered, even when oil prices were low.

Now that competition is keener than ever, our teams of researchers, explorers, producers and refiners have been successfully fighting to gain access to new areas for oil and gas exploration and production, and to invent the new technologies that will enable us to develop what are currently thought to be inaccessible sources of energy.

Yet these teams must bear in mind two vital factors: competitiveness and efficiency. Both are crucial if we are to sustain our performance, regardless of the economic environment. The same two factors today govern consolidation in our chemicals branch, where we are facing some hard decisions on the social front; when the time comes, we will do all we can to carry out those decisions in an exemplary manner and with the highest regard for the people involved.

Is Total solely concerned with making money for itself and its shareholders? Is it putting its workforce second? An enterprise is a community of mutual interests: its own, those of its clients, those of its shareholders and those of its workforce. This combination is the foundation for the whole edifice. It is what drives us forward.

Total rewards those who have risked their savings so that the company can invest in development. And the group also rewards, encourages and motivates its workforce for contributing to its success. Driven by its determination to be socially innovative, Total has developed a policy of employee stock ownership on a scale unique in France. With 4 billion in corporate stock, Total's workforce is the largest employee stock ownership group in the country. This is how Total asserts its policy of promoting shared growth and a shared future.

Even if it is fashionable to be disparaging about industrial champions, let us behave responsibly by putting an end to this "French paradox". We should all be proud at having built up a world-class national business in the hydrocarbon market, which for so long has been an exclusively Anglo-Saxon preserve. ■

*This article originally appeared in the French daily *Le Monde*, dated 2 April 2005 under the title "Se battre, gagner et s'en réjouir" (Fight, win and enjoy!). This English version was produced by the *OECD Observer*.

References

• Visit www.total.com.

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Bulgaria
The Energy Guard in South Europe


Mr. Bogomil Manchev.

One of the long standing Bulgarian dreams will come true very soon. The Bulgarian Prime Minister- Simeon Saxkoburggotski will sign the Treaty for Bulgaria's Accession to the European Union on April 25, 2005 in Brussels and on January 1, 2007 Bulgaria will become a full member of the European family.

This upcoming enlargement will bring a new powerful player to Europe's energy team. The statistics confirm Bulgaria's position as the fifth largest exporter of electricity in Europe for 2004, with 5 900 GWH of energy supplied to other countries.

The Bulgarian energy industry is a reliable producer and also provides security and stability for energy supplies all over South Europe. For example, on July 12, 2004 – only a month before the start of the Olympic games in Athens, the perfect automation of Bulgaria's National Electrical Company (NEK) and Kozloduy Nuclear Power Plant (NPP) saved the northern part of Greece from blackout and heavy damage to its electricity facilities when an emergency situation arose due to increased demand in Athens.

In recent years, investments of about 40 million have modernized the transmission networks and have led to NEK's membership in UCTE (Union for Coordination and Transmisions of Electricity), and has also resulted in exportation contracts with non-Balkan countries.

Today, about 60% of the electricity shortage in South Europe is covered by the Bulgarian capacities. However, before the end of the 2006 the Bulgarian government must close units 3 and 4 of Kozloduy NPP and this export of inexpensive (2 eurocents per KWH) and safe energy will have to stop. The prejudices concerning "the old Soviet engineered nuclear reactors" in Eastern Europe is still strong enough to prevent the European institutions leading the negotiations to consider the excellent safety results of these Kozloduy units made by the Peer Review Mission of the European Council's Atomic Question Group in November 2003. The amount of Bulgaria's electricity export per year (5 900 GWh) is exactly equal to the production of these two 440-MGW reactors.

Being judicious people, Bulgarians are certain that there are no engineering, economic or organizational reasons for the early closure of these units at Kozloduy NPP. As European optimists, they believe that this unjust decision about the closure will be reconsidered before 2007 so South Europe will not face an energy deficit. Importantly, Bulgaria does not intend to abdicate from its mission to be the main energy pillar in the region. This spring the government plans to start the implementation of a project for construction of a new nuclear power plant on the Danube River, near the town of Belene.

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Is nuclear energy back?

"Nuclear Power for the 21st Century", international ministerial conference held in Paris, 21-22 March 2005

A decade ago, even thinking about expanding nuclear energy was almost taboo in some OECD countries, but this may now be changing. For Luis Echávarri, director-general of the Nuclear Energy Agency (NEA), those taboos are now being challenged as governments and people everywhere seem ready to openly discuss the potential of the nuclear option.

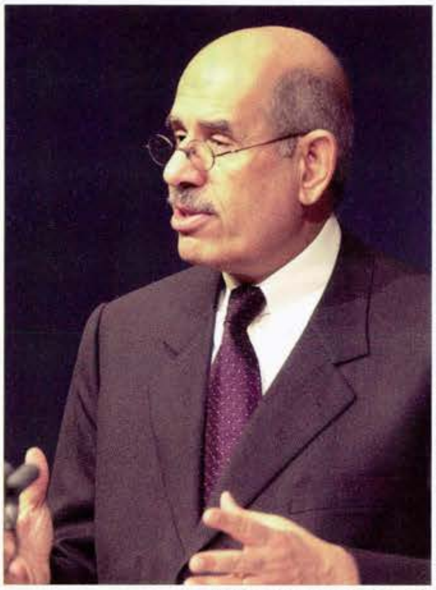
There are two simple reasons for this: the high price of oil and climate change. Also, nuclear technology has moved on, with new generations coming on stream, and with it, confidence seems to be rising. Little wonder that, today, governments, investors and the wider public are taking another hard look at the nuclear option.

A sign of this renewed interest was in evidence when ministers, high-ranking officials and experts from 74 countries and 10 international organisations gathered at a major conference in Paris in March under the rather bold banner, "Nuclear Power for the 21st Century". The conference was organised by the Vienna-based International Atomic Energy Agency (IAEA) in co-operation with the OECD and the NEA, and was hosted by the French government. The aim was to examine and analyse the potential contribution of this energy source to meeting future energy needs in light of economic, social and environmental concerns.

The fact that the conference was hosted by France should not be a surprise, as some 80% of the country's electricity comes from nuclear energy. The French are understandably keen to promote the technology's potential as a secure source of energy in the years ahead. But though France can take a lead, it is not alone. Already 24% of OECD electricity comes from nuclear energy, and there are investment plans in other countries such as Finland, Japan and Korea.

Nuclear energy has some undoubted attractions, the conference agreed. It does not emit CO_2, and so does not contribute to climate change. And it offers a relatively secure energy supply compared with oil and gas, both economically and geopolitically. The price of uranium, though rising, has a limited impact on final energy costs, and the world's main uranium producers are Australia and Canada, both OECD countries.

There are challenges, though, and two stood out at the conference. Disposing of high-level waste was one, and even if progress is being made, non-nuclear countries in particular see overcoming this issue as an important test of the technology's attractiveness. The NEA's own membership includes several countries that either have no nuclear power and are still against having it, or decided to phase out nuclear energy.



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IAEA Director-General Mohamed ElBaradei at the March 2005 conference.

All participants were united on the second main concern: ensuring that the technology and nuclear material do not fall into the wrong hands. Despite these reservations, many non-OECD countries attending the conference expressed a strong interest in investing in nuclear energy, particularly in Asia, but also in Africa. While international expansion might make the job of non-proliferation more important, it reflects a growing confidence in an energy technology whose time may finally have come. ■

References

- A full communiqué of the Paris conference can be read at www.nea.fr, Press Room.
- For more information, contact the NEA head of External Relations and Public Affairs, Karen.Daifuku or email observer@oecd.org.

Search begins

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The search is on for a new secretary-general to replace Donald J. Johnston, who will step down in May 2006 after 10 years in the post (*OECD Observer* No. 246-247). OECD countries have been asked to put forward candidates by 15 July 2005. It is expected that by 1 December 2005 the name of the successful candidate will be known.

One of the main challenges facing the new secretary-general will be to lead the organisation as it strengthens its activities against a background of increased economic interdependence among the OECD countries and with the rest of the world.

The out-going secretary-general took office in 1996. During his tenure he has led a process of modernisation and reform, while expanding the organisation's membership, as well as its work, to cover new areas from electronic commerce to health policy. ■

Towards active social policies

Social affairs ministerial meeting, 31 March - 1 April 2005

Time for a change, was how social affairs ministers summed up their major meeting at the OECD in March–the first in seven years. Rather than merely insuring against misfortune, social policies must become pro-active, stressing investment in people's capabilities and the realisation of their potential. Under the banner, "Extending opportunities: How active social policy can benefit us all", ministers agreed that economic growth was a critical element in providing support for families and reducing the need for government assistance. But it was a two-way street: effective economic policies were complementary to effective social policies in extending opportunities and mobilising assets, while effective social policies were necessary to generate economic dynamism and contribute to flexible labour markets. Good social policies would ensure that childhood experiences did not lead to disadvantage in adulthood, while ensuring a sustainable system of support for the elderly.

The main conclusions of the meeting covered four broad areas. First, social and family policies must help give children and young people the best possible start to their lives and help them to develop and achieve through their childhood into adulthood. Providing all parents with better choices about how to balance work and family life extends opportunities, especially for women, and creates economic gains. More family-friendly policies could also help raise birth rates in those countries where they are too low.

Second, attaining a better social balance between generations is, and will long remain, one of the most important challenges facing OECD countries. The social and financial sustainability of pension systems needs to be improved.

Third, family breakdown, the need to care for family members, illness, or the loss of a job can all lead to long-term joblessness unless appropriate social support is in place. Social policy can lower poverty by reducing barriers to employment, supporting self-sufficiency, and by providing adequate benefits for those who cannot work. "We should end the unjustified assumption that some groups, such as lone parents, older workers, people with disabilities and people on social assistance for a long time cannot or should not work," ministers said. The reassessment of the OECD Jobs Strategy should identify policies which will help end labour market exclusion.

Fourth, these social policy challenges must be a shared responsibility. Common purpose is needed among all concerned (including employers, workers, their respective representative organisations, all levels of government, individuals, communities and a broad range of non-government organisations) in order to better align economic dynamism with social objectives. Individual beneficiaries of social programmes have responsibilities to contribute to their own development.

Ministers concluded by inviting the OECD to carry out further work in the following areas: well-being of children and support for families; future social and economic implications of pension policies; disabled people in the labour market; a new balance between rights and responsibilities in social security; and life risks, life course and social policy.
The 2005 meeting was chaired by Aart Jan de Geus, the Dutch minister of social affairs and employment, with Ms. Berit Andnor, Sweden's social affairs minister, and Geun Tae Kim, Korea's minister for health and welfare, acting as vice-chairs. ■

References

- Greater detail on these conclusions is available in the full communiqué from the meeting at www.oecd.org/socialmin2005.
- See also www.oecdobserver.org/socialpolicyspotlight2005, including a special roundtable with the ministers of the Netherlands, Australia, Germany, Korea, Sweden and the US. Available also in print, number 248, March 2005.

Personal investment

Collective Investment Schemes (CIS) are a form of institutional investment through which individuals pool their funds and hire professionals to manage their investments, with each investor entitled to a share of the net benefits of ownership. A growing part of financial intermediation, CIS assets have been rising sharply as a share of national income and as a share of financial assets in most member countries. They are already becoming popular for investment in view of future personal pensions, a role that will probably grow in coming years. They could also prove useful for meeting other life-course needs, such as education and healthcare.

Both regulators and the CIS industry have realised that it is important to maintain robust systems to avoid conflicts of interest and to protect CIS investors. The OECD has published a White Paper for policymakers and the industry, highlighting elements that improve the governance of CIS. For more information see "OECD White Paper on Governance of Collective Investment Schemes", *Financial Market Trends* No. 88, March 2005, also available online. ■

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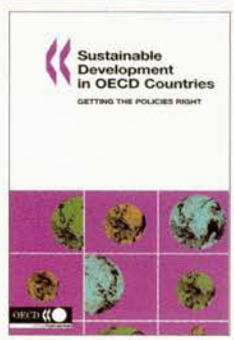

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Calendar of forthcoming events

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MAY

2-3 **OECD Forum 2005:** Fuelling the Future: Security, Stability, Development. Paris, France.

2-3 **Ministerial meeting of the International Energy Agency**.

3-4 **OECD Council meets at Ministerial level.**

9-11 **Mission, Money, Management**, conference on higher education, jointly organised by the OECD and the China National Institute for Educational Research. Beijing, China.

16-17 **African Economic Outlook** launched at the African Development Bank annual meeting. Abuja, Nigeria.

23-24 **Environmental Management in the Russian Federation**, conference organised by the Environment Directorate, in co-operation with the World Bank and the Russian government. Moscow, Russia.

24 **OECD Economic Outlook No. 77**, preliminary version published.

24 **Aid peer review of Sweden** by the Development Assistance Committee.

24-25 **European Conference of Ministers of Transport** meeting at ministerial level. Moscow, Russia.

24-27 **Reinventing Government: Toward Participatory and Transparent Governance**, 6th annual forum organised in co-operation with the UN and the Korean government. Seoul, Korea.

25-26 **Investment for African Development: Making it Happen**, roundtable organised by NEPAD and the Directorate for Financial and Enterprise Affairs. Entebbe, Uganda.

30-31 **The Anti-Corruption Network for Transition Economies**, annual meeting organised by the Directorate for Financial and Enterprise Affairs. Istanbul, Turkey.

JUNE

1-2 **Climate Initiative**, meeting of the Roundtable on Sustainable Development.

2-3 **Enhancing Cities' Attractiveness for the Future**, conference organised by the Directorate for Public Governance and Territorial Development. Nagoya, Japan.

2-3 **Communications Convergence** roundtable, organised by the Directorate for Science, Technology and Industry. London, UK.

5 **World Environment Day**, with the theme "Green Cities".

6 **2005: What's New for Africa?** International Forum on African Perspectives meets, organised by the OECD Development Centre and the African Development Bank.

6-8 **Local Development and Governance in Central, East and Southeast Europe**, conference organised by the OECD Local Economic and Employment Development (LEED) programme. Trento, Italy.

8-10 Plenary meeting of the **Financial Action Task Force on Money Laundering**. Singapore.

14-15 **High-level meeting of the OECD's Committee for Agriculture.**

16-17 **Funding Systems and their Effects on Higher Education Systems**, meeting organised by the Directorate for Education. Porto, Portugal.

21-22 **Latin American Competition Forum**, meeting organised by the Directorate for Financial and Enterprise Affairs and the Inter-American Development Bank. Washington, DC, US.

23-24 **Fostering Entrepreneurship: the Role of Higher Education**, conference organised by the Centre for Entrepreneurship, SMEs and Local Development. Trento, Italy.

26-28 **E-Learning in Post-Secondary Education**, conference organised by the Directorate for Education and the Canadian government. Calgary, Alberta, Canada.

JULY

6-8 **G8 Summit**. Gleneagles, Scotland, United Kingdom.

7-8 **Creating an Entrepreneurial Economy: the Role of Enterprise and Innovation**, with participation of the OECD Centre for Entrepreneurship, SMEs and Local Development. Hamilton, New Zealand.

11-12 **OECD Global Science Forum** meets.

14-15 **Services, Trade and Structural Adjustment**, forum organised by the Directorate for Science, Technology and Industry, and the Japanese government. Tokyo, Japan.

AUGUST

21-27 **World Water Week**. Stockholm, Sweden.

25-26 **Trends in the Management of Human Resources in Higher Education: What Works?** Seminar organised by the Directorate for Education.

SEPTEMBER

14-16 **High-level summit meeting of the United Nations** to review progress in fulfillment of commitments contained in the **UN Millennium Development Goals.** New York City, US.

25-26 Annual meetings of the **World Bank Group and the International Monetary Fund**. Washington, DC, US.

Insuring against terror


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Insuring Against Terrorism Risks

Insurance policies, whether covering travel, housing or business, increasingly carry fine print that carefully spells out whether or not they cover or exclude losses due to terrorism. Acts of "mega" terrorism, like the 9/11 attacks, or the bombings in Bali or Madrid, have overwhelmed insurance companies with claims, and insurers have since waived sole responsibility. Terrorism Insurance asks whether coverage for large-scale terrorism acts should be mandatory, and to what extent governments should step in.

Part of the problem is that potential terrorism-related loss scenarios are "low-probability/high-consequence". They are also extremely difficult to predict. Moreover, the effects of terrorist attacks go beyond reimbursable loss, such as the need to permanently relocate people or economic activities away from a contaminated area. Add to this the possibility that terrorists exploit large networks, as with anthrax, or develop dirty bombs or weapons of mass destruction; catastrophic losses could occur that go well beyond the ability of any financial markets to handle. The trouble is, governments can hardly afford these expenses, either.

There is no ready-made solution. *Terrorism Insurance* urges government intervention as a condition of private market operations; that is, not a market substitute but as a complement to private operators in the coverage of extreme risks that markets would in any case not be capable of meeting. After the attacks on the World Trade Center, the US created the Terrorism Risk Insurance Act as a temporary programme, to be re-evaluated at the end of 2005, for sharing public and private compensation for commercial property and casualty losses. On an international level, the Comité Européen des Assurances has proposed combining coverage by the private and public sectors, with additional negotiated use of EU backup funds.

Insurance–the transfer and sharing of risk–is by definition a socio-economic activity. So, when insurance markets fail to meet new challenges, citizens reasonably look to their government for a remedy. The greater the risks, the greater will be the demand for a government solution. ■

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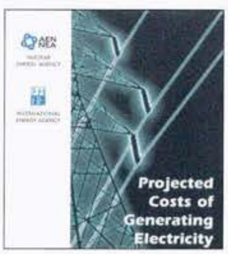

Current spending

Projected Costs of Generating Electricity: 2005 Update

Energy planning is not easy, and when governments shop around for energy sources, they must balance costs and benefits of available options. Whether fossil fuels, nuclear energy or alternative sources, a sensible energy policy must also take into account a reliable mix of energy generation to support economic growth, promote the environment and also reduce dependence on imported fuels from possibly unstable exporting countries.

Previous editions of *Projected Costs of Generating Electricity*, published by the OECD Nuclear Energy Agency (NEA) and the International Energy Agency (IEA), provide generation cost estimates for over a hundred power plants that use a variety of fuels and technologies. These include coal-fired, gas-fired, nuclear, hydro, solar and wind plants. Cost estimates are also given for combined heat and power plants that use coal, gas and combustible renewables.

The study shows that the competitiveness of alternative generation sources and technologies ultimately depends on many parameters: there is no clear-cut "winner". Major issues related to generation costs addressed in the report include: descriptions of state-of-the-art generation technologies; the methodologies for incorporating risk in cost assessments; the impact of carbon emission trading; and how to integrate wind power into the electricity grid.

The 2004 *World Energy Outlook* (see page 39) predicts that in 2030 wind power will be the second-largest source of renewable electricity after hydroelectricity. The key here is supply flexibility, says *Projected Costs of Generating Electricity*, as there will only be wind power when there is wind. However, construction costs are competitive with both nuclear and coal-fired power plants, ranging between $1,000-2,000 per kilowatt, but less so with gas-fired plants, which cost between $400-800 per kilowatt to build.

None of the traditional electricity-generating technologies can be expected to be the cheapest in all situations, warns *Projected Costs of Generating Electricity*. Furthermore, the best source of electricity will depend on the specific circumstances of each project. ■

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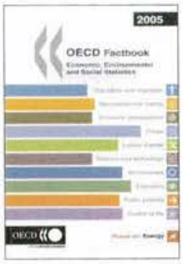

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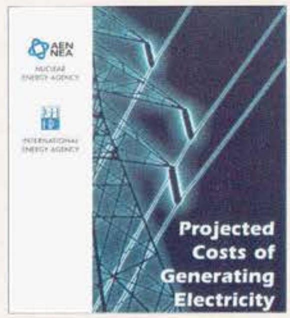

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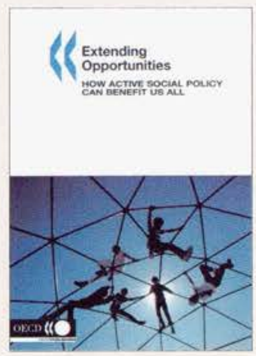

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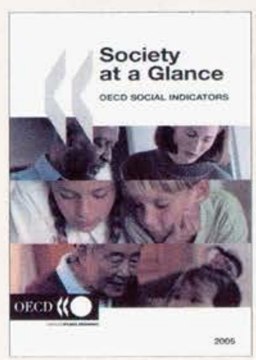

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GREEK ENERGY:
where to invest

More than € 2 billion will be invested in Greek energy

Growth in Greece largely depends on energy. That is the strong conviction of both the Prime Minister of Greece Kostas Karamanlis and the Minister of Development Dimitris Sioufas. In the present economic climate, energy is the sector of the Greek economy that can preferentially attract foreign investment due to the recent local market liberalization. Moreover, it is the sector that demonstrates the most latitude and holds indisputable comparative advantages. The new government, which was elected about a year ago, is steadfast to take action and adopt measures in order to lift bureaucratic and all other obstacles and thus transform the process of investing in Greek energy into a simple, straightforward and easy procedure.

Under the supervision of the Ministry of Development, large-scale energy investments, which had been caught for years in the cogwheels of red tape and complex legislation, are currently being freed-up. The necessary basic legislative reforms are being completed and under the most conservative estimates, it is foreseen that within three years time, more than 2 billion will be invested in the Greek energy sector. The new Greek energy policy focuses primarily on electricity, natural gas and renewable energy sources and especially wind.

1. Electricity

The legal framework of the new Transmission System Operation and Electricity Transaction Codes, as of April 2005, has been implemented. It has been a long-awaited process ever since 2001, when the first draft of the Codes was presented by the Regulatory Authority for Energy. The issuance of the Codes will essentially clarify the operational framework, in which the newly-liberalized electricity market will function. This conveys a very important message to investors from both Greece and abroad: "begin investing. It is now the time to build new electricity production units". Many large companies have already expressed interest in exploiting present investment opportunities, effectively because of the opening-up of the electricity market in Greece.

The Greek government and the leadership of the Ministry of Development would support the possibility of collaboration of major foreign investors with Greek companies that have already developed or will develop activity in the field of energy production. The aim is to establish joint ventures as well as build and operate new electricity production plants. It is evident that the more we invest in the energy sector the bigger are the gains for both consumers and investors.

2. Natural gas

Only recently has the Regulatory Authority for Energy made public the draft of bill to liberalize the natural gas market and released it to public consultation. It is expected that the Natural Gas Bill will be adopted in Parliament by June 2005. Electricity investors have long awaited the enactment of government's new natural gas policy, since gas will constitute the main fuel for the new electricity production plants. The key player in the Greek natural gas market, for the time being, is the Public Gas Corporation (DEPA), which is 65% owned by the Greek state and 35% by Hellenic Petroleum S.A. Many Greek and foreign companies, especially those that already have business activities in the electric energy market, have expressed vivid interest in expanding their activities to the natural gas sector.

DEPA has laid out a detailed investment plan for the period 2005-2008, which includes a substantial extension of the natural gas network. An example is the construction of the Greek-Italian pipeline. Its feasibility study has been completed and DEPA is currently in talks with major foreign investors. It is a plan of great economic and geostrategic importance as is the expansion of the country's natural gas network to an additional 11 Greek cities. It is worth noting that the Greek-Turkish natural gas transmission pipeline, which is being constructed by DEPA and the Turkish state-owned natural gas company BOTAS, will be completed by the end of May 2005,.

3. Wind parks

A new and aggressive policy in the area of renewable energy sources constitutes a priority for the new administration and is currently on track. There has been explicit interest by major foreign investors in this sector and especially wind energy. Greece is a country with great potential and comparative advantages when it comes to exploiting wind as a key energy - and let us not forget environment-friendly - source. Nowadays, 92 wind parks are fully operational carrying a total capacity of 435 MW. Moreover, the Greek government aims to more than double the power generated by wind parks by the year

Building a competitive Greece

MINISTRY OF DEVELOPMENT

2008. The main objective is to facilitate the investment process that often trips because of lack of national land-use planning and local residents' reactions. The new policy that is now coming into play will include the establishment of a special land-use plan, which will allow for the construction of wind parks in areas of high wind capacity.

Greece has an important role to play in the global game of fueling the future because of its geostrategic position, place in Europe, political standing and its good relations with other countries in the area. Above all Greece has a vision. Greece is investing heavily in technology, infrastructure, the creation of a business-friendly environment and in building strong relationships with its neighboring countries. Our hope, our aim, our vision is for Greece to become the energy hub of South-East Europe and beyond.

Building a competitive Greece
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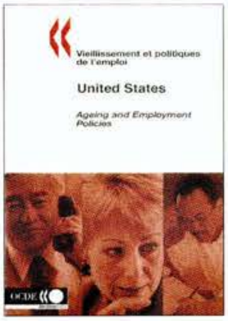
Old glory

Ageing and Employment Policies: United States



One of the most striking paradoxes of today's OECD societies is that, although people live longer and healthier, they also tend to retire earlier and younger. The trend in the US is not as marked as in some countries, but it is there nonetheless. By 2030, almost a fifth of the American population is projected to be aged 65 and over, compared with around an eighth only five years ago. On the basis of current employment rates, the ratio of workers to retirees will decline from over 3 to 1 in 2000 to around 2 to 1 in 2030, putting pressure on pension budgets.

Ageing and Employment Policies warns that simply reforming old-age pensions and early-retirement schemes may not be enough to ease that pressure. It reports that while the US budget is less vulnerable than many OECD countries to population ageing, thanks to lower public spending on pensions and a workforce that includes an above-average number of older workers, the government can do more to keep older workers on the payroll.

Willingness to work is one challenge, readiness to hire another. Bosses see older workers as more experienced, but they are also less flexible in learning new tasks. They are also more likely to lose work days to illness than are younger workers. Add to that insurance costs, and employers have good reason to hire young.

The problem could worsen in the years ahead, as poorer than average scores from PISA, the OECD's education test of 15-year-olds compared across countries, do not augur well for future older generations out on the job market.

The incentives for government to address this are large, since if older people worked longer, this would not only reduce the burden on future pension, social security and healthcare bills, but boost growth, too. *Ageing and Employment Policies* recommends that the US increase the minimum retirement age from 62 to 64 years, and rein in tax advantages in some private pensions that encourage early retirement. The government should also combat age discrimination and encourage age-friendly employment practices.

Will these measures deliver? After all, the US faces a tougher challenge than some OECD countries in that its older activity rate is already quite high. Persuading a 55-year-old to work another five years may be easier than asking, say, a 63 year-old to stay on two more. Providing the right incentives will be the key. ■

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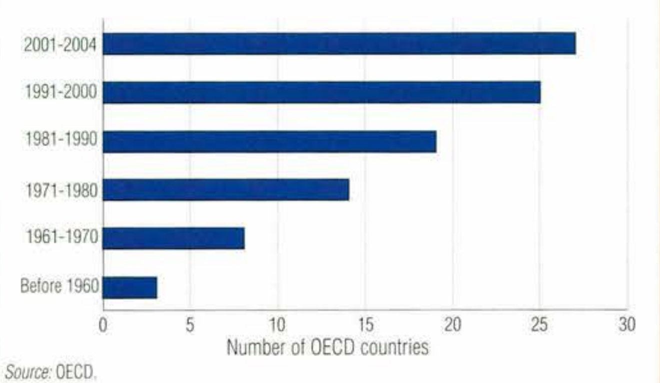
Keeping government onside

Barely two dozen of the world's countries were democracies in 1950, compared with well over 100 today. Apart from the popular vote and public watchdogs, strong democracies also have built-in mechanisms and institutions to oversee government performance and to check compliance with publicly demanded standards. Supreme Audit Institutions (SAIs) are one example, which try to ensure accountability for the use of public money. All OECD countries have an SAI, most of them independent, with a head appointed by the legislature. Most of SAIs in the OECD date back to the 19th century.

Ombudsman

OECD countries with ombudsman institutions, date of establishment



Source: OECD.

A more recent innovation is the ombudsman. They are generally appointed by legislature to offer an important point of contact for citizens' complaints, appeals and claims for redress in their dealings with the public administration. The ombudsman, a term which is originally Swedish, is more than a mere representative, but is a sort of referee of government. Indeed, in 1960 Sweden was one of only three OECD countries to have such an institution–Denmark and Finland were the other two–but today 90% of them do. Some countries have dedicated ombudsman offices for specific interest groups; Iceland has appointed one for children and there is an ombudsman for minorities in Finland and Hungary. The UK has an ombudsman dealing with health services. Ombudsman recommendations are rarely binding, but they can be a powerful source of pressure on governments to stay on the side of the people that elected them. ■

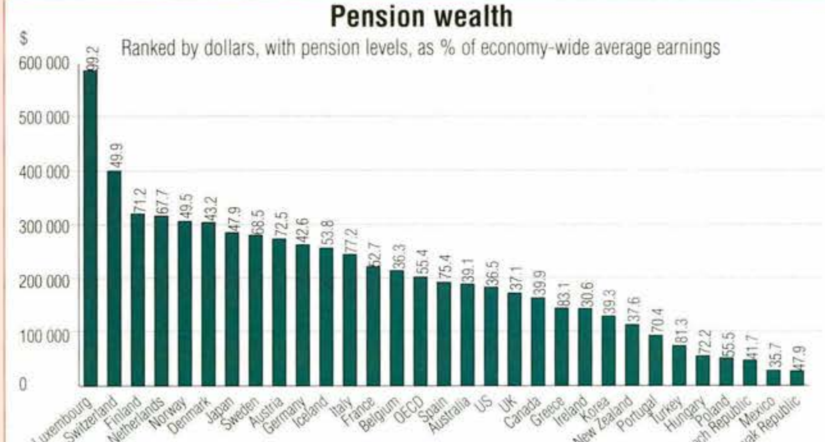
References

- For more, see www.oecd.org/gov.
- See also Patrick Love's article, "Democracy: What future?" in the *OECD Observer* No. 246-247, December 2004-January 2005.

Pension promises

Can governments afford the pensions promised to future retirees? After all, higher life expectancy means pensions have to be paid for a longer time. The OECD's new comprehensive "pension wealth indicator" works out the lump-sum equivalent of all the pension income a worker can expect to receive, taking into account pension level, retirement age and life expectancy in the respective country.

Pension wealth



Source: OECD.

By this count, Luxembourg has the highest pension wealth. It amounts to 18 times those yearly earnings for men on average wages, and nearly 22 times for women, reflecting their longer life expectancy. This means that if the government had to pay upfront now, the lump sum would come to an average of $587,000 for each pensioner on retirement. Pension wealth for Luxembourg is nearly treble the average for OECD countries, which is nonetheless over $200,000 per employee. In Ireland, New Zealand, the UK and the US, where pension levels are modest in relation to economy-wide average incomes (see percentages in the graph), pension wealth is less than six times average earnings.

Pension promises would obviously be more affordable if eligibility ages were higher. The official pension eligibility age in most OECD countries is 65, though it is less than that in the Czech Republic, France, Hungary, Korea, the Slovak Republic and Turkey. For a full list of pension wealth indicators and levels, see *Pensions at a Glance*, forthcoming. ■

			% change from:				level:	
			previous period	previous year			current period	same period last year
Australia	Gross domestic product	Q4 04	0.10	1.50	Current balance	Q4 04	-11.48	-8.62
	Leading indicator	Feb. 05	-0.50	2.10	Unemployment rate	Mar. 05	5.10	5.60
	Consumer price index	Q4 04	0.80	2.60	Interest rate	Mar. 05	5.81	5.51
Austria	Gross domestic product	Q4 04	0.30	2.40	Current balance	Q3 04	-0.45	-0.49
	Leading indicator	Feb. 05	0.60	5.10	Unemployment rate	Feb. 05	4.60	4.50
	Consumer price index	Feb. 05	0.30	2.80	Interest rate		..	..
Belgium	Gross domestic product	Q4 04	0.40	2.60	Current balance	Q4 04	3.54	4.08
	Leading indicator	Feb. 05	-0.10	-0.60	Unemployment rate	Feb. 05	8.00	7.80
	Consumer price index	Mar. 05	0.60	3.10	Interest rate		..	..
Canada	Gross domestic product	Q4 04	0.40	3.00	Current balance	Q4 04	5.16	5.06
	Leading indicator	Feb. 05	0.00	-2.00	Unemployment rate	Feb. 05	7.00	7.30
	Consumer price index	Feb. 05	0.40	2.10	Interest rate	Mar. 05	2.64	2.16
Czech Republic	Gross domestic product	Q4 04	1.00	4.20	Current balance	Q4 04	-1.42	-0.83
	Leading indicator		..	..	Unemployment rate	Feb. 05	8.30	8.40
	Consumer price index	Feb. 05	0.20	1.70	Interest rate	Feb. 05	2.25	2.06
Denmark	Gross domestic product	Q4 04	0.70	2.10	Current balance	Q4 04	1.37	1.62
	Leading indicator	Feb. 05	0.10	8.90	Unemployment rate	Jan. 05	5.00	5.70
	Consumer price index	Feb. 05	1.00	1.30	Interest rate	Mar. 05	2.13	2.09
Finland	Gross domestic product	Q4 04	0.60	3.60	Current balance	Jan. 05	0.93	0.78
	Leading indicator	Feb. 05	0.00	2.10	Unemployment rate	Feb. 05	9.00	9.00
	Consumer price index	Feb. 05	0.60	0.20	Interest rate		..	..
France	Gross domestic product	Q4 04	0.90	2.30	Current balance	Jan. 05	-5.13	0.30
	Leading indicator	Feb. 05	-0.10	1.00	Unemployment rate	Feb. 05	9.80	9.60
	Consumer price index	Feb. 05	0.50	1.60	Interest rate		..	..
Germany	Gross domestic product	Q4 04	-0.20	0.60	Current balance	Q4 04	22.16	17.86
	Leading indicator	Feb. 05	-0.40	1.30	Unemployment rate	Feb. 05	9.70	9.50
	Consumer price index	Feb. 05	0.40	1.80	Interest rate		..	..
Greece	Gross domestic product	Q4 04	-0.10	4.20	Current balance	Jan. 05	-2.11	-1.74
	Leading indicator	Jan. 05	0.10	-1.70	Unemployment rate	Sept. 05	10.50	9.70
	Consumer price index	Feb. 05	-1.30	3.00	Interest rate		..	..
Hungary	Gross domestic product	Q4 04	3.10	3.80	Current balance	Q4 04	-1.78	-1.94
	Leading indicator		..	..	Unemployment rate	Feb. 05	6.30	5.80
	Consumer price index	Feb. 05	0.40	3.20	Interest rate	Mar. 05	7.41	12.33
Iceland	Gross domestic product	Q4 04	1.80	3.80	Current balance	Q4 04	-0.47	-0.26
	Leading indicator		..	..	Unemployment rate	Feb. 05	2.40	3.10
	Consumer price index	Mar. 05	0.70	4.60	Interest rate	Feb. 05	7.99	5.29
Ireland	Gross domestic product	Q4 04	2.00	2.70	Current balance	Q4 04	0.31	-0.55
	Leading indicator	Feb. 05	2.30	10.50	Unemployment rate	Feb. 05	4.33	4.60
	Consumer price index	Feb. 05	0.80	2.20	Interest rate		..	..
Italy	Gross domestic product	Q4 04	-0.40	0.80	Current balance	Dec. 04	-3.62	-1.75
	Leading indicator	Feb. 05	-0.30	-1.20	Unemployment rate	Dec. 04	8.00	8.20
	Consumer price index	Mar. 05	0.30	1.90	Interest rate		..	..
Japan	Gross domestic product	Q4 04	0.10	1.00	Current balance	Jan. 05	14.61	15.58
	Leading indicator	Feb. 05	-0.80	-0.20	Unemployment rate	Feb. 05	4.70	5.00
	Consumer price index	Feb. 05	-0.20	-0.30	Interest rate	Mar. 05	0.37	0.03
Korea	Gross domestic product	Q4 04	0.90	3.00	Current balance	Feb. 05	0.98	3.78
	Leading indicator		..	..	Unemployment rate	Feb. 05	3.50	3.40
	Consumer price index	Mar. 05	0.80	3.10	Interest rate	Feb. 05	3.60	4.10

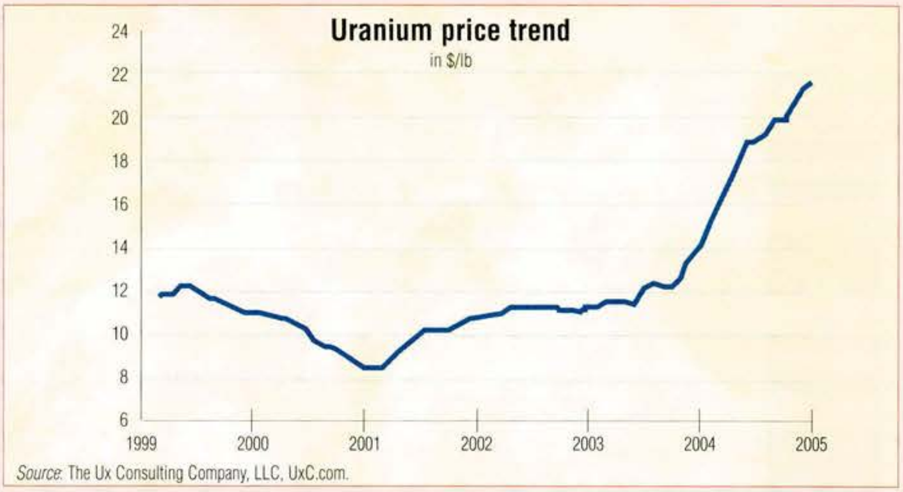
			% change from:				level:	
			previous period	previous year			current period	same period last year
Luxembourg	Gross domestic product	2003	..	2.10	Current balance	Q4 04	0.97	0.87
	Leading indicator	Feb. 05	-0.70	-0.10	Unemployment rate	Feb. 05	4.40	4.10
	Consumer price index	Mar. 05	0.20	2.40	Interest rate		..	..
Mexico	Gross domestic product	Q4 04	1.40	4.90	Current balance	Q4 04	-2.99	-1.59
	Leading indicator	Feb. 05	-0.40	0.70	Unemployment rate	Dec. 04	3.80	3.50
	Consumer price index	Feb. 05	0.30	4.30	Interest rate	Mar. 05	9.74	6.21
Netherlands	Gross domestic product	Q4 04	0.00	1.20	Current balance	Q4 04	11.69	6.24
	Leading indicator	Feb. 05	0.10	2.20	Unemployment rate	Dec. 04	4.70	4.30
	Consumer price index	Feb. 05	0.50	1.60	Interest rate		..	..
New Zealand	Gross domestic product	Q4 04	0.60	3.60	Current balance	Q4 04	-1.76	-0.80
	Leading indicator		..	..	Unemployment rate	Q4 04	3.60	4.60
	Consumer price index	Q4 04	0.90	2.70	Interest rate	Mar. 05	7.00	5.55
Norway	Gross domestic product	Q4 04	1.50	2.90	Current balance	Q4 04	9.65	7.27
	Leading indicator	Feb. 05	1.20	8.60	Unemployment rate	Dec. 04	4.40	4.60
	Consumer price index	Feb. 05	0.10	1.00	Interest rate	Mar. 05	2.02	1.84
Poland	Gross domestic product	Q4 04	10.60	3.50	Current balance	Jan. 05	-0.29	-0.26
	Leading indicator		..	..	Unemployment rate	Feb. 05	18.10	19.10
	Consumer price index	Feb. 05	-0.10	3.70	Interest rate	Mar. 05	5.91	5.49
Portugal	Gross domestic product	Q4 04	-0.30	0.60	Current balance	Jan. 05	-1.70	-1.24
	Leading indicator	Feb. 05	0.70	2.60	Unemployment rate	Feb. 05	6.90	6.30
	Consumer price index	Feb. 05	0.00	2.20	Interest rate		..	..
Slovak Republic	Gross domestic product	Q4 04	-1.40	5.80	Current balance	Q4 04	-0.11	0.19
	Leading indicator		..	..	Unemployment rate	Feb. 05	16.20	18.50
	Consumer price index	Feb. 05	0.30	2.70	Interest rate	Feb. 05	6.78	7.62
Spain	Gross domestic product	Q4 04	0.80	2.70	Current balance	Dec. 04	-4.84	-0.42
	Leading indicator	Feb. 05	0.10	2.50	Unemployment rate	Feb. 05	10.30	11.10
	Consumer price index	Feb. 05	0.30	3.30	Interest rate		..	..
Sweden	Gross domestic product	Q4 04	0.30	2.60	Current balance	Q4 04	8.14	6.26
	Leading indicator	Dec. 04	0.40	7.80	Unemployment rate	Feb. 05	6.50	6.30
	Consumer price index	Feb. 05	0.50	0.70	Interest rate	Mar. 05	1.97	2.36
Switzerland	Gross domestic product	Q4 04	-0.10	1.20	Current balance	Q3 04	9.60	10.51
	Leading indicator	Feb. 05	0.20	0.60	Unemployment rate	Q4 04	4.30	4.30
	Consumer price index	Mar. 05	0.20	1.40	Interest rate	Feb. 05	0.76	0.26
Turkey	Gross domestic product	Q4 04	-20.80	6.30	Current balance	Q4 04	-4.46	-3.31
	Leading indicator	Feb. 05	0.90	3.20	Unemployment rate	Q4 04	10.00	10.30
	Consumer price index	Mar. 05	0.40	8.70	Interest rate	Feb. 05	16.31	23.30
United Kingdom	Gross domestic product	Q4 04	0.70	2.90	Current balance	Q4 04	-9.41	-10.61
	Leading indicator	Feb. 05	-0.10	-1.50	Unemployment rate	Dec. 04	4.60	4.80
	Consumer price index	Feb. 05	0.40	3.20	Interest rate	Feb. 05	4.82	4.10
United States	Gross domestic product	Q4 04	0.90	3.90	Current balance	Q4 04	-187.90	-126.96
	Leading indicator	Feb. 05	-0.10	0.80	Unemployment rate	Mar. 05	5.20	5.70
	Consumer price index	Feb. 05	0.60	3.00	Interest rate	Feb. 05	2.77	1.05
Euro area	Gross domestic product	Q4 04	0.20	1.60	Current balance	Jan. 05	4.20	6.82
	Leading indicator	Feb. 05	-0.10	1.30	Unemployment rate	Feb. 05	8.90	8.90
	Consumer price index	Feb. 05	0.30	2.00	Interest rate	Mar. 05	2.14	2.03

Definitions and notes

Gross Domestic Product: Volume series; seasonally adjusted except for Hungary, Iceland, Poland, Slovak Republic and Turkey; ***Leading Indicators:*** A composite indicator based on other indicators of economic activity (qualitative opinions on production or employment, housing permits, financial or monetary series, etc.), which signals cyclical movements in industrial production from six to nine months in advance; ***Consumer Price Index:*** Measures changes in average retail prices of a fixed basket of goods and services; ***Current Balance:*** US$ billion; seasonally adjusted except for Greece, Ireland and the Netherlands; ***Unemployment Rate:*** % of civilian labour force – standardised unemployment rate; national definitions for Iceland, Korea, Mexico and Turkey; seasonally adjusted, except for Turkey; ***Interest Rate:*** Three months.
* refer to Euro zone. ..=not available.

Source: Main Economic Indicators, April 2005

Uranium price hike



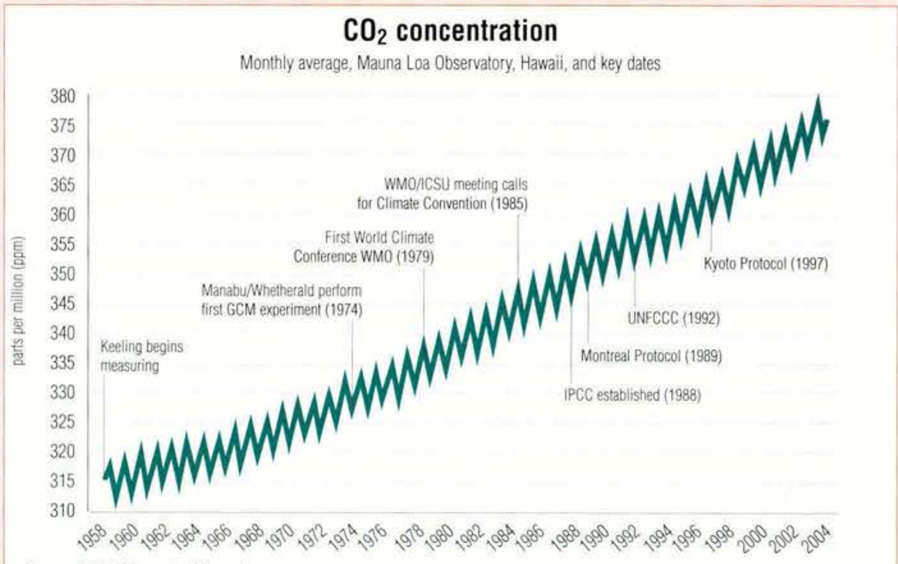
Source: The Ux Consulting Company, LLC, UxC.com.

Oil prices have been spiking, but so have prices of other energy sources, like uranium, the fuel for nuclear energy. Overproduction in the 1980s caused uranium prices to fall and by 1994 they had reached their lowest level in 20 years. Exploration and production were all cut back, squeezing supply. Prices then firmed a little, though they turned down again until 2001 when they reached historic lows. Since then, prices have taken off, leaping to levels not seen since the 1980s. By the end of 2004, they had risen by almost 200%.

Unlike for oil, the causes can be tied mainly to the supply side, and to adjustments within the industry. The OECD Nuclear Energy Agency (NEA) cites a mix of reasons. For instance, in October 2001 a fire destroyed the solvent extraction facility at the Olympic Dam mine in Australia, one of the world's main producers, while flooding temporarily halted output in the McArthur River mine in Canada in 2003. There were also defence-related uncertainties affecting price, in particular about the availability and timing of low-enriched uranium derived from weapons material. The weakness in the US dollar has also been a factor.

Unlike for coal, oil and gas, the impact on final prices of nuclear energy is very limited because fuel costs account for only 5% of the production cost. Nonetheless, the price picture could change as demand rises. ■

Carbon dating



Source: OECD, Mauna Loa Observatory.

Can the Kyoto protocol, which came into force on 16 February this year, work? Although natural phenomena such as large volcanic eruptions, ocean currents, the likes of El Niño or even changes in the earth's tilt might all be contributing factors, carbon dioxide (CO_2) generated by human activity–whether running homes and factories or driving cars and lawnmowers–is cited as a major culprit in the rise of global temperatures.

Measurements from the Mauna Loa Observatory in Hawaii, collected since well before the first major climate change conference in 1979, show the concentration of CO_2 in the atmosphere has risen nearly 20% over the past 45 years. Climate changes are evident at higher altitudes and latitudes. Ice and snow cover in the Himalayas is shrinking rapidly, and though there are some cases of expanding glaciers, in Alaska 1,987 out of 2,000 glaciers are said to be retreating.

Despite local fluctuations, such as winter cold spells, five of the hottest years on record have all occurred in the past seven years, according to the World Meteorological Organization. As one expert put it: "Climate change is like a pair of dice that are slowly being loaded. There will always be some cold summers or cold winters, but gradually there will be fewer and fewer, and the cold side of the dice will come up less and less frequently." ■

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Ministry for Environment and Territory

Energy and Emissions
The Challenge of Climate Change

Ministry for Environment and Territory

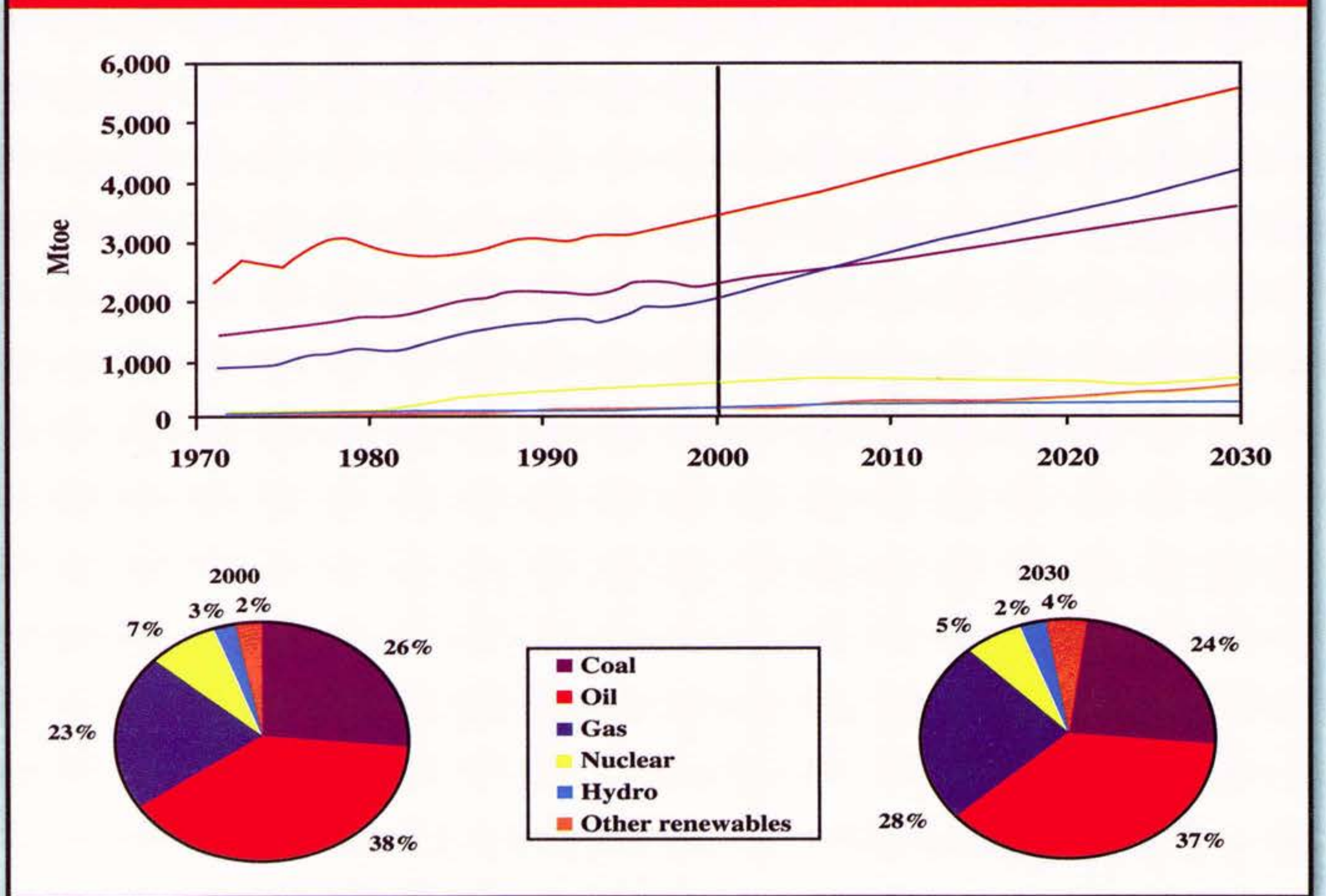
Ministry for Environment and Territory

Corrado CLINI
Director General of the Italian Ministry for Environment and Territory

1. *World Energy Consumption in 2030*

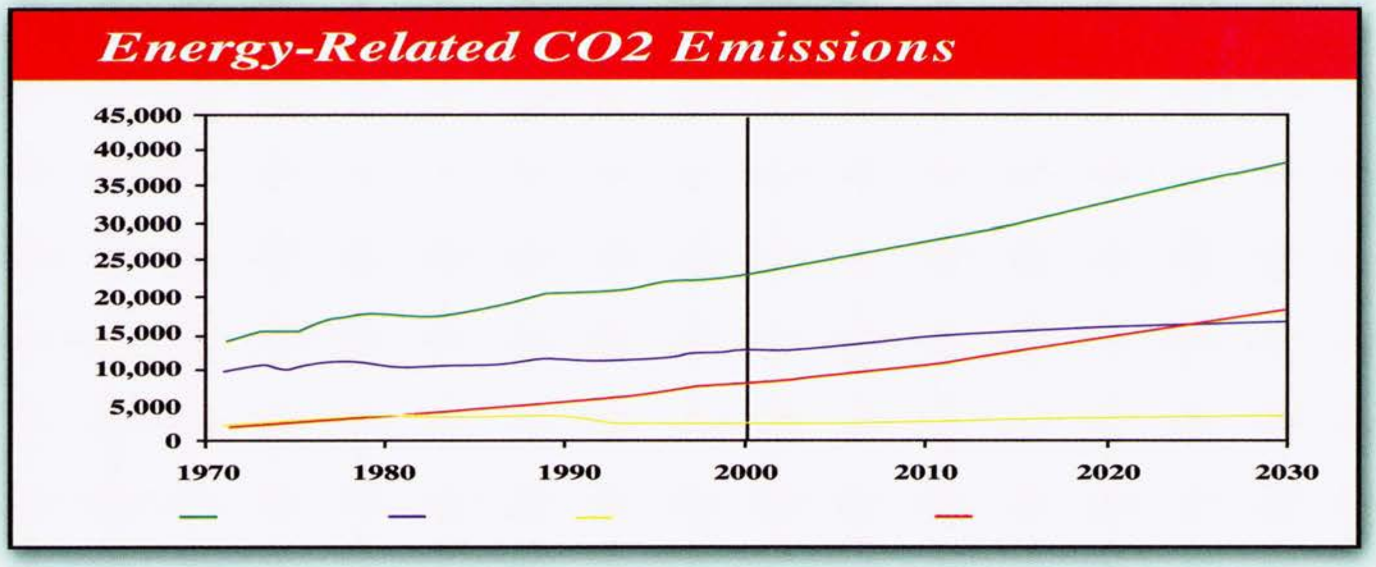
- According to the Business as Usual Scenario in the World Energy Outlook 2004, world energy consumption will increase about 1,9%/year between 2000 and 2030, driven by economic and population growth.
- In 2030, some 55% of the world energy demand is expected from developing countries, compared to 40% now.
- The world energy system will continue to be dominated by fossil fuels. In 2030, they are expected to represent almost 90% of total energy demand.
- At least 1.5 billion people in developing countries will not have access to electricity

World Energy Consumption in 2030



2. *Business as usual scenario will not result in a sustainable energy future*

- non-hydro renewables will grow faster than any other primary energy source. Nonetheless, due to the small base upon which they start (2% of the portfolio), the share of renewables in electricity consumption will remain small in 2030;
- hydrogen & fuel cell technologies will remain marginal;
- fossil dependency will grow, leading to more serious prices and supply vulnerabilities, besides increasing the barriers to the access to electricity in the developing countries;
- the future energy demand cannot be met by traditional fossil-fuel based energy systems without strongly increasing the pressure on the environment, natural resources, public health and welfare, energy security and international relations
- global motor vehicle emissions of NOx, VOCs, CO, are more than twice the level of 1990, affecting both health of populations and crops productivity;
- world CO2 emissions are expected to grow rapidly, at a rate slightly higher than energy consumption (2,1% year on average), corresponding to a total increase of about 60% compared to the 1990 level. In the EU, emissions are projected to increase by 18%. In the USA, the increase is around 50%. While the emissions from developing countries represented 30% of the total in 1990, these countries will emit more than half the world CO2 emissions in 2030.



3. The next Challenges of the Global Energy System

In the next 25 years, the global energy system will face four major challenges

- the increasing health external costs from air pollution, in morbility and mortality, mainly in the urban areas of the developing countries, will request the development and dissemination of clean fuels and engines;
- the IPCC Third Assessment Report on Climate Change suggests that a global emissions reduction by 50%-60% should be reached in the timeframe 2030-2050, in order to meet the stabilization of CO2 concentrations in the atmosphere at a safe level by the end of the century;
- both the diversification of energy sources and the development of high efficient energy technologies are essential to reduce the vulnerability and to meet the energy security;
- the access to electricity is a priority to combat poverty and to meet the "Millennium Development Goals"

4. The Challenge of Climate Change in the "Kyoto System"

Ministry for Environment and Territory

The "Alternative Scenario" to the "Business As Usual Scenario", in World Energy Outlook, based on the mandatory policies, regulations and voluntary agreements, already adopted or considered by the industrialised countries to improve energy efficiency and to reduce CO2 emissions, is consistent with the Kyoto system.

According to the Alternative Scenario, in 2030 the global emissions will be reduced by 5%, and the OECD countries emissions by 16%, in comparison with the 1990 levels. Nevertheless, it is not enough to reduce the CO2 concentration within a safe range by the end of the century.

The Kyoto Protocol is the first step, a framework for testing programmes, rules, measures and market instruments to reduce global emissions.

A much broader long term strategy, and much more global effective measures, than those within the Kyoto Protocol, are needed, involving both developed and emerging economies.

5. The Challenge of Climate Change beyond Kyoto

"The emerging concerns about the risk of nasty abrupt climate changes suggest that an extraordinary effort is urgent, to avoid the economic and social devastations of abrupt changes" ("Abrupt Climate Change : Inevitabile Surprises" National Research Council,2004, Washington)

The global climate change challenge request an extraordinary effort in

- research & innovation, and in the energy policies, to reduce the "carbon intensity" of the economy through the development of a new energy system based on Renewable technologies; Hydrogen production from renewables and nuclear, such as from fossil fuels and associated carbon sequestration; Energy efficiency in production, conversion and use;
- making the new clean and safe energy sources and technologies, available and cost effective in the developing world, to address both the energy security and the emissions reductions;
- adapting to a changing climate, designing and improving forecasting and early-warning systems of extreme weather hazards, and changing the land use planning and management, in water resources management, in agriculture, in public health.

The main challenge is to identify a new model for long term international cooperation to address the global climate change, with a set of flexible proposals, in the framework of the Climate Change Convention,

- promoting and disseminating technology innovation in the energy system, setting common standards and goals for the different technologies , rather than setting absolute targets for countries;
- supporting partnership initiatives, involving developed and emerging economies, improving the model of REEP, IPHE, Carbon Sequestration Leadership Forum, Methane....;
- creating markets for renewables and new low carbon energy technologies, based on CDM/JI and Tradable Renewable Certificates schemes;
- supporting and building international programs for the adaptation to climate change in the developing countries.

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